International Update

Recent Developments in Foreign Public and Private Pensions

June 2019

Europe

Romania Eases Capital Requirement Under Mandatory Individual Account Program

On May 30, the Romanian government eased a capital requirement it had imposed on the seven companies that administer the country's mandatory individual account program. The capital requirement was part of a 2018 emergency ordinance and would have required each pension fund management company to increase its cash reserves from €4 million (US$4.46 million) to a percentage of annual pension contributions, up to a maximum of 10 percent. If implemented, this new requirement would have resulted in a capital increase across the companies of around €800 million (US$892 million). The new rules reduce the capital increase to a combined €80 million (US$89.2 million) by the end of the year. Critics of the emergency ordinance's capital requirement argued that it would cause the pension fund management companies to exit the individual account program, thereby threatening the program's viability.

Other measures adopted in the emergency ordinance affecting the individual account program are still in place, including:

- *An opt-out provision for certain program participants:* Workers with at least 5 years of individual account contributions can choose to end their participation in the program and divert all of their pension contributions to Romania's social insurance program. (Workers contribute 21.25 percent of gross earnings to the social insurance program and 3.75 percent to the individual account program.) Those who opt out can choose to keep their assets in their individual accounts or transfer them to the social insurance program.
- *A reduction in allowable administrative fees:* Administrative fees were reduced from 2.5 percent of gross contributions to 1 percent, of which 0.5 percent is transferred to the National House of Public Pensions (Casa Nationala de Pensii Publice; the organization that administers the social insurance program). In addition, the monthly management fee now ranges from 0.02 percent to 0.07 percent of net assets under management, depending on the fund's rate of return relative to the inflation rate. Previously, the maximum monthly management fee was 0.05 percent.

Romania's old-age pension system consists of a pay-as-you-go social insurance program and mandatory individual accounts. Currently, around 7.3 million people participate in the individual account program.

Sources: "Important Legislative Changes - GEO No. 114/2018," PwC Romania; "Romania Changes Social Security Contribution Rates," *International Update*, U.S. Social Security Administration, December 2017; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "GEO 114/2018 - Taxes and Parafiscal Charges Due from 2019," KPMG, January 11, 2019; "Industry Fears 'De-facto Nationalisation' of Romanian Second Pillar," IPE.com, January 14, 2019; "Romania Faces 'Last Call' to Save Second Pillar," IPE.com, March 1, 2019; "Council Recommendation on the 2019 National Reform Programme of Romania and Delivering a Council Opinion on the 2019 Convergence Programme of Romania," European Commission, May 6, 2019; "Romanian Government Eases Grip On Second-Pillar System," IPE.com, June 7, 2019.

United Kingdom Increases Auto-Enrollment Contribution Rates

On April 6, the minimum contribution rate for workers automatically enrolled in qualified workplace pension plans under the Auto-Enrollment (AE) program increased from 5 percent (2 percent paid by employers and 3 percent by employees) to 8 percent (3 percent paid by employers and 5 percent by employees) of covered earnings. This increase is the last step in a series of rate increases implemented since the AE program's launch in 2012: the total contribution rate was 2 percent (split equally among employers and employees) from October 1, 2012, to April 5, 2018; and 5 percent (2 percent by employers and 3 percent by employees) from April 6, 2018, to April 5, 2019. The AE program was introduced to stimulate long-term retirement saving and reduce the financial burden on the public pension system from population aging. At present, around 90 percent of workers at larger employers and

70 percent of workers at smaller employers participate in the program. According to The Pensions Regulator, the program had enrolled nearly 9.5 million workers with savings exceeding £90.4 billion (US$113.7 billion) as of 2018.

Under the AE program, employers are required to enroll workers into a workplace pension plan that meets certain standards and submit minimum contributions for those employees. The program was implemented gradually (beginning with larger employers) and extended to all employers by May 2017. Minimum contributions are required whether the employer sets up the plan for auto-enrollment or chooses to use an existing occupational plan (around 98 percent of plans are defined contribution). Employers may contribute more than the minimum required. Key features of the program include:

- *Program eligibility:* To be eligible for enrollment in a qualifying plan, an employee must be aged 22 up to the State Pension Age (SPA)—currently 65 and gradually increasing to 66 by 2020 and to 67 by 2028—and have worked for his or her employer at least 3 months. Participation is voluntary for employees aged 16 to 22, or older than the SPA up to age 75. Employees automatically enrolled in a workplace pension plan can opt out within 1 month of enrollment; however, those who do so are automatically re-enrolled in the program every 3 years (with the choice to opt out again). This re-enrollment process also applies to employees who switch employers. Self-employed workers are not eligible for the program.
- *Covered earnings:* Qualifying earnings range from £6,136 (US$7,715) up to £50,000 (US$62,863) for the current tax year. Covered earnings are treated separately for each job.

The AE program supplements the single-tier state pension (STP) program for workers retiring on or after April 6, 2016. STP provides a full flat-rate benefit at the SPA with at least 35 years of paid or credited contributions; a partial benefit is paid with at least 10 but less than 35 years of contributions. (Workers who retired before April 6, 2016, were covered by a two-tier social insurance program consisting of a flat-rate pension and an earnings-related pension.) Means-tested benefits, including the Pension Credit for low-income pensioners aged 65 or older, provide a safety net for needy retirees.

Sources: "United Kingdom," *International Update*, U.S. Social Security Administration, April 2018; "Automatic Enrolment: Commentary and Analysis - April 2017 to March 2018," The Pensions Regulator, September 2018; "The Auto Enrolment Experience Over Time: Understanding the Real Impact of Contribution Increases on Behaviours and Attitudes," Nest Insight, 2019; "Auto-Enrolment Contribution Increases from 6 April 2019 - Pensions Alert," Clyde & Co LLP, January 18, 2019; "Pension Savers 'Cash In, but Lose Out'," BBC News, January 28, 2019; "Automatic Enrolment: Qualitative Research with Newborn Employers," Department for Work & Pensions, February 2019; "Pension Contributions Hike to Hit Pay Packets," BBC News, February 17, 2019; "Requiring Auto-Enrollment: Lessons from UK Retirement Plans," Center for Retirement Research at Boston College, March 2019; "Lessons from the UK's Retirement Plan Auto Enrollment Requirement," PlanSponsor.com, March 28, 2019; "Increase of Automatic Enrolment Contributions," The Pensions Regulator, April 6, 2019; "Workplace Pension Participation and Savings Trends of Eligible Employees Official Statistics: 2008 to 2018," Department for Work & Pensions, June 5, 2019.

The Americas

Chile Changes Administrator for New Individual Accounts

On April 1, Chile's Superintendent of Pensions (Superintendencia de Pensiones, or SP) announced its selection of AFP Uno as the pension fund management company (AFP) to administer new individual accounts starting on October 1. SP made the selection after soliciting bids from registered AFPs in a competition for the lowest administrative fee that opened on January 11. AFP Uno was the only AFP to submit a bid, with a proposed administrative fee of 0.69 percent of a participant's covered earnings. (The only type of administrative fee allowed under Chile's individual account program is a percentage of a participant's covered earnings.) As a result, AFP Uno won the exclusive right to administer the individual accounts of first-time enrollees from October 2019 to September 2021. AFP Uno's winning bid will lower the average administrative fee for Chile's mandatory individual account program from 1.26 percent to 1.17 percent of covered earnings (see table).

The bidding process was established by a 2008 pension reform law and is intended to increase competition among Chile's AFPs. The law requires a competition for the new-account portfolio to be held every 24 months. (The first competition was held in 2010.) However, steadily declining AFP interest in the bidding process led to a situation in January 2018 where the fifth competition ended with no bids. A month later, AFP Planvital, the winning (and lone) bidder from the 2016 competition also announced that it would sharply increase its administrative fee from 0.41 percent to 1.16 percent of covered earnings after its 2-year term concluded in July 2018. Consequently,

Table 1.
AFP administrative fees, 2010–2019 (in percent)

AFP	2010	2012	2014	2016	2018	2019
Capital	1.44	1.44	1.44	1.44	1.44	1.44
Cuprum	1.48	1.48	1.48	1.48	1.44	1.44
Habitat	1.36	1.27	1.27	1.27	1.27	1.27
Modelo	1.14	0.77	0.77	0.77	0.77	0.77
Planvital	2.36	2.36	0.47	0.41	1.16	1.16
Provida	1.54	1.54	1.54	1.54	1.45	1.45
Uno	. . .	. . .	. . .	. . .	. . .	0.69
Average	1.55	1.48	1.16	1.16	1.26	1.17

SOURCE: “Estructura de Comisiones,” *Centro de Estadísticas,* Superintendencia de Pensiones, 2010–2019.

NOTES: AFP fees are a percentage of a participant’s covered earnings in December from 2010 to 2018 and September in 2019.

. . . = not applicable.

AFP Modelo became the de facto administrator for new individual accounts in August 2018 because it charged the lowest administrative fee at the time (0.77 percent of covered earnings). Soon afterward, SP began organizing the latest competition to select a new administrator for the new-account portfolio. AFP Uno was formed during the latest competition, raising the number of AFPs active in Chile to seven.

After an AFP is selected as the new-account administrator, it must maintain its winning administrative fee for 2 years. New participants are automatically enrolled with the winning AFP during these 2 years and cannot switch to another AFP until after this period ends unless: (1) another AFP offers a lower administrative fee for at least 2 consecutive months; (2) another AFP provides a higher rate of return sufficient to make up for a higher administrative fee; or (3) the winning AFP does not maintain the required minimum rate of return, is declared insolvent, or must liquidate its assets. (The minimum rate of return varies depending on the type of pension fund.) Existing participants with individual accounts managed by other AFPs can choose to switch to the winning AFP at any time.

Chile’s old-age pension system consists of a mandatory individual account program, a legacy social insurance program, and two social assistance programs. Employees who have entered the labor force since 1983 are required to participate in the individual account program and contribute 10 percent of their covered earnings (plus an administrative fee) to their accounts. The normal retirement age for the individual account and social insurance programs is 65 for men and 60 for women; for the social assistance programs, it is 65 for both men and women.

Sources: Resolución N° 27 del 1 de abril de 2019, Superintendencia de Pensiones; Ley Nº 20.255, 2008; “Chile Holds Latest Competition for the Lowest Administrative Fees on Individual Accounts,” *International Update*, U.S. Social Security Administration, February 2016; *Social Security Programs Throughout the World: The Americas, 2017*, U.S. Social Security Administration, March 2018; “Adjudicación de nuevos afiliados comienza a regir desde el 1 de octubre próximo AFP UNO oferta comisión de 0,69% del salario para administrar cartera de nuevos afiliados,” Superintendencia de Pensiones, March 26, 2019; “AFP Uno oferta comisión de 0,69% en nueva licitación y queda muy por debajo de Modelo,” *El Mercurio*, March 27, 2019; “AFP UNO oferta tercera comisión más baja desde la creación del Sistema,” *El Tercera*, March 27, 2019.

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