Europe

Estonia Reaches Pension Reform Agreement

On August 12, Estonia’s coalition government reached an agreement to make the country’s individual account pension program voluntary and increase benefits under the social insurance program. If approved by parliament, current individual account program participants would be able to opt out of the program and transfer their account balances to personal pension accounts; employer contributions for those who opt out would be diverted to the social insurance program. (Parliament is expected to draft legislation this fall with the aim of implementing the changes on January 1, 2020.)

According to the government, the reforms are motivated by the individual account program’s low investment returns and high management fees since the program’s introduction in 2002. Recent data from the Organisation for Economic Co-operation and Development show that the program’s real annual average performance (net of expenses) from 2002 to 2017 was a loss of 0.2 percent. There are currently around 738,000 participants (around three-quarters of the labor force) in the individual account program with total assets under management of around €4.4 billion (US$4.86 billion).

Estonia’s pension system consists of the individual account program as well as social insurance, universal, and social assistance programs. The social insurance, universal, and social assistance programs cover permanent residents of Estonia, noncitizens residing temporarily in Estonia, and legal refugees. The individual account program covers persons born after December 31, 1982, who are covered by social insurance; participation is voluntary for persons born after December 31, 1941 and before January 1, 1983. The social insurance program is entirely employer financed (with a contribution rate of 16 percent of gross monthly payroll), while the individual accounts are financed through employer (4 percent of gross monthly payroll) and employee (2 percent of covered earnings plus an administrative fee) contributions. The government pays the total cost of the universal and social assistance programs.


European Union Introduces Pan-European Personal Pension Product

On July 25, the European Union (EU) issued a regulation establishing the Pan-European Personal Pension Product (PEPP), a voluntary retirement savings program for individuals residing in the EU’s 28 member countries. Under the program, EU residents will for the first time be able to participate in individual accounts that are governed by the same basic rules and are portable across all member countries. The PEPP accounts will complement the public and occupational pensions that provide the bulk of retirement income in the EU and vary by member country. The PEPP will also allow individual account providers to operate and compete in a single personal pension product market covering the entire EU. The EU expects the first PEPP accounts to become available in late 2021.

The key provisions of the PEPP regulation include:

- **Investment options**: PEPP providers can offer up to six investment options to each participant. The default option—referred to as the Basic PEPP—must be a low-risk investment product that meets certain capital protection standards. Beyond the default option, PEPP providers can offer a wide range of investment products, including alternative investments (e.g., hedge funds, private equity funds, and real estate funds). PEPP providers must allow participants to change their investment selections at least once every 5 years.

- **Payout options**: PEPP providers can offer participants one or more payout options, including annuities, lump-sum payments, programmed
withdrawals, or a combination of these options. Before payouts can be made, PEPP providers must advise participants on their optimal payout options after considering their personal retirement needs. Member countries can establish additional rules and incentives to encourage certain payout arrangements.

• **Administrative fees:** The maximum fees that PEPP providers can charge participants for the Basic PEPP each year are 1 percent of accumulated assets. There is no fee cap for the other investment options that providers might offer.

• **Account portability:** PEPP participants can switch providers without charge at least once every 5 years. (Providers can allow more frequent switches.) Participants can also, under certain conditions, switch providers after moving to other member countries. However, the EU expects this to be unnecessary in most cases because PEPP providers can operate in all member countries.

• **Information disclosure:** PEPP providers must disclose their product costs and fees using a simple Key Information Document (KID) and report investment returns and other information in standardized account statements. These uniform disclosure documents are intended to make PEPP accounts transparent and easy to understand.

• **Provider registration:** To become a PEPP provider, a financial institution must register with the appropriate regulatory authority in a member country. The European Insurance and Occupational Pensions Authority (EIOPA) will then add the provider to a central registry, which will allow the provider to operate in all member countries. The EIOPA and national regulatory authorities will jointly supervise the registered providers.

The PEPP is intended to boost retirement savings and strengthen capital markets across the EU. In 2017, the EU estimated that only 27 percent of its residents aged 25 to 59 were enrolled in personal retirement savings plans. Assuming that member countries offer tax incentives for PEPP participation, the EU forecasts that the PEPP will generate €700 billion (US$773 billion) in additional retirement assets. (The PEPP regulation does not guarantee any tax incentives for participation, but the European Commission has strongly encouraged member countries to offer such incentives.) Besides helping to enhance retirement security, these new assets will improve the depth and efficiency of capital markets across the EU. Strengthening capital markets has been a major priority for the EU since 2015, when it adopted a plan to develop an integrated Capital Markets Union covering all member countries.


### Asia and the Pacific

#### Taiwan Implements Social Security Reforms

In recent months, Taiwan’s government has enacted laws that expand pension coverage and introduce a new voluntary pension program. The laws are intended to strengthen retirement security in Taiwan as rapid population aging and other social changes weaken traditional family support systems for the elderly. The country’s working-age population (aged 15 to 64) peaked at 74 percent of the population in 2015, and the old-age population (aged 65 or older) surpassed the young-age population (aged 0 to 14) in 2017. According to official projections, the proportion of the population aged 65 or older will grow from 14.5 percent in 2018 to 41.2 percent in 2065.

Effective May 15, one of the new laws expanded coverage under Taiwan’s mandatory individual account program (locally referred to as the Labor Pension) by requiring all foreign nationals who are resident employees in Taiwan to participate in the program. (Previously, the program covered only Taiwanese nationals; foreign spouses of Taiwanese nationals, including those from mainland China, Hong Kong, and Macao; and certain categories of foreign professionals with permanent residency in Taiwan.) Under the program, employers still must contribute at least 6 percent of an employee’s monthly salary while employees can choose to contribute up to 6 percent of their monthly salary. There are financial penalties for employers who fail to pay contributions for covered employees; the new law increases the maximum penalty for such a failure from NT$250,000 (US$7,968) to NT$1.5 million (US$47,808). Another provision of the
new law allows self-employed persons to voluntarily participate in the program and receive certain tax incentives for their contributions.

Under another new law, Taiwan launched a voluntary defined contribution retirement plan for a 2-year trial period that began on July 31. The government started accepting applications for the plan on April 11 with an initial cap on applications set at 10,000; however, it subsequently lifted the cap and by the July 31 deadline, 69,000 individuals had applied. During the trial period, plan members must make monthly contributions of at least NT$3,000 (US$96) to individual accounts with investments of their choosing based on risk tolerance—conservative, stable, and aggressive. Taiwan's Financial Supervisory Commission has selected three pension fund managers to administer the new individual accounts. When the trial period ends, members can choose to keep their savings in the managed accounts or withdraw the savings without paying service charges.

In addition to the Labor Pension program and the new voluntary trial retirement plan, Taiwan's old-age pension system includes a social insurance program and a social assistance program. There is also a system of public-sector pensions for civil servants, public school teachers, and military personnel, which underwent significant reform in 2018.