International Update

Recent Developments in Foreign Public and Private Pensions

July 2019

Europe

Netherlands Slows Scheduled Retirement Age Increases

On July 2, the Dutch parliament passed a law that slows the rate of scheduled increases in the retirement age for public pensions. Under a 2012 amendment to the Dutch General Old-Age Pensions Act (AOW), the retirement age was scheduled to increase from 65 to 67 (initially by 2023, but later accelerated to 2021) with further automatic increases based on changes in life expectancy at age 65. (The law requires the government to announce the automatic increases at least 5 years before implementation.) Under the new law, the retirement age will remain at the 2019 level (age 66 and 4 months) through 2021 and will rise gradually to age 67 from 2022 to 2024. Starting in 2025, the retirement age will automatically rise based on increases in life expectancy at age 65 (Table 1).

The revised schedule for retirement age increases is part of a pension reform agreement reached by the Dutch government and its social partners (consisting of employer groups and labor unions) on June 5.

Table 1. Schedule of AOW retirement age increases under the previous and new rules

Year	Retirement age	
	Previous	New
2019	66 and 4 months	66 and 4 months
2020	66 and 8 months	66 and 4 months
2021	67	66 and 4 months
2022	67 and 3 months	66 and 7 months
2023	67 and 3 months	66 and 10 months
2024	67 and 3 months	67
2025	. . .	. . .

NOTES: Under the previous rules, the retirement age was linked to life expectancy starting in 2021; the retirement age for 2025 would have been announced by 2020. Under the new rules, the link to life expectancy will begin in 2025.

. . . = further increases based on changes in life expectancy at age 65.

Other components of the agreement, which still require legislation to be drafted and approved by the government, include:

- *Slower retirement age increases based on life expectancy changes:* Starting in 2025, the AOW retirement age would automatically increase by 2 months (down from the current 3 months) for every 3-month increase in life expectancy at age 65.
- *A new early retirement option for workers in arduous occupations:* From 2021 through 2025, employers could allow employees working in certain arduous occupations to retire up to 3 years before the AOW retirement age with an early retirement benefit of up to €19,000 (US$21,563) a year and no tax penalty for the employer. Individual sectors will have to determine the occupations eligible for this new early retirement option, and the option will be entirely employer financed. Currently, early retirement is strongly discouraged in the Netherlands; employers providing early retirement benefits must pay a 52 percent tax on the benefits in addition to regular taxes.
- *A new framework for occupational pensions:* The agreement would make significant changes to occupational pension plan rules, including rules affecting contribution rates, the annual pension accrual method, investment options, and minimum funding ratios.

A steering group was formed to translate the broad outlines of the agreement into concrete measures. The government aims to have implementation details finalized in 2020, draft legislation approved in 2021, and the entire agreement formally implemented in 2022.

The Dutch pension system consists of a first-pillar basic state pension that covers all residents and persons working in the Netherlands, a second pillar of quasi-mandatory occupational pensions, and a third pillar of voluntary private pensions. Around 90 percent of second-pillar occupational plans are defined benefit plans, and around 10 percent are defined contribution plans.

Sources: "Netherlands Announces Increase in Retirement Age for First-Pillar Pension," *International Update*, U.S. Social Security Administration, December 2016; "Netherlands: Severance Package vs. Taxation of Early Retirement Scheme (RVU)," KPMG Insights,

June 29, 2018; "Wet Temporisering Verhoging AOW-Leeftijd," 2019; "Dutch Social Partners and Government Reach Agreement on Retirement Age," IPE.com, June 5, 2019; "Netherlands: Sweeping Pension Reforms Agreed," *Global News Briefs*, Willis Towers Watson, July 10, 2019.

Asia and the Pacific

Australia Implements Superannuation Reform Law

On July 1, Australia implemented a reform law that limits administrative fees, changes supplemental insurance coverage rules, simplifies account consolidation, and adds flexibility to contribution limits under the country's superannuation program. Most of the law's provisions are targeted at superannuation accounts with balances below A$6,000 (US$4,176) or at least 16 consecutive months of inactivity. (An account is considered inactive for periods in which no contributions are received.) The government approved the reform law, entitled the Protecting Your Superannuation Package, on March 12 with the aim of improving the program's efficiency and performance. In December 2018, the Productivity Commission—a government-sponsored research and advisory body that reviewed the superannuation reforms—estimated that the new rules for inactive, low-balance accounts would boost total annual returns by A$3.8 billion (US$2.6 billion) and increase the lifetime savings of each new workforce entrant by up to A$533,000 (US$370,968).

The key provisions of the reform law include:

- *Limiting administrative fees:* The law caps the total annual administrative fees superannuation funds can charge accounts with balances below A$6,000 at 3 percent of the year-end balance. (Previously, there was no fee cap.) The law also prohibits superannuation funds from charging exit fees when accounts with any balance amount are transferred to other providers.
- *Changing supplemental insurance coverage rules*: The law requires superannuation funds to cancel supplemental life and disability insurance coverage for accounts with 16 consecutive months of inactivity unless participants actively choose to maintain the coverage. This new opt-in requirement is intended to reduce the number of inactive accounts that are being charged recurring insurance fees, which in 2017 averaged A$300 (US$208.80) and were as high as A$2,000 (US$1,392) a year. (Certain superannuation arrangements, such as defined benefit plans, are exempt from this requirement.)
- *Simplifying account consolidation*: The law requires superannuation funds to transfer accounts with balances below A$6,000 to the Australian Taxation Office (ATO) after 16 consecutive months of inactivity. Within 28 days of receiving an inactive account, ATO will combine it with an active account belonging to the same participant if such an account exists and the combined balance would be at least A$6,000. If the account cannot be combined, ATO will continue to hold it until it can be combined or issue a lump-sum payment to the participant if he or she is aged 65 or older or the account balance is less than A$200 (US$139.20). ATO will begin accepting inactive, low-balance accounts on October 31 and will not charge any fees for managing or consolidating accounts. The Productivity Commission has estimated that this measure will affect about 3 million accounts (or 10 percent of all accounts) in the 2019–2020 tax year.
- *Adding flexibility to contribution limits:* The law allows participants with total superannuation balances below A$500,000 (US$348,000) to carry forward unused concessional (before-tax) contribution-limit amounts for up to 5 years. (For the 2018–2019 and 2019–2020 tax years, the annual concessional contribution limit is A$25,000 [US$17,400].) By allowing participants to make catch-up contributions, this measure is intended to increase superannuation savings.

The main components of Australia's old-age pension system are the superannuation program and the means-tested Age Pension. Participation in superannuation is mandatory for employed persons with gross monthly earnings of at least A$450 (US$313). To finance the program, employers are required to contribute 9.5 percent of employees' earnings (gradually rising by 0.5 percentage points a year from 2021 until reaching 12 percent in 2025) to private superannuation funds. Employees are not required to contribute, but the government offers tax incentives and matching funds to encourage voluntary contributions, particularly from low- and middle-income workers. To receive superannuation retirement benefits, a participant must have reached age 57 (gradually rising to age 60 by July 2024) and be permanently retired (or participating in the Transition to Retirement program). At the end of March, Australia's superannuation had around A$2.78 trillion (US$1.93 trillion) in assets held in 28 million accounts. Individuals aged 65 and 6 months or older (gradually rising to age 67 by July 2023) who

meet certain asset, income, and residency requirements may also qualify for the Age Pension, which is funded and administered by the Australian government.

Sources: "Superannuation: Assessing Efficiency and Competitiveness," Productivity Commission, December 21, 2018; Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Protecting Your Super Package," Australian Tax Office, April 23, 2019; "Superannuation Statistics," Association of Superannuation Funds of Australia, May 2019; "New Era for Super Begins: What It Means for You," *Sydney Morning Herald*, July 1, 2019; "Concessional Contributions Cap," Australian Taxation Office, July 17, 2019; "Inactive Low-Balance Super Accounts," Australian Taxation Office, July 23, 2019.

China Implements Measures to Lower Social Insurance Contribution Rates

Effective May 1, China's State Council implemented measures that reduce social insurance contribution rates. The measures are intended to help stabilize economic growth and employment, while continuing the government's efforts to establish a unified pension system by 2021. However, economic observers forecast that the tax cuts will lead to new or higher shortfalls in some local pension funds. In 2018, the government estimated that as many as 19 local pension funds could have annual deficits by 2026, up from the 10 funds in 2016.

The new measures include:

- *Reducing the maximum employer contribution rate:* The maximum employer contribution rate for local pension funds has decreased from 20 percent to 16 percent of payroll. (Provinces, autonomous regions, and municipalities manage local pension funds and set maximum contribution rates for these funds within general guidelines established by the central government; some local pension funds already had employer contribution rates below 16 percent, even as low as 13 percent, before the latest reform.) The reduction in the maximum employer contribution rate is forecast to save employers 300 billion yuan (US$43.8 billion) this year, as the government seeks to lower enterprise taxes by 2 trillion yuan (US$298 billion).
- *Changing the covered wage base:* The policies change the wage base used to calculate social insurance contributions and benefits from the previous year's average monthly local earnings of public-sector workers (higher amount) to the previous year's average monthly local earnings of full-time workers in both the public and private sectors (lower amount). The change is expected to result in lower earning floors and ceilings, which would decrease the contributions and benefits paid under the social insurance program.
- *Allowing self-employed persons to select their wage bases:* Self-employed persons may select a wage base for calculating contributions within a range from 60 percent of the applicable average local earnings up to 3 times that level.

China's public pension system consists of the basic pension insurance program and pension schemes for rural and nonsalaried urban residents. The basic pension insurance program consists of a social insurance pension and mandatory individual accounts, and covers employees in urban enterprises and urban institutions managed as enterprises; self-employed persons and small business owners with no employees; casual workers; and civil servants and certain public-sector employees. Employer contributions finance the social insurance component, while employee contributions finance the individual accounts. The pension schemes for rural and nonsalaried urban residents aged 16 or older consist of noncontributory pensions and individual accounts. The government finances the entire cost of the noncontributory program, and employees finance the individual accounts (with the government providing certain subsidies).

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "An Age-Old Problem," Asian Investor, March 31, 2019; "Shanghai's Social Insurance Contribution Base: Upper and Lower Limits Updated," *China Briefing*, April 1, 2019; "MIL-OSI China: Contribution Cut to Social Security Welcomed," ForeignAffairs.co.nz, April 2, 2019; "Greying Population and Gap in Pension Funding Are Major Challenges," *Asia Insurance Review*, May 1, 2019; "China's State Pension Fund to Run Dry by 2035 as Workforce Shrinks Due to Effects of One-Child Policy, Says Study," *South China Morning Post*, May 3, 2019; "China: Employers to Benefit from Reduction in Social Security Contribution Rates for Retirement," Willis Towers Watson, May 22, 2019; "Central Government Lowers Average Percentage of Employers' Social Insurance Contributions Across Country," IBIS eVisor Compliance Alerts, June 26, 2019.

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