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Europe

Netherlands Introduces a Variable Annuity Option for Occupational Pensions

On June 23, the Dutch parliament passed a law introducing a variable annuity option for defined-contribution (DC) occupational pension plans. The new law is effective September 1. As a result, DC pension plan participants will be able to choose among the following payout options at retirement: (1) a fixed annuity that provides a guaranteed level of income (based on current interest rates) throughout retirement; (2) a variable annuity that allows retirees to invest in risk-bearing assets and provides a level of income that is adjusted periodically according to the performance of those investments; or (3) a combination of a fixed annuity and a variable annuity. (Previously, all participants of DC plans were required to take a fixed annuity.) According to the government, the law addresses the effect of sustained low interest rates in recent years on participants' retirement income: with fixed annuities, these low interest rates are "locked in" at retirement, leading to relatively low income levels throughout retirement. By allowing plan participants to take investment risks in retirement, variable annuities could provide substantially higher (or lower) income than fixed annuities.

To help DC plan participants decide between these options, the law requires that providers give an estimate of the projected benefit amounts—at retirement and 10 years after retirement—for both types of annuity under three economic scenarios: a "pessimistic scenario," an "expected scenario," and an "optimistic scenario." (The Dutch pension regulator De Nederlandsche Bank is currently developing a uniform calculation methodology that providers will be required to follow when generating the estimates; a temporary regulation will be in place until the new methodology is adopted.) As a result, participants will be informed of their expected benefit amounts and the potential risks in choosing one of the variable annuity options.

The Dutch pension system consists of a first-pillar basic state pension (AOW) 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, with the remaining 10 percent consisting of DC plans.

Sources: "Netherlands: Immediate and Proposed Pension Developments Could Trigger Significant Plan Changes," *Global News Briefs*, Willis Towers Watson, August 28, 2015; "Wet Verbeterde Premieregeling," 2016; *Netherlands Country Manual*, IBIS eVisor, June 26, 2016; "Netherlands: Legislation to Introduce Variable Annuities for DC Plans Passed," *Global News Briefs*, Willis Towers Watson, June 30, 2016; "Rendementen Tijdelijke Regeling Informatieverstrekking Variabel Pensioen" and "Wet verbeterde premieregeling," De Nederlandsche Bank, August 2, 2016.

The Americas

Argentina Introduces Tax Amnesty to Fund Pensions

On August 1, the Argentine government launched a temporary tax amnesty to help finance the payment of outstanding pension claims and expanded pension benefits. Under the tax amnesty, which is in effect through March 2017, Argentine residents and companies with undeclared financial assets can avoid legal prosecution and fines for unpaid taxes by disclosing those assets to the government and either paying a one-time penalty or purchasing government bonds. The revenue generated by the tax amnesty will be used to pay reparations to pensioners for unpaid benefits, increase some existing benefits, and fund a new noncontributory pension. Besides providing significant financial relief to many of Argentina's neediest residents, the government expects the tax amnesty to boost the country's economic growth (the current annual growth rate is 0.5 percent) and its international creditworthiness (the government defaulted on its debt payments in 2001). Overall, the government hopes to attract more than 300 billion pesos (US\$20 billion) in assets through the program.

The tax amnesty offers residents and other legal entities in Argentina a way to regularize financial assets that they have not declared to the Argentine government. To participate, those who held undeclared real estate, bank accounts, and other assets at the end of 2015 must disclose those assets to the Argentine Federal Tax Authority and pay a special tax of up to 15 percent on the assets. (The tax rate varies depending on the size and location of the assets disclosed and when the amnesty application is filed.) The one-time tax is waived for disclosed assets if they are invested in special treasury bonds or select government projects. In return, the amnesty program will grant qualified participants protection from most types of legal prosecution for concealing assets and forgive all liability for taxes and fines.

By establishing the tax amnesty, the Argentine government hopes to raise significant revenue to fund its public pension system. At present, the government owes money to more than 2.4 million pensioners who were not paid their full pension benefits in past years. Moreover, on August 1, the government introduced a new noncontributory pension for Argentines aged 65 or older who do not qualify for a contributory pension (the new pension's benefit is equal to 80 percent of the minimum contributory pension). According to the law, the government must spend all special taxes collected from the tax amnesty program on pension debts and benefits, including the new noncontributory pension. The government will need to raise an estimated 50 billion pesos (US\$3.4 billion) to settle all outstanding pension debts and 75 billion pesos (US\$5.1 billion) a year to fund all new and increased benefits.

The recently introduced noncontributory pension replaces the noncontributory pension previously available to needy Argentines aged 70 or older. In addition to the noncontributory pension, Argentina's old-age pension system consists of two contributory pensions: the first is paid to persons aged 65 or older who have at least 30 years of contributions, while the second (the advanced-age pension) is paid to persons aged 70 or older who have at least 10 years of contributions, including at least 5 of the last 8 years.

Sources: *Social Security Programs Throughout the World: The Americas, 2015*, U.S. Social Security Administration, March 2016; "Argentina Offers Tax Amnesty on Missing \$500 Billion," Bloomberg.com, May 27, 2016; "The Tax Amnesty Mega-Bill," *The Argentina Independent*, June 29, 2016; "El Gobierno Promulgó el Pago de los Juicios a los Jubilados y el Blanqueo de Capitales," *La Nación*, July 22, 2016; "Los Jubilados,

Más Cerca de Cobrar el Reajuste," Clarín.com, July, 22, 2016; "Tax Amnesty Officially Kicks off Today," *Buenos Aires Herald*, August 1, 2016; "Pensión por Vejez: Arrancaron los Trámites en la ANSES," Clarín.com, August 1, 2016.

International

U.S. Census Bureau Releases Report on Global Population Aging

The U.S. Census Bureau recently released *An Aging World: 2015*, a report commissioned by the U.S. National Institute on Aging that examines the demographic, health, and economic aspects of global population aging. The report provides comprehensive data on various trends relating to global aging, including the speed of aging and the size of the older population (aged 65 or older) in different regions around the world. In addition, the report provides an in-depth look at a number of special topics ranging from health and health care to pensions and old age poverty.

According to the report, the world population is aging rapidly, with the percentage of the population aged 65 or older projected to nearly double from 8.5 percent (617 million people) in 2015 to 16.7 percent (1.6 billion people) by 2050. However, the report notes that population aging has not been uniform, with significant regional variation both in terms of current age structures and projected rates of aging. Europe is the oldest region today with around 17.4 percent of its population aged 65 or older and is projected to remain so by 2050 when an estimated 27.8 percent of its population will be in this age group. Asia and Latin America currently have younger populations—with 7.9 percent and 7.6 percent of the respective population aged 65 or older in 2015—but are projected to age rapidly to 18.6 percent and 18.8 percent in this age group, respectively, by 2050. (Also noteworthy is that the majority of the world's older population lives in Asia—55.3 percent in 2015 and increasing to 62.3 percent by 2050). In contrast, Africa is the youngest region with only 3.5 percent of its population aged 65 or older in 2015 and is projected to remain so by 2050 when an estimated 6.7 percent of its population will be in this age group. The report notes that these differences in global aging are primarily the result of lower fertility rates, which are near or below the 2.1 replacement level in all regions except Africa, and increasing life expectancy.

In a chapter on pensions and old-age poverty, the report reviews recent international trends in public pension systems, including changes in worker coverage and financial sustainability. Some of the key findings include:

- The number of countries offering a public pension continues to increase. In 1940, only 33 countries had mandated pension systems compared with 177 countries today. Earnings-related programs—in which benefits are based on factors such as a worker’s length of employment or self-employment, level of earnings, and age at retirement—are the most common, with 144 of the 177 countries (81 percent) having such a program.
- Pension coverage varies widely around the world. In developed countries such as Australia, Italy, Japan, the United Kingdom, and the United States, public pension programs cover more than 90 percent of the labor force. In less developed countries, coverage rates are typically much lower, including around 33 percent in China and around 10 percent in India.
- Public pension replacement rates (the value of the pension for a median earner as a percentage of preretirement earnings) also vary widely around the world. In Argentina, Saudi Arabia, and the Netherlands, replacement rates exceeded 100 percent in 2013, whereas in Indonesia and South Africa, replacement rates were less than 15 percent.
- Public pensions can drastically reduce old-age poverty rates. For example, in Latin America and the Caribbean, the average poverty rate for those receiving a public pension is 5.3 percent, compared with 25.8 percent for those not receiving a pension.

Source: *An Aging World: 2015*, U.S. Census Bureau, International Population Reports, March 2016.

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