Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

December 2016

Europe

Netherlands Announces Increase in Retirement Age for First-Pillar Pension

On October 31, the Dutch government announced that the retirement age for the first-pillar public pension will automatically increase to age 67 and 3 months in January 2022 because of rising Dutch life expectancy. The change, which is part of a 2012 amendment to the Dutch General Old-Age Pensions Act (AOW), aims to improve the long-term sustainability of the pension system by gradually increasing the retirement age from 65 to 67 (initially by 2023, but later accelerated to 2021) and automatically linking future increases (of 3 months a year) to changes in average life expectancy at age 65. (The law requires the government to announce the automatic increases at least 5 years prior to implementation.) The higher retirement age of 67 and 3 months affects all workers born from January 1, 1955, through September 30, 1955. Individuals born prior to 1955 may retire from age 65 to 67, depending on their date of birth, while those born after September 30, 1955, are expected to have a retirement age above 67 and 3 months due to future automatic adjustments.

Based on its latest projections, Statistics Netherlands (*Centraal Bureau voor de Statistiek* or CBS)—the agency responsible for compiling national statistics—forecasts a rapid rise in Dutch life expectancy over the coming decades. From 2015 to 2060, CBS projects life expectancy at age 65 to rise from around 18.7 years to 24.1 years for men and from around 21.4 years to 26.8 years for women. As a result, CBS projects that the retirement age will rise to around age 71 and 6 months by 2060.

The AOW is a basic state pension that covers all residents and persons working in the Netherlands, regardless of nationality. For each year of coverage, an individual is entitled to 2 percent of the full pension. (The full pension is paid with 50 years of coverage.) A second pillar of quasi-mandatory occupational pensions and a third pillar of voluntary private pensions supplement the AOW.

Sources: "Algemene Ouderdomswet," 1956; "AOW–leeftijd stijgt vanaf 2022 verder door koppeling aan levensduur," Centraal Bureau voor de Statistiek, December 18, 2014; "Prognose periode–levensverwachting; Geslacht en Leeftijd, 2015–2060," Centraal Bureau voor de Statistiek, December 18, 2015; "AOW–leeftijd gaat in 2022 met drie maanden omhoog" and "Tijdspad verhoging AOW–leeftijd," Rijksoverheid, October 31, 2016; "AOW–leeftijd in 2022 wordt 67 jaar en 3 maanden," Sociale Verzekeringsbank, October 31, 2016.

Switzerland to Reduce the Guaranteed Minimum Rate of Return on Second-Pillar Occupational Pensions

Effective January 1, the guaranteed minimum interest rate for mandatory second-pillar occupational pensions (BVG) will decrease from 1.25 percent to 1 percent. This reduction represents the lowest rate since the government introduced the second pillar in 1985 and continues the overall decline observed in recent years. According to the government, the rate reduction is the result of the current low interest-rate environment and poor performance by institutional investors in equity markets.

Switzerland's multi-pillar pension framework includes a relatively large second pillar, which is mandatory for employees with annual earnings from a single employer greater than 21,150 francs (US$20,881) and operates on a defined contribution basis with a guaranteed minimum rate of return applied to contributions. By law, the BVG Kommission—the authority responsible for assessing capital markets—reviews the minimum interest rate at least every two years and may recommend rate changes to the federal government. So far, the federal government has always accepted the BVG Kommission's rate recommendations (usually reductions). When the government introduced second-pillar pensions, the minimum guaranteed interest rate was set at 4 percent but has gradually decreased over the years. (In 2015, the average actual interest credited by 262 Swiss pension plans surveyed was 1.91 percent—slightly above the 1.75 percent mandated for that year.)

In Switzerland's multi-pillar retirement system, mandatory occupational pensions complement the first-pillar universal state pension; the combination of the first two pillars is designed to provide a benefit of at least 60 percent of a worker's final salary. The country's banking and insurance institutions operate a third pillar consisting of various voluntary tax-exempt savings vehicles. According to the Organisation for Economic Co-operation and Development, Switzerland has significant occupational pension assets, which totaled more than 125 percent of the country's gross domestic product in recent years.

Sources: "Switzerland," *International Update*, U.S. Social Security Administration, January 2012; *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016; "Switzerland: AV2020 Project Rumbles On," ipe.com, September 2016; "Minimum Interest Rate for Swiss Pensions Set to Reach All-Time Low," ipe.com, September 5, 2016; "Switzerland," IBIS eVisor, October 24, 2016; "Minimum Interest Rate on Swiss Second-Pillar Pensions Cut to 1%," ipe.com, October 26, 2016.

The Americas

Ontario (Canada) Implements Law on Pooled Registered Retirement Plans

On November 8, Ontario implemented the Pooled Registered Pension Plans (PRPP) Act, which provides a legal framework for creating and operating voluntary, low-cost, defined contribution pension plans for employed and self-employed persons who do not have access to a workplace pension. The law largely follows the framework of federal PRPP legislation that was passed in 2012. Ontario's Legislative Assembly approved the law in May 2015 and expects that it will lower administrative costs (by allowing for the pooling of assets from plan participants) and encourage workers to save more for retirement. According to recent government estimates, less than 35 percent of workers in Ontario currently have access to a workplace pension plan.

Unlike most workplace pensions in Canada, licensed financial institutions such as insurance companies and banks administer PRPPs rather than employers. (These so-called "PRPP administrators" may administer more than one plan.) Participation in a PRPP is voluntary for employers and employees; if an employer chooses to participate, their employees are automatically enrolled but may opt out within the first 60 days. Self-employed persons and employees of nonparticipating employers may enroll directly with a PRPP administrator. Employee contributions to PRPPs are tax deductible up to a maximum annual contribution limit; employer contributions are voluntary. (Contribution rates and the frequency of contributions can vary by plan.) Plan administrators determine the investment options, but each plan must include a default option (either a balanced fund or a lifecycle fund that takes into account the participant's age) and up to five other options with varying degrees of risk.

Since 2012, the federal government has encouraged provinces to adopt PRPPs; Quebec was the first province to do so with its Voluntary Retirement Savings Plan, launched in July 2014. Other provinces that have passed PRPP legislation include Alberta, British Columbia, Nova Scotia, and Saskatchewan. In addition, the 2012 federal legislation covers all federally regulated workplaces, such as those involved in navigation and shipping, banking, and interprovincial transportation and communications.

Sources: "Pooled Registered Pension Plans Act" and "Pooled Registered Pension Plans Regulations," Minister of Justice, 2012; "Pooled Registered Pension Plan (PRPP)–Questions and Answers for Administrators," Canada Revenue Agency, June 6, 2013; "Canada," *International Update*, U.S. Social Security Administration, August 2014; "Backgrounder: Pooled Registered Pension Plans," Ontario Ministry of Finance, December 8, 2014; "Pooled Registered Pension Plans Bill Passes in Ontario Legislature," Ontario Ministry of Finance, May 26, 2015; "Ontario Passes PRPP Legislation," Benefits Canada, May 27, 2015; "Regulations Under the Pooled Registered Pension Plans Act, 2015," Ontario's Regulatory Registry, July 5, 2016; "Frequently Asked Questions: Pooled Registered Pension Plans," Office of the Superintendent of Financial Institutions, October 26, 2016; "Pooled Registered Pension Plan (PRPP)–Information for Individuals," Canada Revenue Agency, November 9, 2016.

International

Organisation for Economic Co-operation and Development Releases New Report on Pension Policy Issues

On December 5, the Organisation for Economic Co-operation and Development (OECD) released *OECD Pensions Outlook 2016*, the third edition of its biennial report on major policy issues facing public and private pension systems in the 35 OECD member countries. This year's report focuses on the growing role of funded pension arrangements (particularly those based on a defined contribution [DC] model) in providing retirement income and the new challenges this trend poses for pension policies around the world. In addition, the report examines how governments can strengthen funded pension arrangements by restructuring retirement saving tax incentives, restructuring annuity markets, regulating financial advice, providing financial education, and redesigning pension systems for public-sector workers.

In its analysis of the current pension landscape, the report finds that funded pension arrangements have expanded in all OECD countries. It shows that the number of OECD countries where assets in funded pensions represent more than 50 percent of gross domestic product (GDP) increased from 10 countries in 2000 to 13 countries in 2015. Similarly, the report indicates that the number of OECD countries where assets in funded pensions represent more than 100 percent of GDP increased from four countries (Canada, the Netherlands, Switzerland, and the United States) to seven countries (Australia, Canada, Denmark, Iceland, the Netherlands, Switzerland, and the United States) over the same period. In countries such as the Netherlands, the United Kingdom, and the United States, the report predicts that funded pensions will provide, on average, around 30 percent to 40 percent of a current worker's total pension income in the first year of retirement.

Other notable findings about funded pensions include:

- DC arrangements (including both occupational and personal plans) have grown in importance compared to defined benefit (DB) arrangements. From 2000 to 2015, assets and/or membership in private DC plans increased in 10 of the 16 OECD countries for which data are available. During the same period, assets in private DB plans either remained flat or grew slowly, and membership in private DB plans was level or declined (Switzerland is a notable exception). In 2015, assets in private DC plans exceeded those in private DB plans in 15 of the 21 OECD countries with complete data.
- The 2008 financial crisis, low interest rates, and high longevity risks have contributed to the shift away from DB pension arrangements to DC pension arrangements. The governments of Ireland, Norway, and the United States have all reported an increase in the freezing of occupational DB plans and the creation of new occupational DC plans in recent years.
- New legislative reforms, such as those establishing new plan types and auto-enrollment mechanisms, have further accelerated the growth of DC pension arrangements. In Israel, Italy, and Sweden, for example, legislative changes have led to the closing of some private DB plans and the creation of DC alternatives.

Given these developments, the report urges governments to take steps to improve their countries' DC pension arrangements. While the report acknowledges that DC pensions have some advantages over their DB counterparts in environments with rapid population aging and low economic growth, it emphasizes that the DC pension model places more of the risks of retirement saving (e.g., investment and longevity risks) on individuals. To mitigate the risks for individuals and maximize the advantages of DC pension arrangements, the report makes the following policy recommendations:

- Governments and plan sponsors should make DC pension plans more financially favorable for low-income individuals by providing flat-rate subsidies and matching contributions for retirement savings. In 2015, the tax treatment of retirement savings in at least 20 OECD countries was more beneficial to individuals with higher incomes than to those with lower incomes.
- Governments should adopt policies to strengthen annuity markets because annuities can provide individuals with protection against investment and longevity risks. In addition to simplifying the product disclosures for annuities, new regulatory frameworks should encourage meaningful product innovation and appropriate risk management.
- Policymakers should establish rules to ensure that financial advisors are qualified and have no major conflicts of interests. However, the rules should not be so onerous that they reduce the availability and affordability of financial advice.
- Financial education should be widely available, and financial reporting should be highly standardized. Information about all of an individual's pension plans should be automatically combined and easily accessible.
- Governments should align the pension systems for public- and private-sector workers to encourage labor mobility and equity between the two sectors. In the four OECD countries that still have separate pension systems for civil servants (Belgium, France, Germany, and South Korea), pensions for civil servants are significantly higher than those for private-sector employees.

Source: *OECD Pensions Outlook 2016*, Organisation for Economic Co-operation and Development, December 2016.

International Update is a monthly publication of the Social Security Administration's (SSA's) Office of Retirement and Disability Policy. It reports on the latest developments in public and private pensions worldwide. The news summaries presented do not necessarily reflect the views of SSA.

Editor: John Jankowski

Writers/researchers: Ben Danforth, John Jankowski, and David Rajnes.

Social Security Administration
Office of Retirement and Disability Policy
Office of Research, Evaluation, and Statistics
500 E Street, SW, 8th Floor, Washington, DC 20254

SSA Publication No. 13-11712
Produced and published at U.S. taxpayer expense