International Update

Recent Developments in Foreign Public and Private Pensions

November 2020

Europe

Norway Finalizes Changes to Defined Contribution Occupational Pension Plans

On November 6, Norway's government finalized changes to the country's defined contribution (DC) occupational pension plans, which include introducing automatic account consolidation, allowing employees to choose their own pension providers, and eliminating vesting periods for employer contributions. (Most pension plans under Norway's mandatory occupational pension program for private-sector employees are DC plans.) Norway's parliament had approved these changes on May 3, 2019, but it took over a year for the government to work out the final rules and implementation schedule. With these changes, the government is seeking to move Norway's DC occupational pension plans to a personal pension account (egen pensjonskonto) model that gives employees greater control over their retirement savings. The changes are also intended to reduce the administrative costs and improve the investment returns of the plans, which covered around 1.5 million private-sector employees and had about 108 billion kroner (US$11.4 billion) in assets at the end of 2019.

The key changes to Norway's DC occupational pension plans—all effective on January 1, 2021—include:

- *Introducing automatic account consolidation:* An employee's multiple DC pension accounts will automatically be consolidated into a single account with his or her current employer unless the employee requests that the separate accounts be preserved. When an employee switches employers, the current employer's DC pension account will automatically transfer to the new employer's pension plan if it is a DC plan. (This mechanism does not apply to defined benefit occupational pension plans or to the DC pension savings of individuals who are no longer employed in the private sector.) Automatic account consolidation is expected to help employees keep track of their occupational pension savings and lower their administrative fees. (Individuals are usually responsible for paying the administrative fees charged for DC pension accounts held by former employers.)
- *Allowing employees to choose their own pension providers:* Employees will be able to select pension providers other than the ones chosen by their employers to administer their DC pension accounts. Employees opting for their own pension providers will receive reimbursements from their employers to help cover account-related administrative fees. (The reimbursements will be equal to the costs that employers would have incurred if the employees had stayed with the employers' pension providers.)
- *Eliminating vesting periods for employer contributions:* Employees will retain employer contributions to their DC pension accounts regardless of how long they work for their employers. (Employers must contribute at least 2 percent of their employees' annual earnings from 1 to 12 times the social security base amount of 101,351 kroner [US$10,686.89].) Currently, employees must stay with their employers for at least 12 months before the employers' contributions vest.

In addition to the mandatory occupational pension program for private-sector employees, Norway's old-age pension system consists of a two-tiered public pension program and voluntary retirement savings vehicles. (There is also a special occupational pension program for public-sector employees.) After undergoing significant reforms in 2011, the public old-age pension consists of a guarantee pension program covering all residents of Norway and a notional defined contribution (NDC) pension program covering employed and self-employed persons. (Individuals born before 1963 may still be entitled to benefits under the old two-tiered public pension program.) To receive the guarantee pension, an individual must have reached age 67 and have at least 3 years of residency in Norway from age 16 to 66; the normal retirement age for the NDC pension is flexible—from age 67 to 75—and there is no minimum contribution requirement.

(It is possible to receive the NDC pension as early as age 62 under certain conditions.)

Sources: "Privat tjenestepensjon - innskuddsordninger," Finans Norge; "Egen pensjonskonto," Forbrukerrådet; "Hva er innskuddspensjon?" Forbrukerrådet; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; lov 3. mai 2019 nr. 14, 2019; kongelig resolusjon 6. november 2020 nr. 2270, 2020; "Norway: New Law Automatically Consolidates Employee DC Accounts," Willis Towers Watson, May 29, 2020, "1,5 millioner arbeidstakere får egen pensjonskonto," Finans Norge, November 6, 2020; "Egen pensjonskonto innføres fra 1. januar 2021," Regjeringen.no, November 6, 2020.

Asia and the Pacific

India Approves Social Security Code

On September 28, India's president approved a law (the Code on Social Security, 2020) that consolidates and amends nine existing social security laws. Among the law's changes are an extension of benefit eligibility to fixed-term workers under the employer-liability gratuity scheme, a broadening of the definition of wages for contribution calculation purposes, and new protections for informal-sector workers. (Over 80 percent of India's labor force is estimated to be employed in the informal sector and thus, currently excluded from most social security coverage.) Many details of the law, including the implementation date, have yet to be finalized (though it is expected to be implemented by April 2021). According to the government, the main goal of the law is to extend social security coverage to all workers in the country. It is also part of a larger effort to simplify the country's labor laws, which included the government approving three other laws on wages; industrial relations; and occupational safety, health, and working conditions.

Key changes under the Code on Social Security, 2020, include:

- *An extension of gratuity-scheme benefit eligibility to employees on fixed-term contracts:* Currently, workers must have at least 5 years of continuous employment to be eligible for a benefit under the gratuity scheme. (The gratuity scheme is an employer-financed program that provides lump-sum old-age, disability, and survivor benefits that vary based on the insured's last daily wage.) The new law extends eligibility to employees on fixed-term employment contracts with no length of service requirement. For these employees, the benefit will be prorated based on their length of service. (It is not yet clear if periods of fixed-term employment prior to the law's implementation will be considered when calculating the benefits.) The 5-year continuous employment requirement remains in place for all other workers.
- *A new definition of wages for the purposes of calculating contributions:* The new law expands the definition of wages used for calculating contributions to include additional compensation types (such as bonuses, commissions, and allowances) that exceed 50 percent of an employee's total compensation. Currently, a significant portion of employees' compensation is often paid as allowances that are excluded when calculating contributions. The change is expected to increase employer and employee contributions to the Employees' Provident Funds (EPF) and the Employees' Pension Scheme (EPS).
- *New protections for informal-sector workers:* The new law mandates that the federal government and state governments introduce social security programs that cover all informal-sector workers, including home-based workers, self-employed persons, gig workers, and platform workers. These programs will be financed by contributions from the federal government, state governments, and, in the case of schemes for gig and platform workers, aggregators. (The law defines an aggregator as a "digital intermediary or a market place for a buyer or user of a service to connect with the seller or the service provider.")

India's main public programs include the EPF, the EPS (a supplementary social insurance program), and the gratuity scheme. The EPF covers employees with monthly wages of 15,000 rupees (US$201.43) or less working in firms with at least 20 employees in certain categories of covered industry, and certain other employees specified by law. The EPS covers employees who became members of the EPF on or after November 16, 1995. The gratuity scheme covers employees of factories, mines, oil fields, plantations, ports, railways, and businesses with at least 10 employees. In most industries in the formal sector, the employer contributes 3.67 percent of monthly payroll (plus administrative costs) to the EPF; 8.33 percent of payroll to the EPS; and an average of 4 percent of payroll to the gratuity scheme. (The employee contributes 12 percent of monthly earnings to the EPF only.) Besides these programs, other major retirement programs in India include the National Pension System (an individual account program) and the Atal Pension

Yojna Universal Pension (a voluntary defined-benefit program for informal-sector workers aged 18 to 40).

Sources: "India Expands Pension Subsidies for Low-Income Workers," *International Update*, U.S. Social Security Administration, June 2018; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; The Code On Social Security, 2020; "How 'Code on Social Security 2020' Affects Employees, Employers; New Code Brings Stringent Penalties Too" and "The Code on Social Security 2020: How Will This New Labour Code Benefit Employees, Workers?" *Financial Express*, October 5, 2020; "India: Parliament Passes Code on Social Security 2020," PwC, October 14, 2020; "India: New Labor Codes Affect Employer-Provided Benefits Including Provident Funds, and Industrial Relations," *Global News Briefs*, Willis Towers Watson, October 29, 2020.

International

Organisation of Economic Co-operation and Development Releases Pension Markets in Focus 2020

On November 6, the Organisation for Economic Co-operation and Development (OECD) released Pension Markets in Focus 2020, its annual report examining retirement assets in funded and private pensions in 90 jurisdictions (including 37 OECD countries). The report draws on a database developed by the OECD in collaboration with the International Organization of Pension Supervisors and the World Bank that examines pension assets, their role in financial markets, and their investment performance. The report provides statistics designed to assist policymakers, regulators, and market participants in measuring, comparing, and evaluating pension plan arrangements. This year's report includes a special section on the COVID-19 pandemic's effects on pension assets and defined benefit (DB) plans' funding levels.

Key findings in the report include:

- *Pension assets*
  - Pension assets exceeded US$50 trillion for the first time in 2019, with US$49.2 trillion in OECD countries and US$1.7 trillion in non-OECD reporting jurisdictions. The OECD countries with the most pension assets were the United States (US$32.2 trillion), the United Kingdom (US$3.6 trillion), and Canada (US$2.8 trillion).
  - Pension assets as a percentage of the OECD countries' total gross domestic product (GDP) rose from 60 percent in 2009 to 92 percent in 2019. During that time, the number of OECD countries with pension assets exceeding GDP increased from six to eight, with the top countries being Denmark (220 percent of GDP), the Netherlands (194 percent), and Iceland (178 percent).
  - Pension asset growth can largely be attributed to greater coverage of the working-age population. This development is particularly evident in countries that have recently implemented mandatory pension plans (Bulgaria, Israel, and Latvia) or auto-enrollment programs (New Zealand and the United Kingdom).
- *Pension coverage*
  - Pension coverage has risen in the last decade, particularly in countries that have introduced auto-enrollment programs. For example, New Zealand's coverage rate (the percentage of the working-age population covered by private and funded plans) under the KiwiSaver program rose from 42 percent in 2010 to 79 percent in 2019. Similarly, the United Kingdom's coverage rate under employer-sponsored pension plans rose from 38 percent in 2015 to 48 percent in 2018.
  - Mandatory pension plan coverage rates exceeded 70 percent in 17 of the 32 OECD and non-OECD jurisdictions reporting in 2019. Meanwhile, voluntary pension plan coverage rates have changed little over the past decade.
- *Pension contributions*
  - Total contributions paid in 2019 varied widely across countries but were highest in OECD countries with mandatory funded pension arrangements. The OECD countries with the highest contribution totals as percentages of GDP were Australia, Denmark, Iceland, and Switzerland, all of which had mandatory pension plan coverage rates exceeding 75 percent. The countries with the lowest contribution totals relative to GDP were Albania, Indonesia, and Pakistan. (None of these three countries are OECD members.)
- *Investment allocation*
  - Bonds and equities were the primary retirement investment asset classes in 2019, accounting for more than half of investments in 34 of the 37 OECD countries and in 39 of the 47 non-OECD reporting jurisdictions. The proportion of these two asset classes combined was highest relative to total portfolio size in Chile (99 percent), the Dominican Republic (97.3 percent), Mexico (96.6 percent), Estonia (96.4 percent),

Nigeria (96.4 percent), Romania (96.3 percent), the Maldives (96.2 percent), and Croatia (95.7 percent).

- *Investment performance*
  - Strong investment returns helped boost pension assets in 2019, continuing the positive trend observed over the previous 15 years. Pension plans' average annual real rate of return (net of expenses) was 8 percent in OECD countries and 4.4 percent in non-OECD jurisdictions. Investment gains were recorded in almost all reporting countries, and 15 countries experienced double-digit rates of return. The largest rates of returns were reported in Ireland (18.5 percent) and the Netherlands (13.7 percent).
  - Three Latin American countries stand out for their average annual real rates of return over the last 15 years: Colombia (6.2 percent), the Dominican Republic (6.8 percent), and Uruguay (5.2 percent). Pension funds in Canada and the Netherlands also averaged relatively high annual real rates of return (of close to 5 percent) over this period.

In a special section, the report estimates the effects of the COVID-19 pandemic on pension assets in the first three quarters of 2020 and DB pension plans' funding levels. According to the estimates, pension plans have largely recouped their first quarter losses, which saw pension assets decline from US$49.2 trillion in December 2019 to US$44.3 trillion in March 2020. This fall in assets, coupled with a decline in interest rates, caused DB plan funding ratios (plan assets divided by plan liabilities) to decline in many countries, including Canada, Finland, the Netherlands, Switzerland, the United Kingdom, and the United States. While some of these countries (notably Finland, the Netherlands, and the United Kingdom) have implemented support measures for DB plans, funding ratios remained below 2019 levels at the end of the third quarter of 2020; the outlook for DB plans beyond the third quarter is highly uncertain. A forthcoming OECD publication—scheduled to be published in December—will provide an update.

Source: Pension Markets in Focus 2020, Organisation for Economic Co-operation and Development, November 6, 2020.

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