Global Retirement Update

Hewitt

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This update summarizes recent legislative developments and trends related to retirement and financial management and highlights recently passed and pending legislation that may require employers to take action to comply with new rules or review existing plans.

Action May Be Required

France—The effective date for compliance with new rules for employer-provided defined contribution (DC) pension plans and retirement savings plans (PERCO, PEE, etc.), introduced by the 2003 *Loi Fillon*, has been pushed back from June 30, 2008 to December 31, 2008 due to the inability of many employers to meet the initial deadline. Among the changes introduced: 1) Membership in benefit plans must be open to all employees within an objectively defined group. Employers may not distinguish between part- and full-time employees, temporary or permanent employees, or by age. Membership criterion based on level of employee or salary coefficient also is generally not permitted. Currently, the only clearly allowable distinction is between cadres and noncadres (subject to a court decision concerning plans for cadres supérieurs only); 2) Employer contributions must be the same for all employees (either in euros or as a percentage of pay) for Article 83 DC plans. Different contribution rates are permitted for different bands of pay, but only as multiples of the social security ceiling, not freely defined amounts; 3) Changes are retrospective—all plans, even those that predate the 2003 Law, must comply. Additional requirements apply to Article 83 DC plans, retirement savings plans, and medical plans.

Parent companies concerned about potential noncompliance should have their plans reviewed by a local consultant or counsel. Sufficient time should be allotted for the review, as any necessary plan changes may be subject to employee consultation.

Recent Developments

Americas

The **U.S.** Department of Labor's Employee Benefits Security Administration (EBSA) released guidance to help plan administrators and service providers comply with the new requirements for reporting fee information on Form 5500 for plan years beginning on or after January 1, 2009. EBSA also issued a proposed regulation requiring plan fiduciaries of participant-directed individual account plans (e.g., 401(k) plans) to provide uniform, basic disclosures, including fee and expense information, to plan participants and beneficiaries. Disclosures would have to be provided when a participant becomes eligible to participate in the plan and annually thereafter. The centerpiece of the proposed regulation is a requirement to provide investment-related information in a comparative chart or similar format.

The **U.S.** Treasury and Internal Revenue Service issued Revenue Ruling 2008-45, which prevents certain transactions in which an employer transfers a qualified pension plan to an unrelated entity and the transfer is not connected with a transfer of significant business assets, operations, or employees. The Ruling is of primary interest to plan sponsors that have been considering potential transfers of their pension assets and obligations to investment banks or other financial institutions in order to remove those assets from the plan sponsor's financial statements. It states that such a transaction would violate section 401(a) of the Internal Revenue Code, which requires that an employer's pension plan must be for the exclusive benefit of employees or their beneficiaries in order to receive tax-qualified status.

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In **Quebec** (**Canada**), pending legislation would introduce phased retirement. Beneficiaries of a retirement pension who contribute to the Quebec Pension Plan would be entitled to an additional pension based on their post-retirement earnings. Pension legislation changes in **British Columbia** (**Canada**) provide funding relief to employers. The changes permit the use of letters of credit to fund solvency deficiencies in certain circumstances; provide temporary solvency funding relief for defined benefit multiemployer negotiated cost plans; and change the annual fees collected from registered pension plans by the Financial Institutions Commission.

Employees in **Peru** can now purchase insurance to continue social security contributions in the public system for up to one year of unemployment. Similar coverage for employees participating in the private pension system is expected to be introduced by the end of the year. Employers operating in **Brazil** could have their social security contributions significantly reduced under a package of tax simplification measures. Employers' social security contributions, which amount to approximately 20% of total payroll (contributions vary according to the nature of the employer's business), would decrease by 1% per year from 2010, until reaching 14% in 2015. In **Panama**, pensioners received a one-time bonus of PAB 60 in July 2008. The legislature is expected to review a measure that would make the bonus permanent.

Asia

Effective November 1, 2008, Mandatory Provident Fund (MPF) contributions for some employers in **Hong Kong** will increase. Employers will be required to include housing allowances as part of relevant income for the calculation of MPF contributions.

Taiwan's Legislative Yuan ratified amendments to the *Labor Insurance Law*. The minimum pension age will be age 60 until 2017 when it will rise a half year annually to reach age 65 in 2026. Participants will be eligible for early retirement at age 55, but will be penalized by a 4% reduction in benefits for each year prior to age 60. Conversely, participants deferring retirement will see a 4% increase in benefits for each year beyond age 60 that retirement is delayed. The premium will be set at 7.5% for 2009-2010 before incrementally rising to 13% in 2027. Implementation will begin in October 2008.

In **Thailand**, a new National Provident Fund (NPF) could be established within two years to help strengthen the social safety net. Companies with 100 or more employees would be required to participate immediately after establishment; companies with 10 to 99 employees would be required to participate six years after establishment. Both employees and employers would be required to contribute 3% to the fund. Employees earning less than THB 6,000 per month would be exempt from contributions, but employers would still be required to contribute on their behalf.

Europe

Under a government proposal, employers in **France** with over 300 employees would be required to negotiate an agreement on the hiring and training of mature-aged employees by the end of 2009. Companies without an agreement would be subject to supplemental social security contributions.

Poland's Labor and Social Policy Ministry has proposed that individuals be permitted to deposit up to PLN 9,567 in their individual pension accounts (IKEs). The current limit is PLN 4,055. Additionally, the Ministry would allow IKE savings account holders to withdraw a portion of their funds without forfeiting the account contract. Currently, individuals under age 60 must withdraw all of their funds and close the account. In related news, the new pension system is expected to come into force January 2009. However, regulations on how contributions would be distributed have not been finalized. Parliament has rescheduled the debate for September 2008.

In **Cyprus**, the Ministry of Labor and Social Insurance has proposed a scaled increase of social security contributions to support the viability of the Social Insurance Fund through 2050. Under the proposal, the contribution rates of employers, employees, and the government would increase 1.3% every five years

beginning January 2009. The contribution ratio would remain unchanged—38% contributed by employees, 38% by employers, and 24% by the government.

Recent Trends

United States—Total Retirement Income at Large Companies: The Real Deal 2008

Hewitt Associates' latest Real Deal report provides data on projected retirement income levels for employees of 72 large private-sector employers. These companies have more than 1.8 million employees eligible for a company-sponsored 401(k) plan. The study assesses projected levels of retirement income and retirement readiness of employees in large corporations. Findings include:

- Employees who contribute to their savings plans can expect to replace 96% of preretirement income. Employees who do not save can expect to replace only 54% of preretirement income, with a heavy reliance on social security.

- Factoring in inflation and increases in medical costs, the average projected postretirement income replacement need is 126% of final pay, with variations based on age, income, and savings rate. Of the study population, only 19% of employees are expected to satisfy 100% of needs, absent any postretirement medical subsidy from their employer. Sixty-seven percent are expected to have less than 80% of projected needs. The average projected gap is 41% of income.

- Employees with only a DC retirement plan do not achieve the same levels of retirement income as employees covered by both defined benefit (DB) and DC plans. Of the study population actively contributing to a DC plan, the average gap for employees with a DB benefit, whether frozen or not, was only 13% of final pay. The average gap for employees with access to only a DC plan was 46% of final pay.

- Self-insurance against longevity risk increases the retirement income gap by 20% of final pay and significantly worsens the prospect for an adequate retirement, especially for those employees without access to a pension plan.

- The projected gap between retirement income and needs for women is about 8% of final pay higher than males (29.2% gap for females and 21.1% gap for males) due to longer life expectancy and greater retiree medical needs. Women tend to start saving two to four years later for retirement, save at a less robust rate, and invest less in equities. Other factors also account for the difference, including pay inequities, time off to care for children or elderly parents, and differences in risk tolerance.

The good news is that employees can take small actions to make a big difference in meeting their retirement needs. Changes in savings rates, smarter investing, lower fees, and delays in retirement dates can have a significant long-term impact.

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