Hewitt

Hewitt Global Report

Global Retirement Update **December 2007**

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—Employers should note that all retirement indemnities are now subject to taxation. While the recent change does not have a strong impact on 2007 accounting expenses, year-end accounting treatment must be updated.

Germany—The upper house of parliament recently passed legislation affecting employer-provided pension plans. Under the legislation, the minimum vesting age for employer-provided plans will be age 25 (currently age 30) effective January 1, 2009. For employees joining a retirement plan on or after January 1, 2009, tax-deductible book reserve provisions for unfunded plans can be established for employees from age 27 (currently from age 28). The five-year plan membership period required for vesting remains unchanged. Most employer-provided pension plans refer to legal vesting rules rather than establish their own specific vesting rules. In the event an employer has established its own rules or included specific legal age and vesting requirements in plan provisions, these rules should be reviewed. The new law is expected to be published by the end of 2007.

United States—The U. S. Securities and Exchange Commission (SEC) voted to eliminate the need to reconcile statements prepared according to International Financial Reporting Standards (IFRS) with U.S. GAAP. Plan sponsors that prepare IFRS statements should review how the SEC's vote will affect financial reporting for 2007.

Recent Developments

Americas

In the **United States**, the Department of Labor issued a final regulation on default investment alternatives in participant-directed individual account retirement plans that satisfy the fiduciary safe harbor under ERISA (as expanded by the Pension Protection Act of 2006). The Internal Revenue Service released proposed regulations on automatic contribution arrangements ("automatic enrollments") in 401(k), 403(b) annuity, and 457(b) plans. The proposed regulations also provide guidance on the new nondiscrimination safe harbor added by the Pension Protection Act. The Pension Benefit Guaranty Corporation (PBGC) announced the flat-rate premiums and maximum insurance benefit for 2008. For single-employer plans, the premium will be USD 33 per participant, and for multiemployer plans, it will be USD 9 per participant. The maximum annual insurance benefit for participants in underfunded pension plans terminating in 2008 is USD 51,570.

The **Uruguayan** government may reduce the number of contributions required for a retirement pension from 35 years to 30 years. The proposal is expected to be enacted by 2008. The lower house of the **Bolivian** legislature approved a reform measure that would replace the Bonosol with a more generous benefit. If passed, individuals age 60 and older who are eligible for a social security old age pension would receive an annual pension bonus equal to BOB 1,800.

Europe

Spanish employees face stricter eligibility requirements for old age pensions, including an increase in contributions and delayed eligibility for early retirement, under the new social security reform law. In **Denmark**, the suspension of the Special Pension Savings Program contribution was extended for another year; the 1% employee contribution rate was scheduled to be reestablished in 2008. **Swiss** employees may continue to make tax-favorable contributions to their third pillar pension plans after reaching the normal retirement age.

Some employees in the **United Kingdom** may be required to pay higher National Insurance contributions (NICs) in 2008. The government announced that it would align NIC thresholds with income tax brackets. The lower earnings limit for Class 1 NICs would be GBP 105 per week; the upper earnings limit would be GBP 770 per week. The Pensions Bill, which would establish a national pensions saving system consisting of personal savings accounts, received its first reading in Parliament. Under the bill, employees and employers would be required to contribute 4% and 3% of pay, respectively, for a specified range of earnings. Pension experts warn the government that it needs to do more to address the issue of auto-enrollment, as a current European Union (EU) directive does not permit some defined contribution (DC) plans to auto-enroll members.

The **Italian** Chamber of Deputies recently approved a bill on pensions and job security, based on an accord reached by Prime Minister Prodi and the unions. Under the new law, the minimum retirement age would rise from age 57 to age 60 in 2011 for employees with 36 years of contributions. Now, the bill must be approved by the Senate where the Prime Minister only has a one-seat advantage. As part of its social security reform package, the **Greek** government is proposing incentives to encourage deferred retirement. The incentives would include an increase in pension benefits from 70% to 80% of final salary and a reduction in social security contributions for senior employees during their final years of work.

The **Turkish** government postponed, once again, a plan to reduce social security premiums. Under the government's current plan, expected to be finalized by the end of 2007, social security premiums would be reduced by 5% over the period 2009 to 2012. Social security reforms were introduced in 2004 and passed in 2006. Implementation has been delayed, as the constitutionality of some of the reforms has been questioned.

The **European Union** Ministers of Employment failed to agree unanimously on the proposed directive that would establish minimum standards for the acquisition and preservation of occupational pension rights. The proposal will be revisited in 2008.

In **Hungary**, employer and employee social security contributions will be redistributed in 2008; the overall contribution rate remains the same, however. The tax-exempt portion of pension income may increase from RON 900 to RON 1,000 per month under pending legislation in **Romania**. The monthly state pension will increase to RUR 1,260 as of December 1, 2007 and to RUR 1,794 as of August 1, 2008 in **Russia**. According to **Poland's** ombudsman, the system of different retirement ages for men (age 65) and women (age 60) is unconstitutional. It will pursue the equalization of the retirement age through the courts.

Middle East
Effective January 1, 2008, Israel plans to introduce compulsory pension insurance for employees who have nine months of service with the same employer. According to the agreement, signed by the Histadrut labor federation and employers' associations, the pension contributions would increase gradually over the next five years. Effective January 1, 2008, employees and employers would each contribute 2.5% of pay. Contributions would increase year-on-year until they reach 15% of the salary (10% paid by the employer and 5% paid by the employee). Males age 21 and females age 20 would be allowed to participate in the pension plan. However, the Minister of Industry, Trade, and Labor has not approved all of the agreement. Officials want to allow employees age 18 to participate after six months' service and increase the total contribution rate to 17.5%.