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Hewitt Global Report

Global Retirement Update **November 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

Australia—Effective July 1, 2008, all employers in Australia must base their superannuation contributions on Ordinary Time Earnings (OTE). OTE is defined as the salary or wages paid to employees for ordinary hours of work, not including overtime, bonuses not related to performance, annual leave loading, and payments related to the termination of employment. Employers should review the earnings base they currently use and make any necessary adjustments.

Recent Developments

Americas

In **Canada** and the **United States**, legislation to implement the Fifth Protocol to the Canada-United States Tax Treaty has been introduced to the respective legislatures. The Fifth Protocol, which includes provisions dealing with the mutual recognition of pension and other registered plans, is expected to be effective January 1, 2008 or on a date specified in the ratification process.

The **Canada** Revenue Agency announced that maximum pensionable earnings under the Canada Pension Plan will increase from CAD 43,700 to CAD 44,900 in 2008. The maximum employer and employee contribution to the plan will be CAD 2,049.30, up from CAD 1,989.90.

The **U.S.** Internal Revenue Service published the 2008 official indexed figures for retirement and other employee benefit plans. These figures include: Section 402(g) annual dollar limit for pretax contributions to Section 401(k), 403(b), and 457 plans: USD 15,500; Section 414(v) annual dollar limit on catch-up contributions for age 50 and over: USD 5,000; Section 414(q) pay threshold for highly compensated employees: USD 105,000; Section 415 limit for defined benefit plans: USD 185,000; Section 415 limit for defined contribution plans: USD 46,000; Section 401(a)(17) recognizable pay limit: USD 230,000; and Section 416 pay threshold for key employees in a top-heavy plan: USD 150,000. The Social Security Administration announced the Social Security 2008 indexed figures, including the Cost-of-Living Adjustment: 2.3%; wage base: USD 102,000; maximum monthly benefit: USD 2,185 for employees retiring at full retirement age; and annual earnings test limit: USD 36,120 for employees attaining the full retirement age and USD 13,560 for individuals under the full retirement age.

Effective September 6, 2007, the recognition bond for **Colombian** employees who transferred from the public to the private pension system in 1992 was increased from a maximum of ten times to 20 times the minimum wage.

If the 2008 draft budget is passed in **Trinidad and Tobago**, the contribution ceiling for National Insurance benefits would increase from TTD 4,377 to TTD 8,300 per month. Total contributions would increase from 9.9% to 10.5% in 2008, 10.8% in 2010, and 11.4% in 2012. The aggregate annual deduction for contributions to qualified pension plans would increase from TTD 12,000 to TTD 25,000.

Asia

In an effort to boost retirement savings and workforce participation, the **Australian** government increased the maximum total value of assets that individuals may own and still be eligible for a pension. For single homeowners, the asset limit increased from AUD 343,750 to AUD 529,250; for couples with a home, the limit increased from AUD 652,000 to AUD 960,500.

In **Singapore**, the government has made additional details on its retirement reform proposals available. The drawdown (withdrawal) age for the Minimum Sum (the amount members must leave in the Central Provident Fund (CPF) post-age 55 withdrawal) would increase from age 62 to age 63 in 2012 and eventually to age 65 by 2018. The CPF interest rate would increase by 1% on the first SGD 60,000.

Europe

Employers' pension contributions for blue-collar workers will increase under a new collective agreement signed by the **Swedish** Trade Union Confederation and the Confederation of Swedish Enterprise. The rate increase will occur over a five-year period: from 3.5% to 3.9% in 2008; 4.0% in 2009; 4.1% in 2010; 4.3% in 2011; and 4.5% in 2012. In **Norway**, annual contributions to private pension plans would be tax deductible up to NOK 15,000 under the draft budget. Also, the earnings test would be waived for individuals who receive pension benefits at the normal retirement age but remain in the workforce. Under the proposed 2008 budget in the **Netherlands**, the tax break for pension accruals would be capped at EUR 185,000.

In **France**, a decision on new rules for involuntary retirement indemnity contributions is expected by the end of November. The contribution would equal 25% of the indemnity that is exempt from social taxes in 2008 and 50% in 2009 and thereafter. Indemnities paid in the event of involuntary retirement would be subject to the same social taxes applicable to voluntary retirement.

Debate continues in the **Slovak Republic** regarding the ability of employees to opt out of the second pillar pension. If passed, funds invested in private pension accounts would be transferred to the state-run first pillar pension fund. In **Romania**, the pension point (used as a multiplier to determine the state pension amount) would increase and the total social security contribution rate would decrease by 6% if the draft budget is passed. Under pending legislation, the **Russian** government would match contributions to voluntary pension plans, and another state pension increase could occur before 2008.

The **Irish** government released its long-awaited Green Paper on Pensions. Among the issues raised are: 1) an increase in the normal retirement age; 2) reform options for the social welfare pension; 3) improvement of tax incentives for supplementary pensions; 4) security of defined benefit and defined contribution plans; 5) operation of the annuities market; and 6) work flexibility for older employees.

The European Court of Justice (ECJ) recently ruled that **European Union** (EU) Member States may establish a mandatory retirement age in order to create employment. In the case *Félix Palacios de la Villa v. Cortefiel Servicios SA*, the ECJ determined that a difference in treatment according to age is "objectively and reasonably justified by a legitimate aim" and "the means of achieving that aim are appropriate and necessary." The Spanish social partners (government, unions, and employers' associations) adopted regulations affecting the retirement age in order to promote access to employment for younger employees "through better distribution of work between generations." In another ruling, the ECJ determined that the withholding tax levied on the dividend and interest payments received by foreign pension funds was contrary to EU principles of freedom of establishment. Foreign pension funds will now be able to claim back taxes from the Dutch government.

International

The **International Financial Accounting Standards Board** (IASB) recently published an "Exposure Draft of Proposed Improvements to International Financial Reporting Standards." The proposed amendments to IAS 19 include: 1) clarifying the distinction between negative past service costs and curtailments. The IASB proposes that the past service impact of plan amendments that reduce benefits for past service should be treated as a negative past service cost, even if benefits for future service are reduced as well; 2) clarifying that administration expenses should only be deducted from the return on assets to the extent that they have not been taken into account in the measurement of the defined benefit obligation; and 3) removing the reference to contingent liabilities from the paragraph dealing with multiemployer plans (IAS 19, paragraph 32B). If adopted, the proposed amendments would be effective January 1, 2009.

According to a study sponsored by the **Organization for Economic Cooperation and Development** (OECD), members of defined contribution plans tend not to make any choice when given too many funds to choose from; instead, they leave their money in the default option. The authors of the "Implications of Behavioral Economics for Mandatory Individual Account Pension Systems" note that individual behavior is the same, regardless of whether the plan is part of the first or second pillar.