

Fidelity Workplace Consulting

International Retirement Newsletter

October 2019

Fidelity's international retirement newsletter focuses on the key issues surrounding employer-sponsored retirement plans globally.

This month's feature article informs readers on the differences in vesting and portability of retirement benefits around the world, and the impact on an increasingly mobile workforce.

In the legislative realm, France has passed legislation that consolidates various types of existing savings programs into one single retirement savings plan and Taiwan has extended the coverage of the mandatory individual account program to foreign nationals. The second tranche of mandatory DC plans in Poland becomes effective January 1, 2020, and in Mexico, reductions in administration fees for mandatory individual account programs provide opportunities for financial well-being promotion.

What's Inside

- Legislative and Regulatory Update
- Vesting and Portability: International Practices and Trends in an Increasingly Mobile Workforce

Legislative Updates



France

The French government recently passed "PACTE" legislation that consolidates the various types of existing savings programs in France into one single "PER" (Plans épargne retraite) retirement savings plan vehicle. The previous plans will no longer be available from October 1, 2020.

The legislation also requires, with certain exceptions, that existing "Article 39" defined benefit plans are closed to new entrants and future accruals are frozen by the end of 2019.

Action Required

Implement – take necessary actions.

Companies with existing Article 39 plans will need to determine how future accruals will be handled, either through a new Article 39 plan or a DC PER arrangement.



Mexico

The Mexican government recently announced an agreement with pension fund management companies (Administradoras de Fondos para el Retiro "AFORES") which will reduce the administration fees under the mandatory individual account program. The average administration fees are targeted to decrease from approximately 1.0% per year currently to approximately 0.7% by the end of 2024.

Action Required

No immediate action required; however, presents an opportunity to promote financial well-being in the region.



Poland

Earlier this year, the first tranche of employers was required to establish mandatory DC PPK plans (employers with over 250 employees) with auto-enrollment and minimum contribution levels.

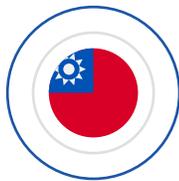
January 1, 2020 is the deadline for the second tranche of implementation (for employers with over 50 employees as of June 30, 2019).

As a reminder, key plan provisions include:

- Employer contributions are a minimum of 1.5% of covered pay, and a maximum of up to 4.0%
- Employees contributions are a minimum of 2.0% of covered pay, and a maximum of up to 4.0%
- Auto-enrollment is required for employees between the ages of 19 and 55 with three months' service, and for new hires
- Those who opt-out are required to be re-enrolled every four years

Action Required

Implement – take necessary actions.



Taiwan

Recently, the Taiwanese government has enacted laws that expand pension coverage.

Effective May 15, 2019, participation in the mandatory individual account program under the Labor Pension Act (LPA), requires all foreign nationals who are resident employees in Taiwan to participate. The mandatory program requires a 6% employer contribution (with optional employee contributions of up to 6%).

Action Required

Implement – take necessary actions for foreign nationals who are residents in Taiwan.

Vesting and Portability: International Practices and Trends in an Increasingly Mobile Workforce

The New Workforce

As we experience the evolution in flexibility and mobility of the global workforce, and the increasing prevalence of short-term employment contracts and freelance work, vesting and portability rules within defined contribution (“DC”) plans are becoming increasingly important issues for companies to consider.

Vesting is a tool used by employers to promote employee retention, while portability directly facilitates easy onboarding (and exit) of employees from their organization. Improving the portability of retirement benefits will make it easier for employees to consolidate their retirement savings and adequately plan for retirement; it may also reduce long-term costs for employers in maintaining accounts for people no longer in employment. In many countries, local requirements may dictate minimum requirements around vesting and portability, although companies often go beyond this.

Vesting and portability are both issues considered in the legislative and regulatory frameworks of many countries. For example, the recent retirement plan legislation in France established new “Article 39” plans that have clear vesting requirements (the old Article 39 plans did not have any) and funds that are fully portable.

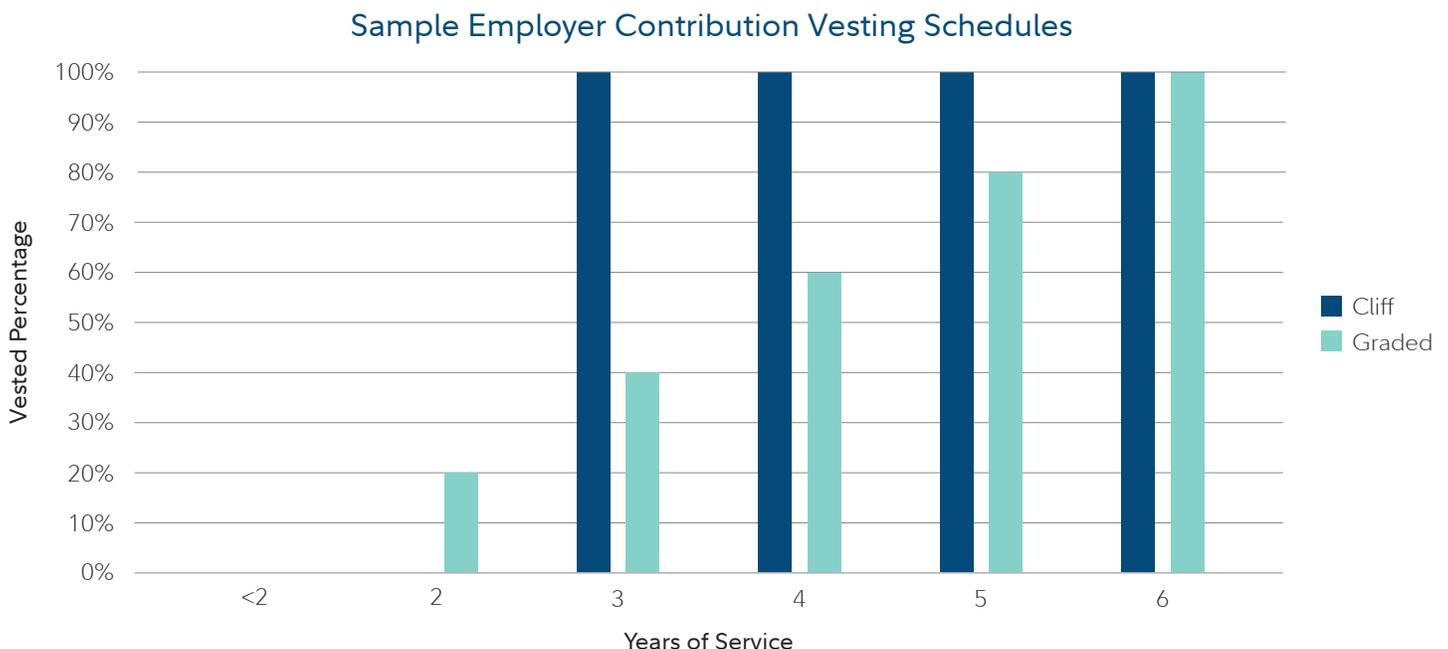
Vesting

It is important to distinguish between vesting of employee contributions and employer contributions since these are typically treated differently. Fairly universally, an employee’s own contributions (and investment returns/earnings on those contributions) to a defined contribution plan are 100% vested immediately. Regarding an employer’s contributions (and investment returns/earnings on those contributions), there is varying practice in vesting schedules around the world based on mandatory requirements and market practice, generally based on Years of Service (“YoS”).

There are two basic types of vesting schedules:

- Cliff vesting, which vests fully after a specified number of YoS are achieved.
- Graded vesting, which vests in percentage increments as YoS are achieved.

The following graphic illustrates example cliff and graded vesting schedules:

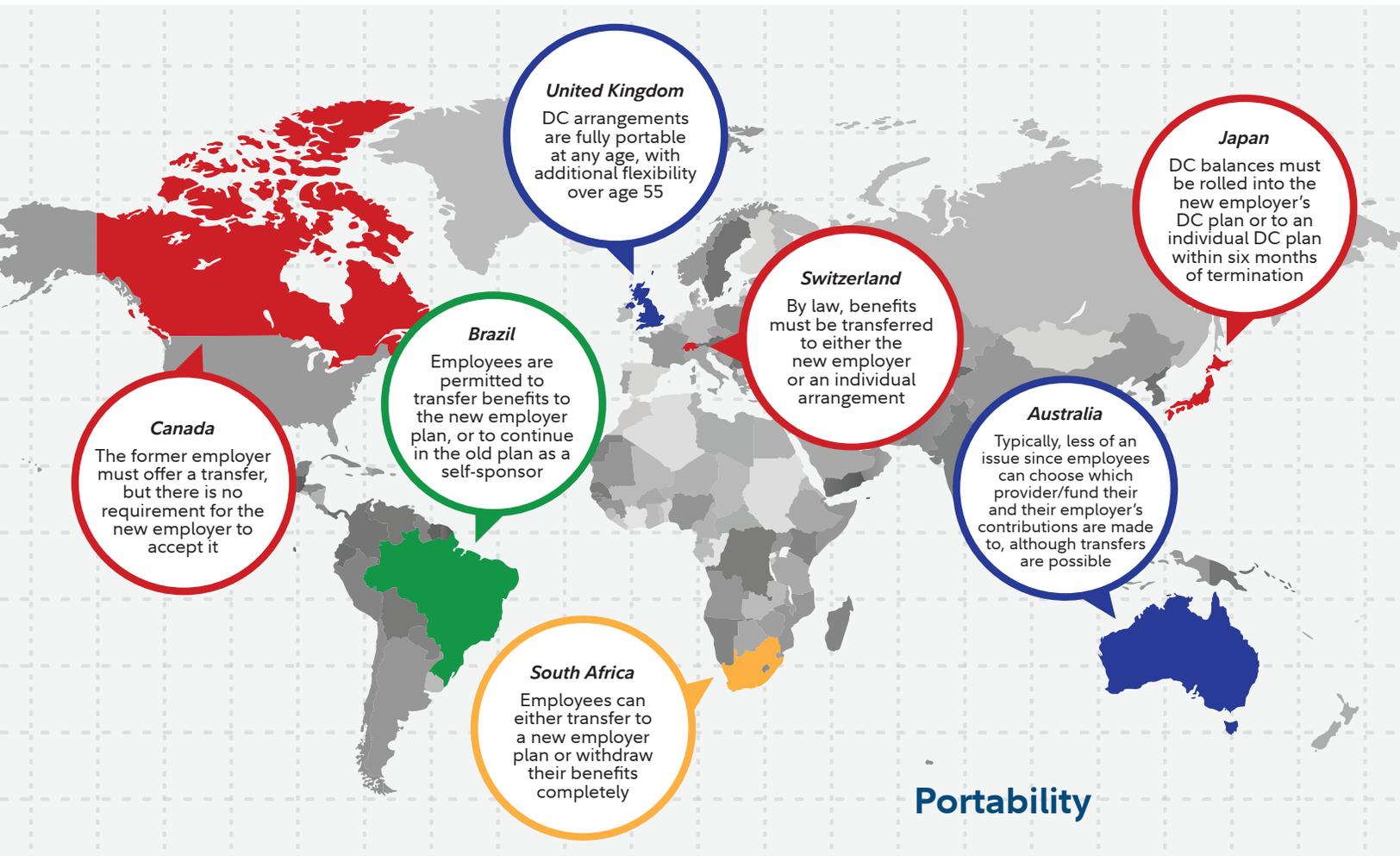


Portability

In most countries, when an employee leaves a company, they are permitted to transfer their vested retirement benefits/assets over to their new employer's arrangement (or in some cases, such as in the US, a rollover to an individual non-employer arrangement). However, this is generally not a requirement, and in many cases, employees are permitted to leave their benefits/assets in their old company arrangement, until such future time as they transfer these elsewhere or retire. Facilitating an efficient transfer of such assets can assist both the employee and employer, so companies may want to go beyond any minimum requirements as a global standard.

Variation of Vesting and Portability Across the Globe





Portability Across Countries

One challenge many employers face is when they are transferring employees from one country to another, either on a temporary or permanent basis. In many jurisdictions, retirement plan promises and/or assets may only be transferred between one locally-qualified retirement plan and another. For example, the IRS does not permit the transfer of UK pension benefits into the US (even though the UK does permit pension benefits to be transferred overseas to a “qualifying recognized overseas pension plan”).

Reciprocal agreements do exist between certain countries regarding retirement benefits. For example, there is an arrangement between the United States and Canada that improves Social Security protection for people who work or have worked in both countries. Similarly, Australia and New Zealand have an agreement to allow citizens of one country who become permanent residents in the other to transfer their retirement savings (although funds/schemes are not obligated to accept such transfers).

Companies may choose to establish an international retirement arrangement for their internationally mobile employees, to facilitate an easier way for employees (particularly career expatriates or “global nomads”) to accumulate retirement savings across different countries in a consistent manner, without the need to find complex and inefficient ways to transfer savings across international boundaries. Companies could also (or instead) choose to implement a cross-border regional retirement plan (such as a Pan-European Pension Plan), which can help to solve for some of these issues.

Temporary Access to Funds

In certain countries, for example US and Australia, the law may permit employees to access benefits before vesting/preservation age under certain conditions such as financial hardship. Companies may want to consider whether this provision should be extended to other countries (where possible) in the context of supporting broader financial wellness.

What next for multinationals?

While regulations in certain countries may dictate minimum requirements around vesting and portability, we would encourage employers to review their philosophy and approach towards these aspects of their retirement plan designs around the world, and to factor into any reviews around overall global strategy and local plan design reviews.

We're increasingly seeing multinational organizations incorporate certain minimum standards into their global benefits philosophy/strategy to ensure a universal base level of protection/provision regardless of local requirements or market practice. Vesting and portability could form part of these minimum standards and would be an effective way of ensuring that employees across your organization are able to enjoy the same basic ability to quickly and easily enable retirement benefits follow them into, and out of, your organization, as well as to better aid them in planning for their financial security in retirement.

For more information on any areas covered by this newsletter or to discuss your international benefits programs, contact:

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About Fidelity Workplace Consulting Global

Fidelity's Workplace Consulting Global team is independent and focuses on supporting clients in meeting their business objectives through the provision of impartial, but tailored, advice reflecting market trends and best practice.

Global Benefits Governance	International DC Governance	International Retirement & Financial Wellbeing	International Health care & Wellness	International Miscellaneous
<p>Design/ implementation of a tailored global benefits governance structure</p> <p>International audit and compliance review of overseas plans</p> <p>Benchmarking and development of global policies and standards</p> <p>Independent ongoing support to global benefits committees</p> <p>Advice on global financing opportunities, including risk financing</p> <p>Training on best practices in international benefits management</p>	<p>Developing fiduciary and compliance oversight and policy for international DC plans</p> <p>Cross border implementation of best practice and group policy</p> <p>Development of preferred provider arrangements to drive operational and financial efficiency</p> <p>Support on enhancing employee experience through developing & implementing communication best practice</p> <p>Ongoing support to global benefits committees</p>	<p>Financial Wellbeing</p> <p>Benchmarking/ implementation of global best practice</p> <p>Design/ implementation of programs to support financial well-being</p> <p>Vendor selection and oversight for globally consistent local implementation</p>	<p>International Health care</p> <p>Vendor selection for international health care policies</p> <p>Advice on strategies to improve employee behaviors and reduce health care costs</p> <p>Development of health care policies to improve financial/ operational efficiency</p>	<p>Development of global insurance programs to reduce costs/commissions and improve operational efficiency</p> <p>Advice on country benefits practice (both Mandatory and typical practice)</p> <p>Support for benefit aspects on mergers, acquisitions and divestitures/splits</p> <p>Independent second opinions on local advice</p> <p>Strategy to respond to legislative changes</p> <p>Facilitation of global stock plan advice</p> <p>On-site support and benefits leadership</p>
		<p>International Retirement</p> <p>Benchmarking/ setting of globally consistent financing assumptions</p> <p>Advice on opportunities for de-risking in respect of retirement plans</p> <p>Consolidation of financial reporting & budgeting</p>	<p>Wellness</p> <p>Global wellness education strategies & programs</p> <p>Benchmarking and deployment of global wellness programs</p> <p>Vendor selection for International providers</p>	