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Global View® Quarterly

Autumn 2014

Global View is a Quarterly Update on Benefits Issues around the world.

New Xerox radio episode discusses results of our Global Wellness Survey

Employee health and well-being has become a significant concern for employers around the globe.

For the past six years, we've surveyed thousands of employers around the world about their workplace wellness programs. The results from this latest research confirm that employers throughout the world continue to invest in wellness, and attribute a clear connection between the health of employees and their families and the health of their business. We've found that organizations are committed to promoting health and wellness as a business strategy and they have a desire to expand initiatives in hopes of boosting individual engagement and organizational performance.

News

Our Global Network is expanding.

We are pleased to announce several new members of our Global Network:

- Australia: Health Insurance Consultants Australia PTY LTD – Health Insurance Consultants Australia Pty Ltd (HICA) is Australia's leading independently owned health insurance brokerage.
- Finland: Benefit Advisors Oy – a consulting/brokerage company, specializing in Employee Benefits, including Brokerage, Benefit Consulting and HRM Consulting.

Our Global Network covers more than 80 countries with more than 200 offices.

Our Global Consulting and Strategy team is growing

We are pleased to announce that Christian Schrader and Lauri Sklar have joined our Global Consulting and Strategy team.

Christian is a Director in the Global Consulting & Strategy Practice. He brings over 12 years of experience in the insurance industry and spent nine years in international benefits consulting in Germany and France. Christian's areas of expertise include global health and wellness strategies, global benefits management, international assignees and multinational pooling. In addition, Christian is the Regional Network Manager for Asia-Pacific.

Lauri is a Director in the Global Consulting & Strategy Practice. She joined us in April and brings 15 years of international insurance and employee benefits experience. Lauri's areas of expertise include international benefits consulting, business travel accident/global travel medical, expatriate programs and multinational pooling. Lauri is also the Regional Network Manager for the Middle East.

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In practice, however, challenges persist. Employers struggle to find effective approaches to motivate workers to participate and become actively engaged in the wellness programs. There's also a gap between employers' stated desire to create a "culture of health" and their assessment of the current status.

Listen to our Xerox Real Business Radio broadcast to learn more about the survey results from Dave Ratcliffe, principal with Buck Consultants at Xerox, and Sheldon Kenton, senior vice president at Cigna Global Employer Sales.

New Global Survey Finds Companies are Increasing the Use of Cash Long-Term Incentives for Employees

Our annual Global Long-Term Incentive Practices Survey found a significant increase across the globe in the use of cash-based long-term incentives (LTI) as part of employee compensation programs.

For example, since 2012 cash LTI awards increased from nine percent to 18 percent in Canada, six percent to 18 percent in the UK, seven percent to 18 percent in France, and 10 percent to 14 percent in the U.S.

The survey confirmed that companies are substituting cash LTI for equity-based awards where it is appropriate. Additionally, the use of cash LTI awards increased in the U.S. at all employee levels (except CEO) and more than doubled over the past two years for vice presidents (VP), directors, and managers.

"Companies are taking a hard look at the use of equity-based incentives and determining that, in some cases, cash may be the more effective motivator," said Sandra Sussman, a director in our compensation practice.

Our survey examined the global long-term incentive compensation practices of more than 130 participating companies in 40 countries. Multinational companies considering the use of equity-based LTI on a global basis must consider, among other things, the culture, local market conditions, regulatory challenges and tax implications of each country where employees are located. The GLTI Survey is a resource that provides guidance to compensation professionals about whether and where to grant equity-based awards.

Other key survey findings include:

- Stock options continued to decline in use.
- Retention is now the most often cited reason for making off-cycle grants, increasing from 77 percent in 2012 to 97 percent in 2013.
- Overall median value of equity delivered to U.S. employees continues to be significantly higher than that to employees in other countries and has remained stable over the years.
- Participation in LTI plans continued to decline for lower-level employees across the globe, except in Europe and Canada, which saw a rebound.

"In the U.S., participation rates have been on the decline for manager-level employees and below since 2010, while high participation rates for VP and director-level positions have remained stable," said Sussman. "We see the greatest declines in participation amongst lower-level employee groups which could be an indication that employers are becoming more concerned about motivating and retaining key senior employees whose roles and decisions are perceived to have a stronger and more direct connection to success drivers and stock price performance."

For more information, send an email to: glti@xerox.com

Feature: EU Labour Law

EU directive on worker mobility lays down new vesting rules.

On 20 May 2014, the new EU directive "on minimum requirements for enhancing worker mobility between member states by improving the acquisition and preservation of supplementary pension rights" comes into effect. It is to be expected that these rules, which are to be signed into national law on or before 21 May 2018, will lead to a significant extension of vested pension rights.

If an employee leaves one employer for an employer in another EU member state, the directive provides for the following measures:

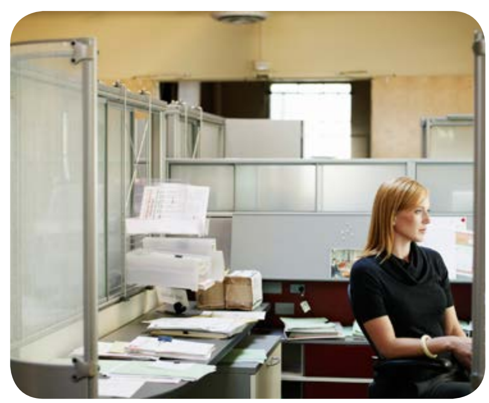
- Accumulated occupational pension rights become vested after three years, if the employee is aged 21 at the time of leaving.
- The former employer is obliged to index the vested benefit of outgoing employees to the same extent as for employees still staying with the company (e.g. salary-dependent benefit plans etc.).
- Settlement of small pensions will be possible only with the consent of the outgoing employee.

The directive does not apply to pension schemes that have been closed to new entries before the directive comes into effect. For pension schemes that are still open for new hires the new rules are applicable only to those benefit accruals the employee becomes entitled to after the adoption of the EU-directive into national law.

Primarily, the mobility directive is applicable on job changes to another EU member state

We regard companies with contribution orientated pension plans on the safe side, since in these cases only the reduced vesting period and the lowered minimum age will have an impact. However, pension plans which are still open to new hires and for which past service is affected by future dynamic increases are critical. In these cases, we recommend a review whether a transfer to a contribution orientated plan design is appropriate.

Source: HEUBECK AG 1



Australia

Pensions - Contributions

The maximum quarterly pensionable salary for contributions is AUD 49,430 (USD 46,326) in the 2014-15 financial year (increased from AUD 48,040 in 2013-14 financial year).

The income thresholds for the calculation of the government co-contribution in respect of after-tax personal superannuation contributions in 2014-15 are:

- lower - AUD 34,488 (USD 32,322)
- higher - AUD 49,488 (USD 46,381).

Projected Legislation - Pensions - Contributions

A legislative amendment to maintain the superannuation guarantee levy at 9.25% until 30 June 2016 was tabled in early 2014.

Projected Legislation - Social Security - Retirement

The economic challenges of an ageing population were addressed in a report called "An Ageing Australia: Preparing for the Future", published in November 2013 by the Productivity Commission, an independent public research and advisory body of the Australian Commonwealth government.

The report recommended grounds for linking the age pension eligibility age and the superannuation preservation age to life expectancy after the increase to age 67 from 2023. The report also suggested older citizens may need to sell part of the equity in their homes to contribute to the financing of the public services they require.

Social Security - Benefits

In March 2014, the social security benefit amounts were indexed (for details refer to the Axco Life & Benefits Insurance Market Report on Australia).

Taxation - Pensions - Benefits

Persons aged 60 years and above may make qualifying tax-free superannuation withdrawals subject to the untaxed plan cap of AUD 1.355mn (USD 1.270mn) in 2014-15 (up from AUD 1.315mn in 2013-14).

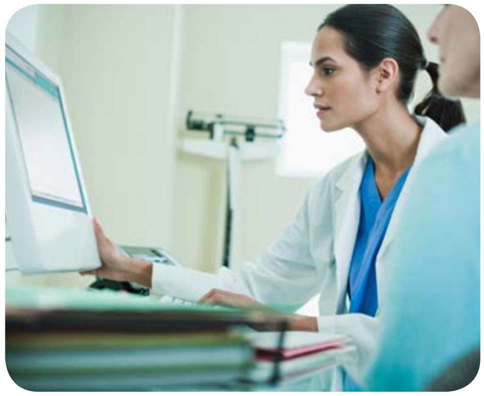
Taxation - Pensions - Contributions

For the 2014-15 financial year the concessional contributions cap increased to AUD 30,000 (USD 28,116) from AUD 25,000 (USD 23,430) previously. A higher concessional cap of AUD 35,000 (USD 32,802) applies to persons over the age of 50. There are no changes to the concessional contributions tax rates.

In the 2014-15 financial year the annual non-concessional (after-tax) contributions cap increased to AUD 180,000 (USD 168,697) from AUD 150,000 (USD 140,581) previously.

Taxation - Personal Taxation - Private Medical Insurance

Net medical expenses tax offset (NMETO) is being phased out and will cease entirely from July 2019.



Croatia

Legislation - Healthcare

The Compulsory Health Insurance Act has been revised and reissued (*Official Gazette Nos 80/2013 and 137/2013*). Key changes brought about by the new legislation are summarised below.

- Relevant EU directives in respect of cross-border healthcare rights are transposed into Croatian law.
- Patients must contribute 20% of the full cost of their healthcare, subject to minimum amounts calculated as the following percentages of the "budget base" for the treatments listed below (the "budget base" is a reference amount which was set at HRK 3,326 (USD 560) in 2014):
  - specialist outpatient and day surgery treatment - 0.75%
  - specialist diagnostics - 1.5%
  - orthopaedic and other aids - 1.5%
  - hospital care - 3.01% per day
  - basic-list dental supplies for patients aged 18 to 65 - 30.07%
  - basic-list dental supplies for patients above the age of 65 - 15.03%
  - primary healthcare and prescription drugs - 0.3%
- Drugs provided by the mandatory insurance system are divided between basic and supplementary lists. Mandatory insurance will only cover supplementary list drugs up to the cost of the equivalent basic drug.
- The maximum period for which short-term sickness benefit is payable by the Croatian Health Insurance Fund is abolished.

Legislation - Mandatory Pensions

The Mandatory and Voluntary Pension Funds Act was repealed on 20 February 2014 and replaced by two separate acts: the *Act on Mandatory Pensions* (*Official Gazette No 19/2014*) and the Act on Voluntary Pensions (Official Gazette No 19/2014). Some of the key areas where the *Act on Mandatory Pensions* differs from the original legislation are summarised below.

- A pension company is a joint stock company that may manage mandatory and/or voluntary pension funds. The minimum capital of a pension company authorised only for mandatory pension fund management is HRK 40mn (USD 6.73mn).
- Every pension company must offer a choice of three pension funds (A, B and C), each with a different investment risk profile (with A being the highest risk and C the lowest). Each fund must be authorised by the Croatian Agency for the Supervision of Financial Services (HANFA) and must appoint a custodian bank.
- Pension companies must guarantee a minimum rate of return for each level of pension fund based on a reference rate of return. The reference rate of return is the weighted average rate of return of all same-level funds in the preceding three years. The minimum rate of return for A-level funds is the A-level reference rate of return minus 12%; for B-level funds, the B-level reference rate of return minus 6%; and for C-level funds, the C-level reference rate of return minus 3%. If the average rate of return over the preceding three years is less than the guaranteed rate of return in the current year, the pension company must make up the difference, first from its guarantee deposit, and if that is not sufficient, from its own capital up to the level of 50% of its capital.

- Pension funds may be invested in a broad range of asset classes in the Republic of Croatia, elsewhere in the EU and in the Organisation for Economic Cooperation and Development (OECD) member states. There are maximum investment limits which are most flexible for A-level pension funds and most restrictive for C-level. At least 40% of A-fund assets must be invested in HRK; 60% of B-fund assets; and 90% of C-fund assets.
- Existing pension funds are to be transformed into B funds six months after the legislation comes into effect. Pension companies were to have established A and C funds within three months of the legislation coming into effect. These funds must be activated within six months. Existing members or members who start contributing within six months of the legislation coming into effect are automatically placed in B funds, unless they ask to be placed in A or C funds.
- Mandatory pension contributors have a maximum of six months to decide which pension company and which of the pension company's three pension funds to join. Those who have not decided in time will be allocated to a B-level fund, the identity of the pension company being determined on a random basis by the Central Registry of Insured Persons (REGOS). REGOS should allocate an equal number of members to each pension company. Members who have less than 10 years until retirement may not join an A-level fund, while members who have less than five years until retirement may not join a B-level fund.
- Members are allowed to change between fund levels A, B and C only in their birth months and only when their ages are divisible by three.
- Fees may be charged on contributions, assets under management and assets withdrawn when a member exits the fund. The contribution fee is capped at 0.8% of contributions. The asset management fee is capped at 0.45% of net assets per annum in 2013, 2014 and 2015 but will then be reduced by 7% of the previous year's fee percentage per annum, down to a minimum of 0.3%. The exit fee is capped at 0.8% of assets withdrawn in the first year of membership, 0.4% in the second and 0.2% in the third. No exit fee may be charged after three years of membership.
- If a member becomes entitled to a social security disability pension by virtue of permanent incapacity for work, the balance in his or her pension fund is normally transferred to the Croatian Pension Insurance Institute (Hrvatski Zavod za Mirovinsko Osiguranje - HZMO) to defray the cost of his or her future support. Alternatively, if the member is over 55 years of age and has been a pension fund member for more than 10 years, and if the balance in the member's fund is sufficient to provide an annuity in excess of the social security disability pension, the member may use his or her pension fund to purchase a disability pension from a pension insurance company instead.
- If a member dies before retirement and his or her dependants are entitled to a social security survivor's pension, the balance in the pension fund is normally transferred to the HZMO to defray the cost of his or her dependants' future support. Alternatively, if the member was over 55 years of age, had been a pension fund member for more than 10 years and if the balance in the member's fund is sufficient to provide an annuity in excess of the social security survivor's pension, a survivor's pension may be purchased from a pension insurance company instead.

Legislation - Social Security - Occupational Disability

Under the *Pension Insurance Act* which was revised and reissued with effect from 1 January 2014 (*Official Gazette No 157/2013*), new definitions of occupational disability and new procedures for disability assessment were introduced, with a new emphasis on rehabilitation and on getting the disabled back into work.

Legislation - Social Security - Old Age Pension

The Pension Insurance Act was revised and reissued with effect from 1 January 2014 (*Official Gazette No 157/2013*). The most important points of the revision are summarised below.

- Retirement age for those who have made a minimum of 15 years' contributions will be increased from 65 to 67 for both sexes by six months per year from 2031 to 2037 (so that retirement age is 67 from 1 January 2038).
- Early retirement age for those who have made a minimum of 35 years' contributions will be increased from 60 to 62 for both sexes by three months per year from 2031 to 2037 (so that early retirement age is 62 from 1 January 2038).
- Early retirement for men may not be taken more than five years early (eight years early for women). The penalty for early retirement is amended from 1 January 2014 to incentivise later retirement. Early retirement pensions are reduced by between 0.10% and 0.34% for each month of anticipation depending upon the length of the retiree's contribution period (0.34% for a man retiring after 35 years' service (32 years' service for a woman) and 0.10% for a man or a woman retiring with 40 years' service). Early retirement may be taken from the age of 60 on the basis of 41 years' contributions without any diminution of benefits.
- With effect from 1 January 2015 the indexation of pensions in payment is changed from 50% consumer price index (CPI)/50% average gross wage to a variable combination of the two factors, as measured in the preceding calendar year. If the CPI component is less than 45% of the overall pension adjustment percentage, then the indexation formula is changed to 30% CPI/70% wages. If the CPI component is between 45% and 55% of the overall pension adjustment percentage, then the indexation formula is changed to 50% CPI/50% wages. If the CPI component is greater than 55% of the overall pension adjustment percentage, then the indexation formula is changed to 70% CPI/30% wages.
- The formula for calculating the basic pension of those who contribute to the mandatory private pension system has been adjusted to give a slightly higher pension.

Legislation - Voluntary Pensions

The *Mandatory and Voluntary Pension Funds Act* was repealed on 20 February 2014 and replaced by two separate acts: the *Act on Mandatory Pensions*

(*Official Gazette No 19/2014*) and the *Act on Voluntary Pensions* (*Official Gazette No 19/2014*). Some of the key differences between the *Act on Voluntary Pensions* and the original legislation are summarised below.

- Voluntary pension funds may have open or restricted membership.
- Fees may be charged on contributions, assets under management and assets withdrawn when a member exits the fund. There is no statutory cap on fee levels.
- Members may retire from the age of 50. When a member reaches retirement age most of their pension assets must be transferred to a pension insurance company which will provide either a life or guaranteed term annuity. The maximum amount that may be taken as a lump sum is 30% of pension assets or HRK 10,000 (USD 1,684), whichever is the lesser. If a member's retirement fund is less than HRK 50,000 (USD 8,418), pension assets may be taken by phased withdrawal over a minimum period of five years. If a member's retirement fund is less than HRK 10,000 (USD 1,684), it may be taken as a single lump sum.
- Pension funds may be invested in a broad range of asset classes in the Republic of Croatia, elsewhere in the EU and in the Organisation for Economic Cooperation and Development (OECD) member states. At least 70% of net assets must be invested in securities that are traded or settled in the currency in which pensions are paid.

Social Security - Contributions

With effect from 1 April 2014, employer health insurance contributions were increased from 13% to 15% of wages.

Czech Republic

Projected Legislation - Healthcare

In July 2014 the government agreed to abolish fees for prescription and outpatient treatments with effect from 1 January 2015. The emergency fee of CZK 90 (USD 4.69) for emergency treatment and emergency dental treatment would, however, still apply. A draft of the legislative changes is currently before parliament.

Germany

Legislation - Healthcare

The *Thirteenth and Fourteenth Amendments to Book V of the Social Code* (*13 und 14 SGB V-Aenderungsgesetz - SGBV-AendG*) make changes to the mandatory reimbursement of drug costs for health insurers dealt with under the *Act on the Reorganization of the Pharmaceutical Market in the Public Health Insurance* (*Gesetz zur Neuordnung des Arzneimittelmarktes in der gesetzlichen Krankenversicherung or Arzneimittelmarktneuordnungsgesetz* - AMNOG). The new provisions set the reimbursement levels to 31 March 2014 and 31 December 2017 respectively as described in the next column.

- *Amendment 13*. SGBV-AendG: price freezes in the pharmaceutical market which expired on 31 December 2013 were extended to 31 March 2014 (the price level had been fixed since 1 August 2009)
- *Amendment 14*. SGBV-AendG, effective 1 April 2014:
  - price moratorium for prescription-based drugs is extended until 31 December 2017
  - increase in mandatory discounts from 6% to 7% (mandatory discounts were set at 16% from 1 January 2011 to 31 December 2013 and were reduced to 6% from 1 January 2014)
  - abandonment of the existing market benefit assessment (as existed under AMNOG).

Pensions

There is a proposal to introduce an internet portal enabling individuals to see how much they have saved in each of the three pillars of the pension system. This may then prompt individuals to make additional savings to make up any shortfall.

Projected Legislation - Healthcare

- There is a proposed *Act to Promote Preventative Health Care* (*Praeventionsfoerderungsgesetz*). Although the act was passed by the Lower House in June 2013, it was not approved by the Upper House before the change of government in September 2013 and therefore has to be resubmitted.
- The government is planning to make further reform to the long-term care system, with alteration of contribution rates and financing from 2015. The contribution rate is to increase by 0.3% to fund dementia care as well as provide additional financial resources to the care profession. A fund is to be set aside with the Federal Reserve Bank amounting to an estimated EUR 1mn (USD 1.28mn) per year. The definition of long-term care is also expected to be amended.
- A review of the social health insurance (SHI) contributions is being carried out, with a new law, the *Social Insurance Finance Structure and Quality Development Act* (*GKV Finanzstruktur- und Qualitaets-Weiterentwicklungsgesetz* - GKV-FQWG), having been drafted. It is expected to come into force in 2015. SHI contributions will then vary by SHI companies (Krankenkassen), subject to a minimum of 14.6% (from the current 15.5%).

Projected Legislation - Pensions

In March 2014, the German Insurance Assocation (Gesamtverband der Deutschen Versicherungswirtschaft eV - GDV) stated that it welcomed the European Commission's proposals to improve protection of pension beneficiaries proposed under the revised EU *Institutions for Occupational Retirement Provision/IORP Directive* (IORP II), but considered that full application of the rules to insurers of occupational pension schemes was unjustified.
The pensions industry has a number of concerns over the impact of the directive, including the prevention of the current widespread practice of companies running

all of the administration of pension plans themselves. IORP II provisions will include stricter reporting and governance requirements for pension funds.

Projected Legislation - Social Security - Old Age Pension

At present the German law allows individuals to take a partial state pension (teilrente) at retirement age in order to encourage part-time working. There is a limit to the maximum income, which has led to some discussions over increasing flexibility on the income limits to encourage more people to take this option.

Under draft legislation the partial pension may be replaced by a combined pension (Kombirente) where supplementary earned income and the old age pension are combined up to a total of the employee's average annual income over the 15 years preceding early retirement.

Regulation - Healthcare

In January 2014, the Ministry of Health introduced a new electronic health card, which individuals are required to submit as proof of entitlement to medical services.

Social Security - Benefits - Old Age Pension

A minimum state pension of EUR 850 per month for certain people on a low income is to be introduced from 2017. This is subject to certain criteria being met such as contribution history.

Social Security - Contributions

In 2014, a salary ceiling of EUR 71,400 (increased from EUR 69,600 in 2013) for western states and EUR 60,000 in eastern states (increased from EUR 58,800 in 2013) applies to contributions for statutory pension insurance (covering old age, disability and survivors' pensions) as well as to unemployment contributions.

Social Security - Retirement Age

The normal retirement age for employees with at least 45 years' contributions is 63 (reduced from 65 years) with effect from 1 July 2014.

Taxation - Health insurance

From 2014, employer-sponsored health insurance plans (betriebliche krankenversicherung) are no longer tax deductible (previously, tax was not payable on employer-paid premiums up to EUR 44 (USD 56) per month per employee).

Taxation - Pensions - Contributions

By 2025 the tax deductible ceiling for employee contributions is to reach EUR 20,000 per year if single or EUR 40,000 if jointly assessed with a spouse. In 2014, employee pension contributions are tax deductible up to 78% of EUR 20,000 per year if single or EUR 40,000 if jointly assessed with a spouse (that is, EUR 15,600 if single or EUR 31,200 if jointly assessed with a spouse). This percentage is to increase by 2% per year to reach 100% by 2025. Employer statutory pension insurance contributions and Ruerup pension contributions are included in the limit.

Taxation - US Foreign Account Tax Compliance

On 6 October 2013 the act approving an intergovernmental agreement between Germany and the US on the reporting framework under the US *Foreign Account Tax Compliance Act 2010* (FATCA) entered into force, with the agreement itself taking effect from 11 December 2013. The draft regulations to implement the obligations arising under the agreement (*FATCA-USA-Umsetzungsverordnung*) were being consulted upon until 20 March 2014.

India

Projected Legislation - Taxation - US Foreign Account Tax Compliance

On 11 April 2014, India reached an agreement in substance for a Model 1 intergovernmental agreement (IGA) with the US to implement the *US Foreign Account Tax Compliance Act 2010* (FATCA). India is deemed to have an IGA in effect from that date, although the IGA will be signed at a later date.

Social Security - Benefits

The minimum benefit in respect of pensionable service was expected to rise from INR 365 to INR 1,000 per month in 2014-15.

Social Security - Contributions

The maximum monthly pensionable salary was expected to increase to from INR 6,500 to INR 15,000 in 2014-15.

Kenya

Social Security - Benefits - Disability Benefit

Under the *National Social Security Fund Act, 2013*, an invalidity pension is payable if the member suffers substantial physical or mental disability leading to permanent total incapacity, subject to certification by a medical board, before pensionable age, was contributing at the time of disability and had made not less than 36 monthly contributions immediately preceding the date of disability.

The pension shall be equal to the member's pension fund credit (based on contributions made, the value of funds transferred from historical schemes and any interest), except that the tier I credit shall be increased by an amount equal to the last tier I monthly contribution multiplied by the lower of half the number of months of potential employment between the member's date of incapacity and attainment of pensionable age and 90 months. Where a member did not satisfy qualifying conditions, he or she shall be entitled to the payment of a lump-sum benefit equal to the pension fund credit.

Social Security - Benefits - Emigration Benefit

The National Social Security Fund Act, 2013 clarifies a National Social Security Fund (NSSF) member's right to an emigration benefit whereby the member is entitled to the pension fund credit (based on contributions made, the value of funds transferred from historical schemes and any interest) if migrating from Kenya, with no intention of returning, to a country with no reciprocal agreement with Kenya.

Social Security - Benefits - Old Age Pension

Under the *National Social Security Fund Act, 2013* the normal retirement age was increased from 55 to 60.

In respect of the new pension fund the pensioner is entitled at retirement to a pension fund credit based on contributions made, the value of funds transferred from historical schemes and any interest. A pension must be purchased, on the following basis, using the available fund:

- it must be compulsory, non-commutable, non-assignable and payable for life
- it must be subject to a minimum 10-year guarantee period, and
- the pensioner may elect to receive part of the pension fund credit as a lump sum, but no more than one-third of the tier II pension fund credit.

Social Security - Benefits - Survivors' Benefit

Under the *National Social Security Fund Act, 2013*, survivors' pension is payable if the member dies before pensionable age, was contributing at the time of death and had made not less than 36 monthly contributions immediately preceding the date of death. The survivors' pension is equal to the member's pension fund credit (based on contributions made, the value of funds transferred from historical schemes and any interest), except that the tier I credit shall be increased by an amount equal to the last tier I monthly contribution multiplied by the lower of half the number of months of potential employment between the member's date of death and attainment of pensionable age and 90 months. Where a member did not satisfy qualifying conditions, the dependants shall be entitled to the payment of a lump-sum benefit equal to the pension fund credit.

Where a member dies before pensionable age and has made at least six months contributions immediately prior to death, the dependants will be entitled to a funeral grant of KES 10,000.

Social Security - Contributions

As reported in the April 2014 Life & Benefits Regulatory Alerts, the *National Social Security Fund Act, 2013* introduced a two-tiered pension system.

Contributions to the new pension fund, the National Social Security Fund, are levied from 1 June 2014, subject to limits, on the basis of 6% of employee wage from the employee and a further 6% from the employer. The contributions are divided into two tiers (employers have the option to pay tier II contributions to a qualifying occupational pension plan). Tier I is based on pensionable earnings up to the lower earnings limit (the average statutory minimum monthly basic wage for top urban centres, second-tier urban centres and rural areas). Tier II contributions are based on amounts in excess of the lower earnings limit and below the upper earnings limit (based on a multiple of the national average earnings).

The prescribed lower earnings limits and upper earnings limits are as follows:

Year	Monthly Lower Earnings Limit (KES)	Upper Earnings Limit
1	6,000	50% of National Average Earnings
2	7,000	100% of National Average Earnings
3	8,000	200% of National Average Earnings
4	9,000	300% of National Average Earnings
5	Average statutory minimum wage	400% of National Average Earning

The upper earning limit is KES 18,000 for 2013-14.

Kuwait

Healthcare

Kuwait Health Assurance Company (KHAC), the provider of compulsory health insurance for expatriates, is expected to be operational by 2015.

Norway

Legislation - Pensions

From January 2014, following amendments to the *Foretakspensjonsloven*, employers may now choose between different risk approaches in "hybrid" schemes. One form of hybrid scheme resembles a defined benefit plan to some extent but has no benefit guarantees, while the other affords employers a degree of predictability in the amount of annual contributions.

On reaching retirement age the employee is guaranteed an annual pension payment of a certain level but the actual amount is not fixed until the retirement date. The pension amount is based on the employee's accumulated savings (pension contributions and investment return), but takes into account life expectancy where a life-long pension is chosen. The new system also allows time-limited pension payments until age 80 and for a minimum of 10 years in total. In these cases, the annual pension amount depends on the total years of payment.

The employer retains the investment risk until the employee's retirement but may choose to guarantee that the pension savings are adjusted according to any general salary increase in the Norwegian workforce or any salary increases in the company's workforce. In other cases, the pension provider may offer a "zero guarantee" and promise that the employee's accumulated pension savings will not decrease in value, adding any investment return to the pension savings.

Employees may start to receive their pensions from age 62 but it is not obligatory to receive their state pension at the same time and they can choose to continue in work.

Contributions to hybrid schemes made by employers are based on an annual amount of up to 7% of salary up to 12G (G being an annually indexed base amount used to calculate contributions and benefits). The employer may also pay up to a further 18.1% between 7.1G and 12G, or a total of 25.1% of salary between 7.1G and 12G.

Contributions on behalf of female employees are allowed to be higher than those for men, reflecting their longer life spans and ensuring that they receive the same pension amounts as men.

Projected Legislation - Pensions

Further changes to the pension system are under consideration in 2014: a commission set up to review the finance sector, Banklovkommisjon, is looking at whether a new, modified defined benefit pension product (based on life expectancy adjustment of pensions in payment and a zero investment guarantee) should be introduced and is expected to reach a conclusion in the course of 2014.

Projected Legislation - Taxation - Pensions

The Norwegian government has announced that the tax regulations for individual pension savings will be reviewed and improved. Any new rules would only apply from 1 January 2015 at the earliest.

Projected Regulation - Defined Benefit Pensions

The issue of how to deal with the possibility of converting paid-up defined benefit pension contracts (fripoliser) to non-guaranteed contracts continued to be under discussion in spring 2014 (for details refer to the February 2013 Life & Benefits Regulatory Alerts under Projected Regulation - Insurance and Pensions.

The supervisory authority has proposed that paid-up policies be fully reserved in accordance with the new mortality table, K2013, before conversion. This means that few such policies will be converted before the five-year transition period ends in 2018.

In the meantime, the life and pensions industry has proposed that it should be easier to establish a flexible capital buffer whereby all returns in excess of the guaranteed return will be conditional allocations to policyholders which can be used to cover the guaranteed return in years with low returns.

As an alternative, where defined benefit schemes are wound up, they could simply be closed with no further accumulation of pension entitlements. This could be used in connection with the conversion to both defined contribution and to the new hybrid occupational pension schemes. Companies should be able to choose between retaining a defined benefit scheme's funds in a closed fund and issuing paid-up policies. If approved, the new regulations could come into force from 1 January 2015 at the earliest.

Projected Regulation - Pensions - Mortality Tables

Some insurers believe that the five-year transition period to meet the new reserve levels required by using the K2013 tables is too short and it should be at least 10 years, maybe up to 15 years. Insurance companies are trying to persuade the authorities to extend the period accordingly and feel that there will be some movement on this from the government.

Taxation - Pensions - Contributions

- The ceiling on tax deductible contributions to defined contribution pension schemes has been increased to the same level as for the new hybrid pension schemes.
- Payments to annuity contracts (livrente) are counted as personal assets for wealth tax purposes. In 2014, wealth tax at the rate of 1% (reduced from 1.1% in 2013) is due on total net assets once they exceed a specified threshold, set at NOK 1mn (increased from NOK 870,000 in 2013).

Poland

Legislation - Healthcare

As reported in the May 2012 Life & Benefits Regulatory Alerts under Legislation - Healthcare, it has been suggested that farmers should pay contributions based on earnings but this change had not been effected in the first half of 2014.

Legislation - Pensions

As expected the *Pension Reform Law 2013* was approved by the Polish parliament on 6 December 2013. It was signed into law by the president at the end of that month to become effective from January 2014.

The new law required the transfer of 51.5% of total assets held at 31 January 2014 by open pension funds (Otwarty Fundusz Emerytalny - OFEs) to the State Social Insurance Institute (Zaklad Ubezpieczen Spolecznych - ZUS) on 3 February 2014. The assets to be transferred included all Polish government debt, with the aim of substituting government guarantees for the pension accounts and cancelling the government debt. Other asset classes to be transferred included other bonds guaranteed by the state as well as cash. In the event that the total holding of government debt by a particular fund was in excess of 51.5% the transfers would be made in accordance with the maturity dates of the securities, shorter dated first. These funds would be allocated to the members' accounts currently held with ZUS.

The *Pension Reform Law 2013* specified maximum administration charges that would apply to the state management of these funds. Also included under its provisions was procedural confirmation that as ZUS would be paying the actual pension benefits the transfer of all OFE assets for members would be required 10 years prior to their retirement after which no further transfers of any part of their contributions would be made to the OFEs on their behalf.

Other issues addressed by the law are detailed below.

- OFEs would become voluntary and employees had a period (1 April 2014 to 31 July 2014) to decide whether to stay in their OFE or transfer in total to their ZUS sub-account (although the full 9.76% contribution would still be required in which case the full 7.3% part of that contribution would be allocated to the employee's ZUS sub-account).
- Employees would be able to choose to transfer either way between OFEs and the ZUS once every four years.
- Investment ceilings for certain classes of asset were to be set for compliance by February 2015; it was reported that this included a 90% cap on equities.
- The transfer from the ZUS to the OFEs was amended to 2.92% in 2014, with ZUS now retaining 4.38%. The contributions sent to OFEs are expected to rise to 3.5% by 2017.
- A guarantee fund for OFEs would be created with contributions from the OFEs of not more than 0.3% of their assets each year (unless losses mandate a higher contribution).

The *Pension Reform Law 2013* required OFEs to invest 75% of their assets in equities in 2014, although it was noted that this requirement would be reduced by 20% per year so that it was phased out by 2018.

Some of the provisions of the law were considered to be unconstitutional by many of the law's critics and, upon signing the legislation into law, the president immediately referred the law to the Constitutional Tribunal for its consideration.

Projected Legislation - Health Insurance

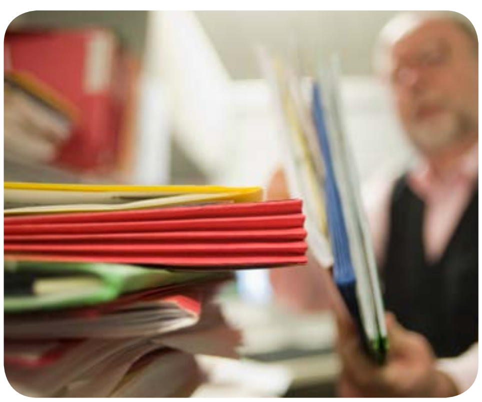
The market expectation has been for legislation that would allow private medical insurance (PMI) to be written as there is no specific legislation relating to it at present. The Ministry of Health (Ministerstwo Zdrowia - MZ) is lobbying for legislation to allow it to offer insurance for higher levels of healthcare than are allowed under the national health insurance (NHI) (similar to the system in the Republic of Ireland), which could be considered a partial nationalisation of part of the PMI market.

Projected Legislation - Pensions

Further pension legislation may be required when the decision of the Constitutional Tribunal on the *Pension Reform Law 2013* is made available.

Regulation - Healthcare

Prior to November 2013, if a member decided to utilise a higher level of care than was provided for by the national health insurance (NHI) the member was liable to pay the difference between the full cost and the amount recoverable from the NHI. From November 2013 however a change in regulations requires members to pay the full cost of all treatment if the level selected was higher than that covered under NHI.



Portugal

Legislation - Social Security - Retirement Age

Under *Decree-Law No 167-E/2013* and *Ordinance (Portaria) No 378-G/2013*, both of 31 December 2013, the “sustainability factor” (SF), on which retirement age will be based in 2016 and subsequent years, is calculated as the average life expectancy for an employee at age 65 in the year 2000 (the year was 2006 under the previous rule), divided by the average life expectancy for an employee at age 65 in the year preceding the commencement of the pension. (As reported in the March 2014 Life & Benefits Regulatory Alerts under Legislation - Social Security, the normal retirement age in 2014 and 2015 is 66).

Taxation - Employee Benefits - Company Passenger Vehicles

From 1 January 2014, company passenger vehicles including those bought before 2014 (excluding full electric cars and vehicles allocated to public transport) will attract corporation tax of between 10% and 35%, based on their acquisition value. The tax shall not apply if the vehicle is subject to personal income tax as income in kind.

Previously, company cars for employees were not included as payroll benefits, but the government would now like them to be transferred to payroll, attracting personal income tax and lowering the tax burden on the employer. Once an employee endorses the contract agreeing to have a car included as part of his or her remuneration, this cannot be reversed, so any subsequent changes in rules could be to the detriment of the employee.

Taxation - Personal Taxation - Pensions

Article 76 of *Decree-Law No 83-C/2013* of 31 December 2013 clarified that the application of the Extraordinary Solidarity Contribution (Contribuicao Extraordinaria de Solidariedade - CES) on pensions above EUR 1,350 (USD 1,776) per month also applied to private pensions.

For 2014 the rate of the CES initially ranged from 3.5% for those in receipt of a gross monthly pension above EUR 1,350 per month up to a maximum of 40% for those with a pension above EUR 7,545.96. Under *Decree-Law No 13/2014*, the CES was subsequently amended to 3.5% on pensions received above EUR 1,000 up to a maximum of 40% of the monthly pension above EUR 7,126 (17 times IAS).

South Africa

Legislation - Pensions

As reported in the April 2014 Life & Benefits Regulatory Alerts under Legislation - Insurance, Pensions and Healthcare, on 16 January 2014 the *Financial Services Laws General Amendment Act 45 of 2013* was published in the *Government Gazette*.

An amendment included in the law affecting pensions was the provision that unapproved benefits (such as group life and group accident benefits) could be paid into beneficiary funds for the benefit of dependents instead of the current umbrella trust arrangements. It was envisaged that this would improve security for financially unsophisticated widows and orphans.

The law also made it an offence if employers did not transfer contributions to a retirement fund, and if any person made false or misleading statements about any retirement fund.

Projected Legislation - Healthcare

Successive budget speeches have made references to different methods of funding the national health insurance (NHI) system and in the latest, delivered in February 2014, it was suggested that a white paper on the issue would be tabled in cabinet during the course of 2014.

Projected Regulation - Health Insurance

A second draft of the *Demarcation Regulations* was gazetted in April 2014 as a result of the passing of the *Financial Services Laws General Amendment Act 45 of 2013*, which redefined what constitutes a medical scheme. The regulations are intended to closely define what types of healthcare policies may be written by insurance companies (which are not allowed to write reimbursive healthcare policies).

Projected Regulation - Pensions

The treatment of defined benefit (DB) plans is currently under consideration with input expected from the Actuarial Association of South Africa for a standard way of determining the value of an employer contribution for a specific employee to a DB fund. This will be subject to the issue of regulations in the future.

Regulation - Healthcare

Circular 13 of 2014 was issued by the Council for Medical Schemes (CMS) on 12 March 2014 after extensive consultation with stakeholders. One of the purposes of the circular was to clarify differences between managed healthcare services and "relevant health services" (defined in terms of the *Medical Schemes Act 131 of 1998*).

Regulation - Trustees - Pension Funds

Pension funds are required to have trustees and, under the *Financial Services Laws General Amendment Act 45 of 2013* (which was published on 16 January 2014) all trustees would are required to receive training, as required by the registrar, within six months of appointment.

Social Security - Contributions and Benefits

The earnings limits to qualify for social security benefits were increased effective 1 April 2014. Social security benefit amounts and the salary limit for work injury contributions were also increased. For details, refer to the Axco Life & Benefits Insurance Market Report on South Africa.

Taxation - Health Insurance

With effect from the tax year commencing 1 March 2014 the tax credits for private medical insurance (PMI) premiums were increased from the ZAR 242 to ZAR 257 per month for the taxpayer and one dependant; each additional dependant would be allocated a tax credit of ZAR 172 (up from ZAR 162) per month.

Sweden

Projected Legislation - Taxation - Pensions

The government's proposals to abolish tax deductibility for private pension savings (reported in the June 2014 Life & Benefits Regulatory Alerts) are out for consultation with a decision expected in autumn 2014.

Taiwan

Legislation - Social Security and Pensions

With effect from 17 January 2014 an amendment to the *Labor Pension Act* expanded eligibility conditions to the self-employed, to employees who acquired Taiwanese citizenship after 1 July 2010 and to foreign spouses employed in Taiwan, (including those from mainland China, Hong Kong and Macau) and allowed them to choose irrevocably between the old and new pension systems. The amendment also allowed disabled employees to take their pension early.

United States

Retirement Plans — Summer Recap

This *FYI Roundup* recaps defined benefit and defined contribution retirement plan developments since our last Roundup in January. Highlights include agency efforts to improve defined contribution plan performance for individuals with better disclosure and through rollover, disability, and longevity features. We also saw a flurry of activity about foreign account tax withholding and reporting, as well as PBGC changes.

Recent Research in HR and Employee Benefits 2014 —Summer Edition

Our latest *FYI Roundup* highlights selected reports and surveys relevant to our industry, released in the last few months.

In this article: Career — Compensation, Health Care, Health Care — Private Exchanges, Health Care — Wellness, International — Health Care Reform, International — Retirement, Workplace Issues — Millennials, Workplace Issues — Social Media, Workplace Issues — Telecommuting, Wealth — Retirement

Contact us

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