The key players

A round-up of the latest happenings in key pensions markets across the world

The Netherlands

This country's pension system is rated as one of the best in the world but it's about to undergo a radical change. At the end of March, the country's first dedicated Pensions Minister, Carola Schouten, sent the Future Pensions Act to the Dutch House of Representatives for approval. After this it will then go to the Senate, where it is also expected to pass.

The reform, which will come into effect on 1 January 2023, will see existing defined benefit-like schemes transition to defined contribution-style schemes that will still have an element of risk sharing through collective investment. The deadline to transition is 1 January 2027 but a survey by the Dutch central bank undertaken at the end of 2021 revealed that 85 per cent of schemes were already preparing for the change.

Not only will the reform have a profound effect for members, but it is also expected to see a huge shift in the assets pension schemes in the country invest in. The Dutch pension fund market is worth approximately €1.7 trillion in assets, according to AXA IM Netherlands, with roughly €500 billion allocated to government bonds currently in the DB system. However, AXA IM Netherlands predicts that the allocation to government bonds will decrease, whilst credit bond allocations will increase.

Germany

Germany could be about to see the launch of its first Social Partner Pension (SPP), despite legislation to allow such schemes being introduced before the pandemic. At the beginning of April, the collective bargaining partners in the chemical-pharmaceutical industry, the Federal Chemical Employers' Association (BAVC) and the Mining, Chemical and Energy Industrial Union (IGBCE), agreed to create an SPP.

If everything works out, the chemical pension fund operated by BAVC and IGBCE, together with R+V Versicherung, will be the first pension institution to offer pure contribution commitments. The defined contribution-like scheme sees the employer's liability limited to the payment of the pension contribution to a delegated pension provider, with the latter then being liable to pay benefits in the future.

In a blog post written last year, DLA Piper counsel, Georg Haberkorn, noted that the advantage of SPPs is that they provide cost certainty for employers and the contributions can be invested more freely on the capital market than under the pension models that have been standard up to now, and therefore, a higher return on investments can be achieved.

As far back as 2019, insurance company Talanx AG and trade union Vereinte Dienstleistungsgewerkschaft (Ver.Di) reached an agreement to establish the first SPP in the country but the Federal Financial Supervisory Authority (BaFin) has not yet given its approval for the scheme to go ahead.

Nordics

There are a series of developments going on across the Nordics, some not all positive for pensions systems. For example, the Danish government, along

with the political majority, has agreed to introduce a new special tax on the financial sector, in what has been described as a "political own goal" by Insurance and Pension Denmark (I&P Denmark).

I&P Denmark argues that the tax will make it more expensive for Danes to insure themselves and save for retirement. It has called on the responsible parties to limit the special tax as much as possible, especially as savers are already feeling the burden with inflation at its highest level in 40 years.

In Norway, like in many other countries, an ageing demographic has recently been identified as a key concern by the International Monetary Fund (IMF) following a visit to the country. In a *Staff Concluding Statement of the 2022 Article IV Mission*, the IMF noted that challenges ahead relate to "adverse demographic trends" and the transition away from oil, which may put "serious strain" on public finances.

"Over the past decade, growth in transfers from the Government Pension Fund Global (GPFG) and tax revenues has exceeded growth in pension and ageing-related spending, creating policy space to finance additional initiatives to promote long-term growth. However, with GPFG transfers projected to decline over the coming decades, the ability to finance the current high level of spending will be challenged," the IMF reported.

In Sweden, a key reform to the country's premium pension system has just taken place. The new Fund Selection Agency (Fondtorgsnämnden) began operations on 20 June. It will be responsible for the new fund market that is part of the reform of the premium pension. The role of the agency will be to ensure that funds on offer to premium pension savers in the fund market are cost-effective, sustainable, high quality and diverse.

Ireland

Ireland is about to see a huge shift in pensions policy with the introduction of auto-enrolment (AE) for employees. The policy was officially set out in the country's *Roadmap for Pensions in 2018* but it has suffered a series of delays. However, in March, Minister for Social Protection, Heather Humphreys, set out the government's plan for AE with employees expected to be enrolled in the schemes from 2024.

Under the policy 750,000 workers are to be automatically enrolled into a new workplace pensions scheme, with the choice to opt out if they do not want to be a member. For every €3 contributed by the employer a further €3 will be contributed by their employer and €1 will be contributed by the government. When fully established, the Irish government predicts that a worker earning €35,000 per annum will accumulate a fund (excluding investment returns) of €293,000 over their working life. In addition, the new system will account for around €21 billion in funds after 10 years.

North America

Much like Ireland, the USA is also on the brink of introducing auto-enrolment for pension saving. At the end of March, a new bill that will make a series of reforms to American pensions passed the House of Representatives. The Strong Retirement Act of 2022 (Secure 2.0) is expected to be signed into law by the end of the year.

The bill will require employers to automatically enrol all eligible workers into their 401 (k) plans with a contribution rate of 3 per cent of their salary – workers would be able to opt out, however. Currently, many employees must opt into the scheme and choose their contribution level. Enrolled workers' contribution rates would be automatically increased each year by 1 per cent until their contribution reaches 10 per cent annually.

Another planned reform would see older workers, between the ages of 62 and 64, able to increase their catch-up contributions from $6,000 to $10,000 a year. Beginning in 2023, these catch-up contributions would be taxed as Roth contributions, meaning they'd be taxed before being invested for retirement, though earnings would be indexed to inflation.

Secure 2.0 will also increase the minimum age at which savers can begin withdrawing money from their 401 (k) accounts. It is planned that the age will rise by one year each year until it reaches 75, up from the current 72.

In Canada, the Public Sector Pension Investment Board (PSP Investments) has announced plans to cut its exposure in

greenhouse gas emitting assets by 20-25 per cent over the next four years as part of its new climate strategy. Although many other key pension markets put a big focus on responsible investment, many Canadian funds remain firm on staying invested in carbon-intensive assets.

For example, Canada Pension Plan, the country's largest pension fund by assets under management, said in May that it will continue to stay invested in fossil fuels and support companies in transitioning toward their net-zero goals.

Japan

News recently emerged from Japan that the government plans to use funds from the $1.5 trillion pension fund to finance domestic start-up culture. Unveiling Prime Minister Fumio Kishida's 'new capitalism' agenda, the cabinet announced a push for the Government Pension Investment Fund (GPIF) to increase funding for start-ups. The country plans to use the GPIF to increase the number of start-ups 10-fold over five years.

"Fostering start-ups is the key to promoting the dynamism and growth of the Japanese economy and solving social problems," the agenda said. No details were given as to how the funds from the GPIF would be made available for start-ups, however, the fund is allowed to invest 5 per cent of its total assets in alternatives, including private equity and real estate. As of March 2021, it had allocated only 0.7 per cent to alternatives — and of that, a minority went to private equity, which includes venture capital investments.

Australia

May saw the election of a new Labour government in Australia with the departure of the Scott Morrison-led Liberal and National coalition government and Anthony Albanese taking over as Prime Minister.

While it is not yet clear what plans Albanese has for pensions in the country, the Association of Superannuation Funds of Australia (ASFA) welcomed his comments on the importance of universal superannuation. It was also pleased that the country's new Minister for Financial Services, Stephen Jones, has highlighted the importance of facilitating superannuation investment in local innovation and infrastructure to grow the national economy and deliver reliable long-term returns to super fund members.

In another boost, the new government is committed to the already legislated superannuation guarantee, introduced last year. It sees the rate contributed by the employer into employees' superannuation funds increase by 0.5 per cent each year, until it reaches 12 per cent in 2025. On the 1 July 2022, it went up from 10 per cent to 10.5 per cent.

New Zealand

New Zealanders have the option to join KiwiSaver – a work-based retirement savings scheme with eligible employees automatically enrolled. At the end of 2021 changes were made to the default fund providers of KiwiSaver for those employees who do not choose their own fund to invest in. The newly appointed funds were Bank of New Zealand (BNZ), Booster, BT Funds Management (Westpac), Kiwi Wealth, Simplicity and Smartshares (NZX).

Prior to this, regulations were finalised to ensure all KiwiSaver default members of outgoing providers (AMP, ANZ, ASB, Fisher Funds, or Mercer) were transferred safely and securely to the new default funds. The government said that this will ensure that all default members get the benefits of moving to one of the new funds, such as low fees, potentially higher returns, and engagement from their providers at key points in their KiwiSaver journey.

In other KiwiSavers news, a recent survey by ANZ found that more than two-thirds of 65-year-olds are leaving their money in their KiwiSaver accounts, even though they have become eligible to withdraw it. Of the members of ANZ's KiwiSaver schemes who became eligible to make a withdrawal in the 12 months to April 2022, 71 per cent made no withdrawal, 17 per cent made a partial withdrawal and 12 per cent withdrew all their savings.