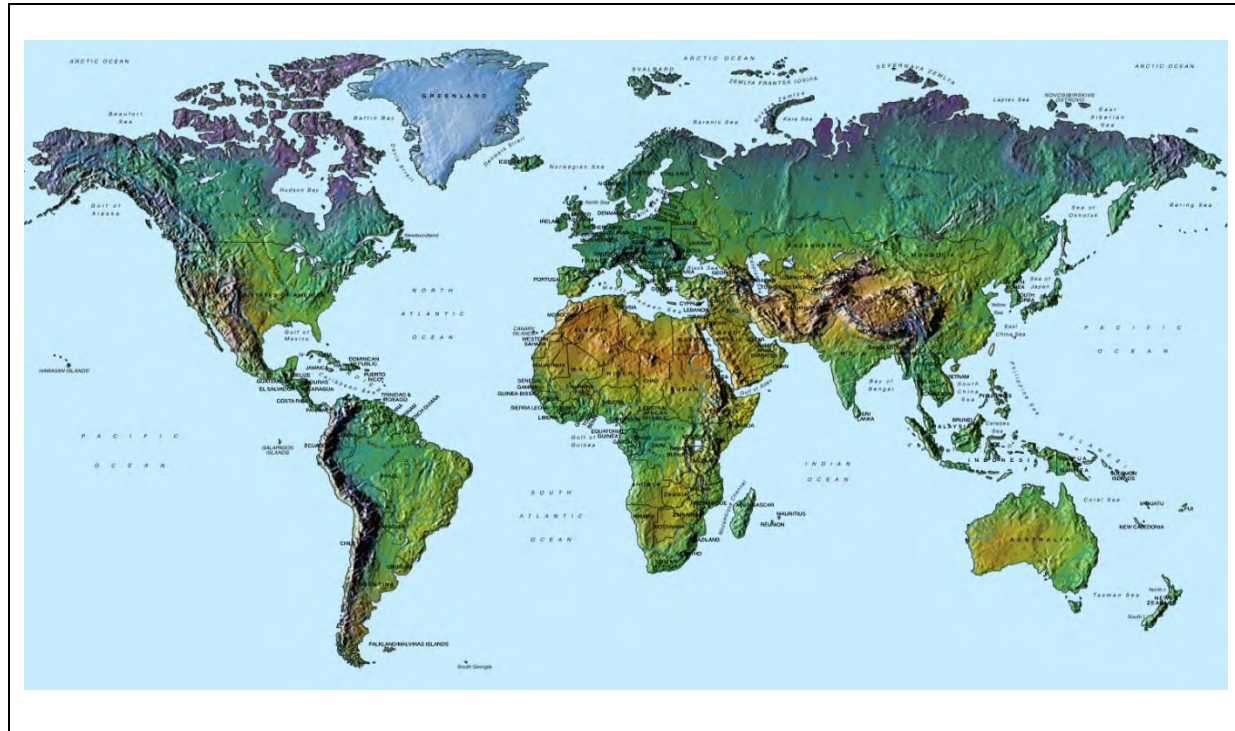




INTERNATIONAL BENEFITS NETWORK

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DEVELOPMENTS IN INTERNATIONAL EMPLOYEE BENEFITS 2010



*Argentina
Australia
Czech Republic
Finland
France
Indonesia
Ireland
Italy*

*Poland
Romania
Saudi Arabia
South Korea
Spain
Switzerland
United Kingdom
United States of America*

ARGENTINA

In January 2009 the pension system was changed and all the private sector pension fund administrators were closed. **The state now regulates the whole pension system.** Payments are made through ANSES (Administración Nacional de la Seguridad Social). Employers and employees are required to pay 16% and 14% of pay respectively in order to finance the pension system, up to a maximum of Pesos ARS 11.829,21 for employees, and without limit for the employer. Proposals to increase pensions up to 82% of actual salaries were approved by Congress but were rejected by the President because of the economic situation.

AUSTRALIA

The Australian Government has announced that it is **introducing a paid paternity leave scheme** for working parents of children born or adopted on or after January 2011. The payment is paid at the National Minimum wage which is currently \$570 a week before tax and the payment will be made up to a maximum term of 18 weeks. The leave can commence any time within the first year after birth. The eligibility criteria is that a working parent:

- must be an Australian Citizen,
- the primary carer of a newborn child or recently adopted,
- have met the paid paternity leave scheme work test before the birth or when adoption occurs,
- have received an individual adjusted taxable income of \$150,000 or less in the previous financial year,
- is on leave or not working from the time they become the child's primary carer, and
- the birth mother or the initial carer of an adopted child must make the claim for parental leave pay, unless there are exceptional circumstances.

Full details of this proposed legislation can be found on the Australian Government website: www.familyassist.gov.au

CZECH REPUBLIC

The government issued a policy statement on pension reform in August 2010. This has a number of goals:

- greater diversification of funding sources and financial savings managed by private or state financial institutions;
- fiscal and financial sustainability in the face of changes in demography and the economy;
- fairer distribution of the intergenerational burden over time;
- strengthening the link between pensions and previous earnings and the fair treatment of persons with different contribution histories (based on a decision of the Constitutional Court in 2009).

The government wants to replace the current pay-as-you-go, defined benefit system with a pay-as-you-go (PAYG) notional defined contribution (NDC) system and a funded second pillar with privately managed individual accounts, supplemented with a guarantee at age 65 for persons with low lifetime earnings.

Consideration is also being given to the funding the second pillar and the agenda of the Government in a number of areas:

- the percentage of earnings to go to the second pillar – 2 to 4%;
- whether the second pillar should be compulsory or voluntary;
- the options with regard to a funded scheme – the options include a pension fund administered by the state, the selection of "appropriate" private funds accredited to the second pillar - and the basis of registering funds.

Other issues under consideration include:

- a gradual increase in retirement age;
- the introduction of pension plans or insurance for hazardous or strenuous occupations;

- the basis of indexation to apply;
- the basis of sharing between married couples.

FINLAND

The government has been looking at ways of increasing the actual retirement age. All employers are required to set up an earnings-related pension plan under the Employees' Pension Act (TYEL) and to provide workmen's compensation insurance and occupational health contracts. The retirement age under TYEL is flexible between 63 and 68. In 2009 the average age of those who retired on old age pension was 63.4, one of the highest in Europe. The average age for claimants starting to receive a disability pension was 56.4 years. In order to increase the actual retirement age, the pension insurance companies have been developing occupational wellbeing products and the government is discussing the development of occupational health services, which will have a stronger role in preventive care. In 2008 38% of the disability cases were related to mental health.

The age limit for taking a part time pension from TyEL is being increased from 58 to 60 for those born in 1953 or later. For those born in 1952 or earlier a part-time pension is available from age 58 and the insured also accrues pension on the difference in salary between full day and half day work.

A proposal to Parliament to amend workers' compensation insurance was made in October 2010. The purpose of new legislation is to comply with stricter safety instructions. Investments in safer working conditions will also reduce premiums for small employers.

TyEL premiums will be increased in 2011. The gross premium payable by the employer will be increased by 0.6% to 0.7%. The gross premium for small employers will be increased from 21.8% to 22.5%. The employee contribution for employees age 52 or younger will increase from 4.5% to 4.7% and for employees age 53 or older from 5.7% to 6.00%. Employees have no say in how the money is invested. The average TyEL-pension in 2009 amounted to EUR 1,627.00 a month.

The unemployment contribution will increase from 0.75% to 0.8% on a total company payroll up to EUR 1,893,000 and for the excess from 2.95% to 3.25%. The workers' compensation insurance premium (0.3% to 8% of payroll) and the employees' group life premium (0.071% of payroll) are expected to remain at the same level as in 2010.

The social security contribution will decrease from 2.23% to 2.13%. The employee contribution will decrease from 2.4% to 2.07%.

FRANCE

A new pension reform was approved on 9 November 2010. The main changes focus on conditions for vested rights and amendments to supplementary schemes.

The retirement pension is based on two factors, age and number of quarters of contributions. **The minimum age for retirement benefits, set at 60 years, will increase by four months per year starting on July 2011, to reach 62 years by 2018.** In addition, the full pension rate will not be reached until age 67 instead of age 65, irrespective of the number of years of contributions.

The number of quarters of contributions will also increase: 162 quarters (or 41.5 years) will need to be completed by 2020. However, some categories will continue to benefit from full pension at 65 years, for instance women who have raised at least three children, or parents of disabled children.

Supplementary pension schemes are also covered under the reform. Employees will now be able to make voluntary contributions to defined contribution plans under article 83. Annual paid leave over 24 days, if not taken, can also be added to saving plans.

Employers will be able to offer defined benefits plans under article 39 provided that defined contribution plans or saving plans are already offered to all employees.

The reform has introduced a new tax on annuities from defined benefits schemes. Annuities below €400 are tax-exempt; annuities between €400 and €600 are taxed at 7%, and annuities higher than € 600 at 14%.

The maximum level of benefit to be paid under a defined benefits scheme is under discussion. The current proposal is around 30% of the final salary.

INDONESIA

The total assets of pension funds in 2009 amounted to IDR 112.5 trillion (around USD 12.5 billion), an increase of 24.4% from the previous year. This was made up of IDR 89.2 trillion of defined benefit assets, IDR 8.4 trillion of defined contribution assets in company pension plans and IDR 15 trillion of assets in pension plans with financial institutions. Financial institutions can only establish defined contribution pension funds.

Total participants by the end of 2009 were more than 2.6 million, an increase of 4.77% from the previous year.

There is a proposal to establish a financial services authority in Indonesia to reflect the complexity of global financial system. The proposal will be considered in the light of other financial measures, including social security law, capital market law, central bank law, insurance law, and pension law.

IRELAND

The **2011 budget** made number of changes that impact on private sector pensions from 1 January 2011:

- Employee contributions to pension arrangements will be subject to employee Pay Related Social Insurance (PRSI) and the new Universal Social Charge.

- The employer PRSI exemption for employee contributions to pension arrangements will be reduced by 50%.
- The annual earnings limit is being reduced from €150,000 to €115,000.
- The maximum allowable pension fund on retirement for tax purposes (known as the Standard Fund Threshold) is set at €2.3 million from 7 December 2011.
- The overall lifetime limit on tax-free retirement lump sums is being reduced to €200,000; any excess will be taxed.
- The annual imputed distribution, which applies to the value of assets in an Approved Retirement Fund (ARF) at 31 December each year, is being increased from 3% to 5% in respect of asset values at 31 December 2010 and future years.
- The government will make sovereign annuities and bonds available to pension funds.

Other recent changes include:

- With effect from 1 February 2010 every pension scheme trustee must undertake trustee training.
- The Pensions Insolvency Payment Scheme 2010 (“PIPS”) was introduced to assist members of the defined benefit schemes in cases where the sponsoring employer has become insolvent and the pension scheme is being wound up in deficit. The PIPS discount is significant when compared with insurance annuity rates.
- The government published the National Pensions Framework (“the Framework”) on 3 March 2010 outlining **the Framework for the future provision for pensions in Ireland**. The proposed changes will be phased in and have the potential to dramatically alter the landscape of pension provision in Ireland.
- **The qualifying age for the state pension will rise from 65 to 66 in 2010, 67 in 2021 and 68 in 2028.**
- It is proposed to amend the rate of relief on contributions from the current level of 20% and 41% to 33%, subject to an earnings limit.
- The Framework envisages **a mandatory approach to pension scheme membership by 2014**. This will be introduced with an auto enrolment system for employees aged 22 years or more.
- From 2011 all members of defined contribution pension schemes will qualify for the Approved Retirement Fund (“ARF”) regime. This means that

employees will no longer be forced to buy an annuity with their pension funds at retirement.

ITALY

The state pension system is particularly fragmented but **ongoing reforms** have increased the financial stability of the system and strengthened the incentives to retire later. The introduction of a notional defined contribution system from 1996 will reduce average replacement rates. This has a minor impact under for most employees but could be detrimental for employees with atypical contracts. Pension credits and more homogeneity in treating different working categories should be a priority.

There are a number of other issues that need to be considered:

- there are still negative fiscal prospects for state pensions, particularly due to the slow phasing in of the new system, and this should be accelerated;
- the differential retirement age between men and women should be equalised;
- the design flaws in the new system need to be corrected;
- in order to lessen the prospects of poverty in old age, the coverage and development of supplementary pensions needs to be drastically increased.

POLAND

The last major reform of the pension system was in 1999, with the move from the old pension system to the current three-pillar system. The first pillar is statutory and is managed by the Social Insurance Institution; the second pillar is mandatriy , 2nd Pillar is mandatory and is managed by Open Pension Funds; the third pillar is voluntary but not widely used.

A number of changes are discussed from time to time, including:

- **a future increase in the retirement age;**

- reforming the preferential treatment given to some occupational and military groups, for example, by increasing their retirement age;
- making changes to the second pillar (Open Pension Funds), for example diversifying the investment options.

ROMANIA

The pension system is based on three pillars. The first pillar is the public system to which employees are required to contribute 9.5% of monthly net salary. **The system is being restructured in order to improve performance.**

The second pillar, introduced on 1st January 2008, consists of mandatory contributions to private pension funds licensed by the regulatory body. All the funds operate on a defined contribution basis. 2.0% of the contribution to first pillar is allocated to a private pension fund selected by the employee.

The third pillar is voluntary private pension funds. Monthly contributions are tax free for both the employer and the employee up to the limit of EUR 400 per year per employee.

SAUDI ARABIA

The General Organisation for Social Insurance (GOSI) in **Saudi Arabia has introduced a repatriation benefit for expatriate employees** who die or suffer permanent total disability as a result of a work-related accident.

SOUTH AFRICA

South Africa is discussing social reform and the implementation of a compulsory scheme for all employees possibly administered by the South African Revenue Authorities. Several discussion meetings, white

papers etc. have been written and much comment and debate has taken place. The new arrangement is designed to replace the current old age pensions which become payable based on a means test. The implementation is still some time away (possibly 2015). In the meantime the old age pensions are increased each year at budget time more or less in line with inflation. At budget time the Minister of Finance also allocates an increasing amount to provide for a decrease in the qualifying age for men. Previously the qualifying age for the benefit was 60 for females and 65 for men. The intention is to stop the discrimination and make the retirement age 60 for this purpose. This obviously places a burden on South Africa's ability to pay an increasing pension to an increasing number of individuals. This has led to the **proposals on social reform** which will be funded by specific payroll deductions. There are many stumbling blocks to the implementation being:

- what rules will apply to employers being able to contract out of the state arrangement;
- South Africa has an extremely high unemployed population and a fairly high turn-over of employees, thus on retrenchment or dismissal such staff utilize their cash termination benefits to survive;
- the large (untaxed) informal sector.

South African society is a mix of a well-established first world component and a large third world component. The latest survey indicates that just less than 50% of retirement fund members will die before they retire. Death benefits are therefore of considerable importance.

There are many companies that currently offer no benefits to staff and which consider implementing a retirement fund benefit so that they at least have the option to contract out when or if the Social Reform legislation is passed.

On the positive side South African retirement funds assets now exceed R2 trillion (about 60% of Gross Domestic Product). These funds are highly regulated and well managed by professional fund administrators or insurance companies.

SOUTH KOREA

Retirement Pension Plans were introduced by law from 1st Dec. 2005. By the end of September 2010, accumulated reserves for retirement pension amounted to KRW 20.3 trillion, made up of KRW 13.6 trillion for defined benefit plans, KRW 4.2 trillion for defined contribution plans and KRW 2.5 trillion for individual retirement accounts. 83,160 companies had introduced plans, mostly on a defined contribution basis, with 1,837,445 members. The scale of reserves is estimated to grow to KRW 80 trillion in 2015 and KRW 149 trillion in 2020.

The taxation of retirement pensions is to be changed from 1 January 2011. First, the income deduction limit for retirement pension and retirement saving contributions will increase from KRW 3 million to KRW 4 million. Second, the deduction for the retirement lump sum allowance will reduce from 45% to 40%. Third, the limit for internal pension reserves will be reduced by 5% a year from 2016 in order to encourage external funding.

SPAIN

The Spanish government is considering **a number of proposals aimed at increasing the actual retirement age closer to the legal retirement age.** Rather than early retiring employees, the government is looking for ways to reduce employment risks and to encourage a flexible timetable during the last years of employment. The government is also considering limiting staff reductions in profitable companies and giving companies an obligation to co-finance the costs arising from the early withdrawal from the job market.

The government also wants to stop wrongful dismissal being used to enhance retirement. This would be achieved by restricting the pre-retirement contracts law 40/2007 to those employees that are outside of collective negotiations, and establishing clear commitments by employers.

Along with these measures **the government is proposing to increase the retirement age from 65 to 67.** This change would be implemented gradually and would not start before 2013.

SWITZERLAND

Since its introduction in 1985 the second pillar market has grown to a volume of over CHF 700 billion and represents an important part of Swiss retirement benefits. The conversion rate for pension in defined contribution plans is determined to reflect demographic as well as investment management basics. At the end of last crisis in 2003 a reduction in the conversion rate from 7.2% to 6.8% was agreed with a transition period of 10 years (up to 2014). However, the transition period was not completed as a result of the crisis in 2008, when the government recommended a further decrease in the conversion rate to 6.4%. **The Swiss electorate rejected the proposal**, by a vote of 73.5% against. The effects of this are still uncertain. Most insurance carriers and pension funds are trying to adopt strategies to prevent structural deficits.

As a result of inflation, in January 2011 the maximum AHV old-age pension (1st pillar) will increase from CHF 27,360 to 27,840. This will increase the BVG-salary cap (2nd pillar) from CHF 82,080 to 83,520.

UNITED KINGDOM

Historically, the state pension age has been 60 for women and 65 for men. From April 2010 to November 2018, the state pension age for women is increasing to 65. **From December 2018 to April 2020, the state pension age for men and women is increasing to age 66.**

There are proposals to remove the default retirement age (currently 65) from October 2011, so that employers will no longer be able to require employees to retire at that age.

From April 2011, there will be a 'triple guarantee' on increases in the basic state pension, and the pension will increase each year by the higher of earnings, inflation (using retail prices for 2011 and consumer prices from 2012), or 2.5%.

The main rate of social security contributions will increase by 1 per cent from April 2011 to 13.8 per cent for employers and 12 per cent for employees.

Tax relief on contributions to private money purchase pension plans is to be reduced from GBP 255,000 to GBP 50,000 a year from April 2011 (the "annual allowance"). For defined benefit schemes, the capital conversion factor will increase to 16:1. Tax relief will still be available at an individual's marginal rate (up to 50%), up to the available annual allowance. The maximum tax exempt pension fund (the "lifetime allowance") will be reduced from GBP 1.8 million to GBP 1.5 million, from April 2012.

From 2012, the government is planning to phase in a mandatory National Employment Savings Trust (NEST) for employees who are not members of a company pension scheme. Mandatory contributions will be required for employees earning more than the earnings threshold for income tax (GBP 7,475 from April 2011). By October 2017, the total minimum contribution level will be 8%, with employers contributing at least 3%.

UNITED STATES OF AMERICA

The Internal Revenue Service has announced **the 2011 contribution limits for employee savings and employer contributions to employer sponsored retirement plans (popularly known as 401(k) savings)**. For the third year successive year there is no increase in the annual contributions employees and employers may make to their employer sponsored retirement plans. This is a direct reflection of the low inflation rates over the past two years in the USA economy.

- 2011 employee tax advantaged contribution limits, \$16,500 plus additional \$5,500 for employees age 50 or older.
- 2011 employer tax advantaged contribution limit to an employee account under a defined contribution plan, \$49,000.
- 2011 employer provided maximum annual retirement benefit under a defined benefit pension plan; \$195,000.

- 2010 (2011 not yet announced) USA government guarantee of private sector annual defined benefit pension payments; \$54,000 (for individual straight life annuity).

The Social Security Administration (SSA) has announced that there will be no cost of living adjustment (COLA) for 2011 to the monthly retirement payments. Currently there are 58 million US citizens receiving monthly pension benefits.

The SSA COLA is based on the USA Bureau of Labor Statistics Consumer Price Index (CPI) changes for urban wage earners. From the third quarter 2008 through the third quarter 2010 there was reported no CPI increase.

- 2011 SSA full retirement eligibility age: Birth date between 1943-1954, age 66.
- 2011 SSA full retirement eligibility age: Birth date, 1960 or later, age 67.
- 2011 SSA individual maximum wages subject to SSA contributions; \$106,800.
- 2011 SSA employee contribution rate; 6.2%.
- 2011 SSA employer contribution rate, 6.2%.

FURTHER INFORMATION

For further information about IBN or any other issues raised please contact the Secretariat of IBN or the local IBN contact.

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