Global Retirement and Pensions Newsletter

Quarter 1, 2022

Netherlands

Pensioenakkoord

Upcoming pension reforms ('Pensioenakkoord') will result in a major transformation of the current pension system. Consequently, almost all organisations will have to drastically change their pension plan and funding in line with the changes in tax and social legislation.

Employers need to work on their preferred solutions and prepare for tough negotiations with labour unions or the works council. The changes are complex and employees will likely demand compensation for any setback in their expected pensions. The changed funding rules and the expected demands for compensations can significantly increase pension costs putting pressure on broader benefits negotiations.

The potential impact on pension costs varies per organisation but could be up to €2,000 per employee per year. Employers will need to enter into negotiations with its pension provider to execute the new pension contract and any compensation measures.

PwC's view is that organisations should deal with the challenges of the reforms as part of their total rewards strategy. PwC offers a "Quick scan" which provides a snapshot of the current pension situation and highlights necessary changes.

For more information on Pensioenakkoord, please click here.

Indonesia

Omnibus Law

In November 2020, the Indonesia Omnibus Law on job creation was passed by the government of Indonesia. It is designed to strengthen the economy by increasing competitiveness, creating jobs and making it easier to do business.

The Omnibus Law still retains the same complexities around the termination process as the old Labor Law and has added a further layer of difficulty relating to the exceptions for overtime payment. However, employers will be glad to know that a fixed term contract (FTC) may now be entered into a longer initial term. Payment for early termination of an FTC and severance payments for certain termination grounds were also considerably reduced.

Prior to the enactment of Omnibus Law, termination payments under Indonesian old labor law comprised of three components: severance payment, service payment and rights compensation payment. The Omnibus Law reduces the entitlement to the rights compensation payment while the service payment component remains unchanged. The new regulation only retains the same severance pay of 2 months' salary per year of service in death payout and disability payout in comparison to the old Labor Law.

Switzerland

1e pension plans

The development of Swiss 1e plans gained momentum following a change in the law that means these can be accounted for like defined contribution plans (please click here to read more about 1e plans). A growing range of third-party providers now offers employees a choice of investment strategies for their retirement assets. PwC's recent survey asks the largest providers of Swiss 1e pension funds about their offerings and future expectations for the market. The key findings are:

1. The 1e market is expected to be worth more than CHF 10 billion in five years' time
2. Many choose a low-risk investment strategy, which can lead to negative returns
3. 1e funds are investing less in real estate investments, with more in cash and bonds
4. Buy-ins to 1e plans are significantly higher than in traditional pension funds
5. Almost all participating pension funds now offer online-based tools to interact with members
6. General administrative costs are slightly higher than in traditional pension funds

Please click here to find out more.

United Kingdom

Inflation strategies

Defined Benefit (DB) schemes in the UK have £550bn tied up in government bonds (gilts) linked to the retail price index (RPI), making up the bulk of the whole index-linked gilt market. Most pension scheme benefits are linked to inflation to some extent, meaning there is a strong desire to cover that exposure, whether by directly investing in inflation-linked assets or other approaches. However, the total UK DB pension asset base is £1,800bn, far outstripipping the supply of index linked gilts.This supply and demand imbalance is leading to these assets now delivering a negative real return.

PwC analysis shows that a pension scheme would have had to invest around £170 in a 20-year index-linked gilt to receive just £100 on maturity in today's terms. This would deliver a negative real return of -2.5% per year.

Schemes should also look again at the inflation forecasts underpinning their funding and investment targets. The market may not currently be a good predictor and this affects a whole raft of decisions for trustees and company sponsors. Of course, it's important to take a holistic approach and weigh up the costs and risks of protecting themselves against inflation volatility.

Please click here to find out more.

United States

Financial Wellness

PwC's latest Employee Financial Wellness Survey of 1,600 full-time employed US adults found that many employees are experiencing deep financial strain.

PwC's publication suggests four steps that employers should take to strengthen workforce financial wellness.

1. Make the business case for supporting employee financial health
2. Recognize what's happening at home
3. Leverage momentum to promote good financial habits
4. Implement a technology solution paired with human interaction and guidance

Please click here to find out more.

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PwC Retirement & Pensions were independently rated #1 for Client Impact and #1 for Depth of Capability globally. Please click here to find out more.