



BJA Seminar
2nd pillar pension system

Comparison between Japan
and main EU countries

February 2023



Building a better
working world

Agenda

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schematic
presentation

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Quick
comparison

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Introduction

Pension system should be considered as a whole

Occupational pension systems vary widely across countries.

The 2nd pillar pension is deemed to complement the 1st pillar pension system in place, leading to differences in benefits and design depending on the legal pension granted. Benefits can be linked to the level of the salary, the retirement age, the credited service within the company, etc.

Design of the pension plan

- Defined Contribution
- Defined Benefit
- Cash Balance

Financing vehicle

- Insurance contract
- Pension fund
- Book reserves

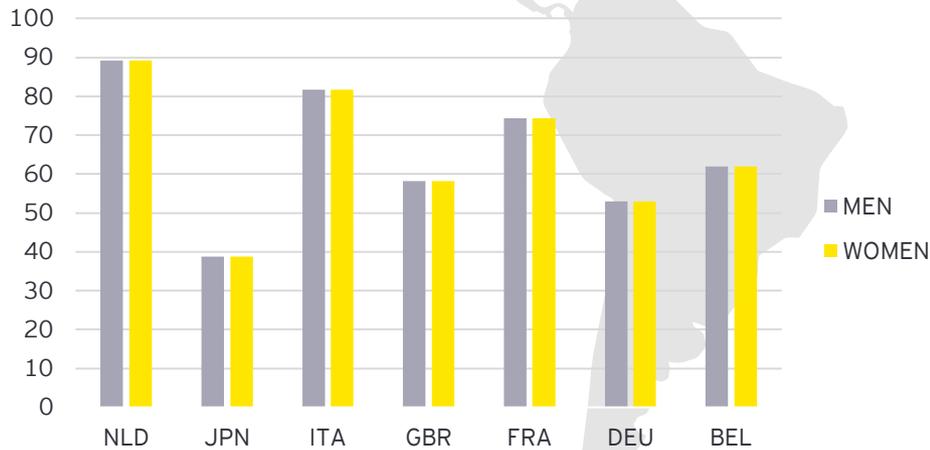
Accounting standards

- ASC715
- IAS19
- BE GAAP
- JGAAP

Characteristics

- Retirement age
- Benefit formula
- Rate of return
- Payment form

Net replacement ratio in % of the pre-retirement average earning¹



¹ OECD Data, 2020

Belgium schematic presentation

Retirement age

65

increasing towards 66 and 67

Voluntary

Sector

Political will to introduce a minimum contribution of 3% of the salary

Financing

EXTERNAL

Collective or individual

Legal specifications

1.75%

Legal minimum rate of return

Type of plans

DC, CB
and DB

Increasing number of CB plans

Market Discussion

- ▶ Pension ceiling
- ▶ Pension reform
- ▶ Fiscal reform

Belgium

Retirement age
65 increasing towards 66 and 67

Type of plans
DC, CB and DB
Increasing number of CB plans

Financing
EXTERNAL

Voluntary Sector
Political will to introduce a minimum contribution of 3% of the salary

Legal specifications
1.75%
Legal minimum rate of return

Market Discussion

- ▶ Pension ceiling
- ▶ Pension reform
- ▶ Fiscal reform

Japan

Retirement age
65
possible as from 60

Type of plans
DC, DB and CB
Increasing number of DC plans

Financing
EXTERNAL
INTERNAL

Voluntary + Retirement allowance plan

Legal specifications
Release of the limit of DC plans

Market Discussion

- ▶ Stabilization Act
- ▶ Selective DC

France

Retirement age
65
possible as from 62

Type of plans
DC
DB for retirement indemnity

Financing
EXTERNAL
INTERNAL

Mandatory National Sector Retirement allowance plan

Legal specifications
Voluntary plans are possible

Market Discussion

- ▶ Pension reform on retirement age

The Netherlands

Retirement age
67.25

Type of plans
DC
DB In the past

Financing
EXTERNAL

Mainly mandatory Sector
90% coverage

Legal specifications
New pension reform

Market Discussion

- ▶ Pension reform on pension plan

Germany

Retirement age
67
possible as from 62

Type of plans
DB
Increasing number of pure DC plans

Financing
INTERNAL
EXTERNAL for DC plans

Voluntary
Increasing coverage towards 60%

Legal specifications
0.00%
Riester pension legal minimum rate of return

Market Discussion

- ▶ Externalization of pension financing

Italy

Retirement age
67

Type of plans
DC / CB plans

Financing
EXTERNAL

Mainly mandatory TFR transformation

Legal specifications
1.50% + 75% CPI

Market Discussion

UK

Retirement age
66 increasing towards 7

Type of plans
DC plans
88% coverage in 2019

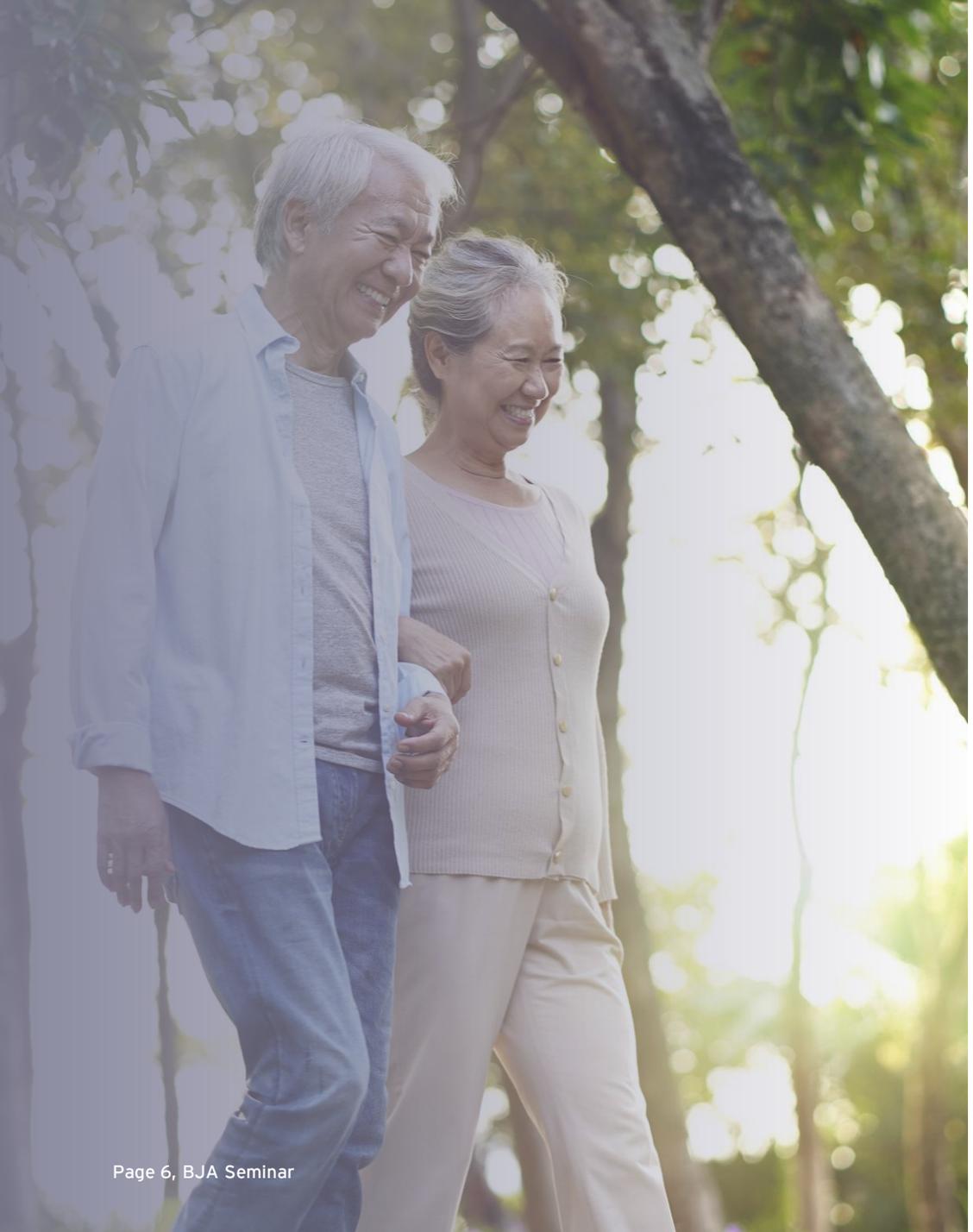
Financing
EXTERNAL

Mandatory Auto-enrollment

Legal specifications
8%
Minimum contribution rate in 2019

Market Discussion

- ▶ Buy-ins
- ▶ Buy-outs



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The pension landscape is constantly evolving. The role of a consulting actuary is to optimize the balance between the risks and revenues, seeking to provide workers with sufficient income after their active work life.

Appendix

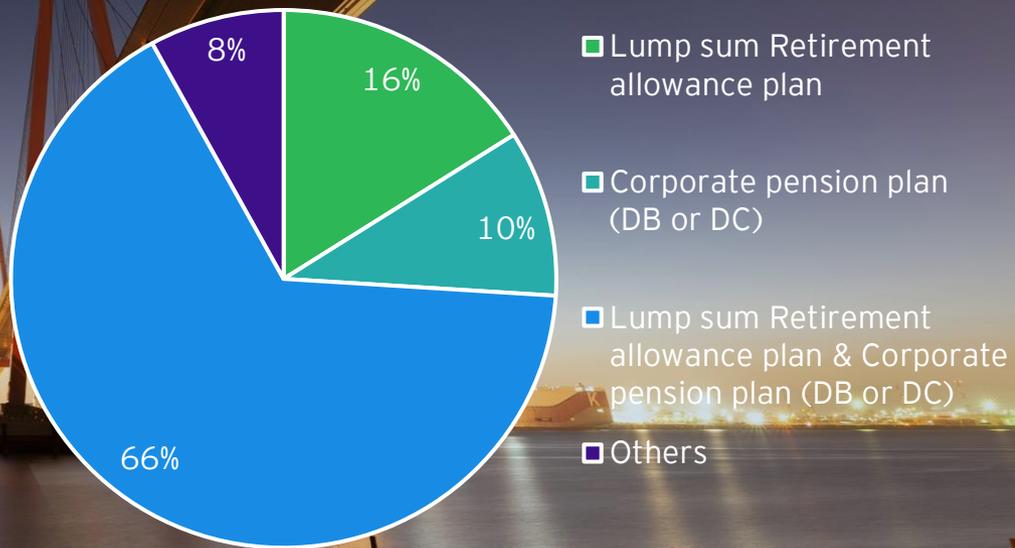


Japan

1

17.8%¹
Occupational
assets as a %
of GDP

Type of plan in force (2021)



- ▶ Aside the state pension system, Defined Benefit and Defined Contribution corporate pension plans are typically provided. Another classic benefit granted in Japan is the retirement allowance plan. While the pension plans are typically externally funded, the retirement allowance plans are not.
- ▶ In 2021, **76% of companies** had at least 1 corporate pension plan in force. **70% of the companies that implemented a pension plan recently did opt for a DC plan**, while this ratio was around 50% ten years ago.
- ▶ The benefit granted at retirement under such corporate plans is slightly decreasing over time.
- ▶ **The plans themselves vary, from a salary proportional system to a flat amount or points granted depending on the years of service, functions, etc.**
- ▶ The point system gains more and more popularity.
- ▶ **The new legislation implemented in 2022** aimed at reforming the DC plans by changing DC contribution sub-limits and relaxing individual DC plan (“iDeCo”) participation requirements for workers contributing to DC company plans. The government looked to relax the DC contribution structure under one overall limit with flexible sub-limits by plan or contributor as long as the overall maximum of JPY 55k is not exceeded. Note that no limits are in force for the DB plans.
- ▶ **The Act on Stabilization of Employment of Elderly Persons** obliges employers to provide employees with employment opportunities up to the age of 65, as well as to make efforts to secure employment opportunities up to the age of 70, while the traditional retirement age is 60.
- ▶ In these cases, a **selective DC plan** might be implemented, allowing the workers to carve out part of their salaries in a DC plan after 60.

Belgium

2

9.5%¹
Occupational
assets as a %
of GDP

“
A delicate
combination of
HR, financial,
accounting, legal
and fiscal
aspects.”

- ▶ The occupational pension system in Belgium allows for **DB, DC and CB plans**. In 2021, 84%² of the company pension plans were DC plans. We observe an **increasing trend to institute CB pension plans**. Such plans are expressed as a DC plan although they are managed like a DB plan, allowing more flexibility in the financing method. All company pension plans are **financed externally**.
- ▶ **Sector pension plans** are organized by Collective Labor Agreement (CLA), foreseeing a minimum pension plan and usually allowing a company to opt out from the sector arrangement under specific conditions.
- ▶ The retirement age is 65 although it will be increased towards 66 in 2025 and 67 as from 2030.
- ▶ Closing fully a DB plan remains difficult as the Law on Supplementary pension introduced the **dynamic management**, allowing the salary increase to be reflected in a DB plan closed to new accruals.
- ▶ In addition, the legislation defines a **legal minimum rate of return on both employer and employee contributions**, mainly applicable to DC and CB plans.
- ▶ This legal minimum rate of return has been revisited in 2016. Since then, it equals its minimum level of **1.75%**. Considering the current financial market evolution, and the fact that the minimum rate is based on the Belgian government bonds, the market expects an increase in the near future.
- ▶ **A revision of the evolution of the state pension ceiling was published in a Royal Decree in August 2021**. This change impacted the 2nd pillar pension plans that defines the retirement benefit/contribution based on this ceiling.
- ▶ Due to the fiscal treatment, currently the majority of the benefits are paid as a lump sum, although the government is aiming to promote the annuity payments.

France

3

- ▶ In France, there are **mandatory and voluntary** occupational pension systems.
- ▶ The mandatory systems are the **AGIRC** for white collar workers and **ARRCO** for blue collar workers. Both are Defined Contribution plans negotiated at national level.
- ▶ The contributions are defined as **a % of the salary below and above the social security ceiling**, up to a certain maximum. These contributions are converted into pension points whose values evolves over time until the retirement age. Benefits are generally paid as **annuities**, but can be liquidated as lump sum under certain circumstances.
- ▶ While the retirement age is 65, benefits are payable as from age 62.
- ▶ Recently, France is willing to implement a pension reform aiming to increase the retirement age by 3 months for each year of birth after 1961 up until 64 with a contributing career of 43 years.
- ▶ In addition, companies usually pay a **retirement indemnity/allowance** which is determined by CLA.
- ▶ Companies can introduce a voluntary company plan. These can be **DB or DC plans**. These plans were revisited in 2019, introducing a favorable fiscal treatment, flexibility of the payment form, etc. Under such plans, employees can opt for a certain percentage of their salary to be invested, employers can match up to 3 times the employees' contributions limited to a fixed amount per year. Transitional measures towards this new system were in place until 01/01/2023.

0.7%¹
Occupational
assets as a %
of GDP

“
Effective
mandatory
system in place.”

The Netherlands

4

- ▶ In the past, the pension plans in The Netherlands were traditionally DB plans foreseeing annuity payments, possibly indexed on a conditional or unconditional base.
- ▶ The retirement age (AOW age) is linked to the life expectancy. Currently, for the workers born after 30/09/1961, it will be at least 67 years and 3 months.
- ▶ End of December 2022, a **new pension reform was agreed**. It is waiting for approval of the Senate. The reform will allow for :
 - ▶ **Solidarity Pension Scheme** foreseeing an equal premium for all workers under a collective investment policy (allowing for a different investment return depending on the age). Variable annuity payment will start at retirement age.
 - ▶ **Flexible Pension Scheme** foreseeing an equal premium to all workers with individual pension assets according to investment & risk profiles (life cycle). Variable or fixed annuity payment will start at retirement age.
 - ▶ **Premium Annuity Scheme**, similar to the flexible pension scheme although it needs to start at least 15 years before the AOW age.
 - ▶ **Transitional arrangements** for existing participants exist and allow an age depending premium scale. **The new legislation should be applied at the latest on 01/01/2027.**
 - ▶ While companies were already transitioning from DB to DC plans, this new legislation will force this change. The new legislation will be possible to implement under pension funds and insurance contract arrangement except for the premium annuity scheme for which insurance contracts are solely possible.

“
Rapid increase of
DC pension plans
due to the new
pension reform.”

Germany

5

“
Annuity
payments are
common, pension
plans are often
financed through
book reserves.”

- ▶ The 2nd pillar pension system in Germany is organized as a **collective pension scheme**, to which workers contribute through their employers. Usually designed as a supplement to the state pension plan, company pensions are becoming increasingly popular in Germany, with a **coverage of around 60%**. While these plans remain a company decision, considering the fiscal advantage, companies often opt for their institution. The retirement age is 67 while early payments are possible as from 65. **100% lump sum payments are usually not possible, annuities are the traditional form of payment.**
 - ▶ Riester pension plans are popular, these are state-subsidized pension plans under which the employer guarantees a legal minimum rate of return of 0%.
 - ▶ There are different types of company plans in Germany: Direct Insurance, **Direct Grant (book reserves)**, Support Fund, Pension Company and Pension fund.
- The companies can therefore finance their pension plan via book reserves or externally.
- ▶ The main types of plans are:
 - ▶ the Direct Insurance, which means that the company arranges a life and pension coverage for the workers;
 - ▶ The Direct Grant, in which the employer promises to provide a pension benefit to his workers.
 - ▶ The Pension Company, which implies that the employer pays the contributions to a pension scheme operated by a specialized association which itself then pays the employees' pension. It occurs that the company itself organizes a pension fund to finance its pension plan.
 - ▶ Since 2018, **pure DC plans are permitted**, together with the classic DB plans under specific conditions, while in the past a minimum guaranteed interest rate was to be provided by the employer.
 - ▶ The employer should match the employees' contribution and the auto-enrollment rule has been adopted.
 - ▶ Since 2019, employer contributions must equal at least 15% of the employees' sacrificed amount.

Italy

6

- ▶ The company pension plans are not mandatory. These company plans can be implemented through **pension funds or insurance contracts** and have to be based on the **Defined Contribution method**. Contractual pension funds are independent legal entities from the sponsoring entity and are not allowed to manage their assets directly: the governing board must delegate such activity to professional managers.
- ▶ The retirement age is 67 with a minimum of 20 years of contributions.
- ▶ There are supplementary occupational plans. They consist of both open funds and closed collectively agreed funds. The closed funds can be funded by both employers and employees as well as from the transformation of **TFR (Trattamento di Fine Rapporto - private severance pay)**. The TFR is mandatory.
- ▶ Indeed, the Law instituted as from 01/01/2007 provides that employees have to choose whether to invest their TFR in a pension plan or to keep it in their firm. The 2007 Budget Law No. 296 provided that if an employee does not choose to transfer the TFR into a pension plan, the TFR will remain in the firm (if the firm has less than 50 workers) or will go to INPS - National Social Security Institute - (if the firm has more than 50 workers), with no changes in employees' rights.
- ▶ The open funds provide an annuity based on contributions.
- ▶ The current **TFR contribution rate is 6.91% of gross salary**. The invested funds are capitalized each year with the **application of a fixed rate of 1.5% and a variable component, equal to 75% of the annual increase in the consumer-price index**.

8.3%¹
Occupational
assets as a %
of GDP

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The TFR was
transformed in
January 2007.

UK

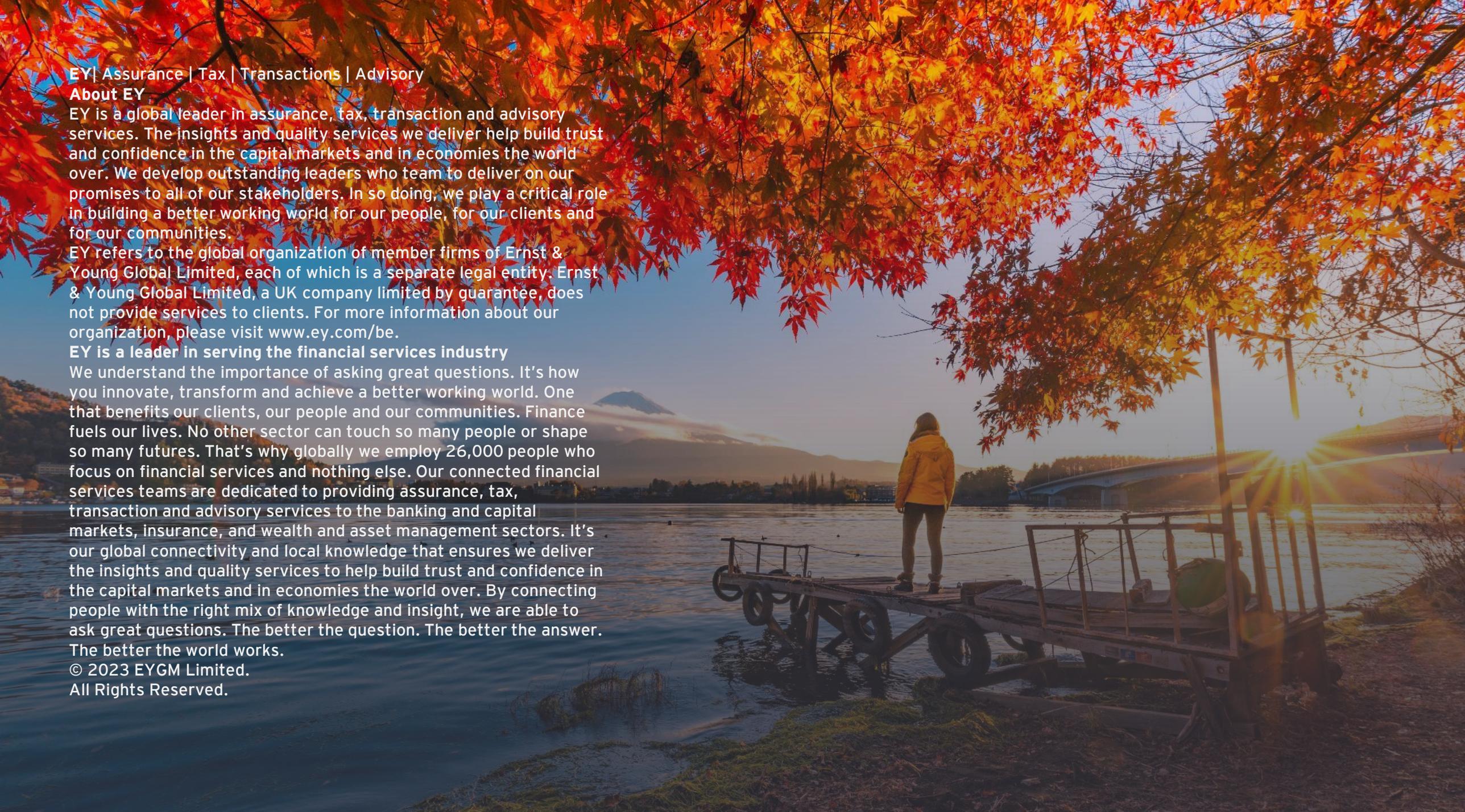
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123.6%¹

Occupational
assets as a %
of GDP

“
The majority of
the pension plans
are DC plans.”

- ▶ UK pension plans can be **both DB and DC plans**, although the **DB plans are decreasing from one year to the next**. The plans are usually externally managed by professional **trustees**.
- ▶ The number of workers covered by occupational pension plans gradually fell until 2012, when **the auto-enrolment** has more than doubled the coverage rate, from 40% in 2012 to **88% in 2019** among eligible employees. Though those earning less than GBP 10,000 per year and the self-employed are not auto-enrolled.
- ▶ State Pension age is currently 66 years for men and women as of October 2020, rising to 67 years between 2026 and 2028. The government has made provision for regular reviews of state pension age, to take into account changes in life expectancy and other relevant factors.
- ▶ Minimum contribution rates have increased from 3% in 2012 to **8% in 2019**, of which employers pay a 3% rate.
- ▶ To support automatic enrolment, the government established the National Employment Savings Trust, a trust-based occupational Defined Contribution scheme, to ensure that all employers are able to access a good quality, low cost pension scheme.
- ▶ Companies are contemplating possibilities to withdraw DB plans from their balance sheet by means of buy-outs or buy-ins, leveraging on the market returns.
- ▶ The Pension Scheme Act that passed in 2021 provides the legislative framework for “Collective Money Purchase” (CMP) schemes in the UK. These plans are DC pension plans.
- ▶ This Act strengthens as well the governance around such pension plans. Initially, only schemes for single-employer or for several connected employers are allowed, but eventually there is room to expand to multi-employer schemes.

A person wearing a bright yellow jacket stands on a wooden dock extending into a calm lake. The scene is captured at sunset, with the sun low on the horizon, creating a warm, golden glow. The sky is a mix of soft pinks, oranges, and blues. In the background, a bridge spans across the water, and distant mountains are visible under the twilight sky. The foreground is dominated by the dense, vibrant autumn leaves of a tree, which are in shades of red, orange, and yellow, framing the top and right sides of the image. The overall mood is peaceful and contemplative.

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