INTERNATIONAL BENEFITS NETWORK

Global legislative update – January 2017

This document summarises recent legislative developments and trends related to employee benefits and highlights recently passed and pending legislation that may require employers to take action to comply with new rules.

This document should not be seen as exhaustive and any action should be taken in conjunction with your Global Benefits Consultant.

About International Benefits Network

IBN is a network of independent employee benefits consulting firms in over 70 countries around the world. IBN provides member firms and their clients with access to international employee benefits expertise. We select the best consultants to provide services for each specific market, and we promote global standards in employee benefits consulting.

Members offer a range of retirement and benefits services, as relevant in their country:

- Pension and retirement plans
- Health care plans
- Insurance programs
- Life and disability insurance

And many more…

We do business where you do business!

Countries covered in this update:

Americas:, Canada and the United States
Asia Pacific: China and Indonesia
Europe: France, Germany, Switzerland, Turkey and the United Kingdom
Middle East: Israel and Saudi Arabia

Recent developments summary

Canada	Employers should be aware the Employment Insurance (EI) waiting period has been reduced from the current 14 days to 7 days. Employers wishing to continue to qualify for EI premium reduction must set up short term disability plans that have no more than 7 days waiting period.
China	The Ministry of Human Resources and Social Security started to pilot Long-term Care Insurance in 15 cities nationwide from July 2016 with funds financed by the community. The pilot programme will cover employees who subscribe to the state-run basic medical insurance scheme.
France	In 2017, employers should make sure that their compulsory occupational health plans are compliant with the new legislation (50% minimum employer contribution and minimum levels of cover) in order to benefit from tax advantages by 2018.
Germany	Employers should start the process to review their pension plans following the release of EU Mobility guidelines for Germany where the vested entitlements will be increased from 1 January 2018. From 2017, employees will be able to retire early and work part-time, or work for longer than age 67. Employers may also want to assess the impact of the extra bank holiday and increased minimum wage on their business. New legislation: Occupational pension improvement act
Indonesia	Companies should be aware of the minimum wages set by the government and make sure they are compliant with the legislation.
Israel	Payroll managers should be aware the mandatory contributions to occupational retirement plans to increase and take necessary actions to adjust the employer contribution level to ensure the company is compliant to the new legislation.
Saudi Arabia	Employers should be mindful of the new regulations released by the Council of Cooperative Health Insurance (CCHI), Health Insurance Regulator in the Kingdom of Saudi Arabia (KSA) that all applicants for tourist visas or business visas to the KSA must submit a certificate of local insurance that includes the necessary health benefits for the application.
Switzerland	Pension managers should review the current pension plans and take necessary actions for employees with salaries above the maximum threshold of CHF126,900 following the elimination of minimum guarantees to ‘1e’ plans. Employers should also note the forthcoming Pension Reform.
Turkey	Turkey’s parliament has approved a new law that will require workers under 45 years old to be automatically enrolled into a private pension plan effective from 1 January 2017.

United Kingdom	Companies should be aware of the Employment and Support Allowance reduction and the announcements in the Chancellor‘s autumn statement affecting pensions, employee benefits, tax and National Insurance.
United States	Employers should note the Pension Plan Limits for the Tax Year 2017 and the proposed rules for addressing opt-out arrangements and affordability released by IRS.

Canada

Employment Insurance (EI) waiting period reduced from 14 days to 7 days

On June 22, 2016 Federal Budget changes to the Employment Insurance (EI) Act reduced the EI benefits, including sickness benefits, and reduced the waiting period from the current 14 days to 7 days.

Employers wishing to continue to qualify for EI premium reduction must set up short term disability plans that have no more than 7 days waiting period. The EI benefits duration is not impacted by this change.

Employers who coordinate EI sickness benefits with an LTD plan should structure their Long Term Disability (LTD) programs so that LTD benefits begin only after an employee exhausts EI sickness benefits, or after an elimination period of 17 weeks or 119 days. With the reduced waiting period starting January 1, 2017, EI sickness benefits will now run out at 16 weeks or 112 days, leaving a gap of one week before LTD benefits commence.

We expect insurers will require an LTD premium adjustment for employers choosing to shorten the LTD elimination period from 119 to 112 days. As a consequence, employers will have to weigh their options in an effort to achieve the right balance between cost and potential financial hardship for employees

United States

Pension Plan Limits for the Tax Year 2017

On October 27, 2016, the Internal Revenue Service (IRS) announced cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2017. Many major limits have remained unchanged from 2016. Highlights include the following:

Item	IRC Reference	2016 Limit	2017 Limit
401(k) and 403(b) Employee Deferral Limit [1]	402(g)(1)	$18,000	$18,000
457 Employee Deferral Limit	457(e)(15)	$18,000	$18,000
Catch-up Contribution [2]	414(v)(2)(B)(i)	$6,000	$6,000
Defined Contribution Dollar Limit	415(c)(1)(A)	$53,000	$54,000
Defined Benefit Dollar Limit	415(b)(1)(A)	$210,000	$215,000
Compensation Limit [3]	401(a)(17); 404(l)	$265,000	$270,000
Highly Compensated Employee Income Limit [4]	414(q)(1)(B)	$120,000	$120,000

Key Employee Officer	416(i)(1)(A)(i)	$170,000	$175,000
Social Security Taxable Wage Base		$118,500	$127,200

[1] Employee deferrals to all 401(k) and 403(b) plans must be aggregated for purposes of this limit.

[2] Available to employees age 50 or older during the calendar year.

[3] All compensation from a single employer (including all members of a controlled group) must be aggregated for purposes of this limit.

[4] An employee who earns more than $120,000 in 2017 is an HCE in 2018.

Proposed rules for Addressing No.4980H(b) Opt-out Arrangement Affordability for health insurance were released by the IRS

On July 8, 2016, the IRS released proposed rules addressing the relationship between opt-out arrangements and affordability for purposes of subsidy eligibility through a public Exchange and potential No.4980H(b) penalties.

The proposed rules are effective for plan years beginning on or after January 1, 2017. For purposes of compliance with §4980H(b) requirements, employers are not required to consider opt-out payments prior to plan year 2017, unless the opt-out arrangement was adopted after December 16, 2015.

For applicable large employers (ALEs) who currently offer opt-out arrangements as well as for those considering such arrangement for future plan years, so long as the arrangement meets the definition of an eligible opt-out arrangement, affordability will not be affected. For ALEs who provide an unconditional opt-out arrangement, if the employee contributions are not significant and/or the opt-out payment is small, it is unlikely to matter much; however, if the employee contributions are already on the border of not being considered affordable or the opt-out payment is significant, it may be necessary to make some changes.

Finally, for small employers (less than 50 full time employees), this guidance may still prove helpful to understand how opt-out arrangements offered may affect their employees' eligibility for subsidies through a public Exchange even if the employer is not actually subject to No.4980H requirements.

Asia Pacific

China

The Ministry of Human Resources and Social Security has started a Long-term Care Insurance scheme pilot

The Ministry of Human Resources and Social Security has decided to start a pilot programme for long-term care (LTC) insurance in 15 cities nationwide from July 2016.

The following cities were included in the pilot programme:

- Chengde City, Hebei
- Changchun City, Jilin Province
- Tsitsihar City, Heilongjiang Province
- Shanghai Municipality

- Nantong City& Suzhou City, Jiangsu Province
- Ningbo City, Zhejiang Province
- Anqing City, Anhui Province
- Shangrao City, Jiangxi Province
- Qingdao City, Shandong Province
- Jingmen City, Hubei Province
- Quangzhou City, Guangdong Province
- Chongqing Municipality
- Chengdu City, Sichuan Province
- Shihezi City, Xinjiang Production and Construction Corps

The pilot programme will cover employees who subscribe to the state-run basic medical insurance scheme. The pilot is expected to last one to two years.

An LTC fund will be set up in the pilot cities, financed by the community. The amount of financing to be raised will depend on local economic conditions, demand for LTC, and the costs of providing LTC services. The ministry will allow the pilot cities to decide whom to cover under LTC insurance and the extent of coverage, depending on the LTC funds they can raise.

Currently, there is no national LTC insurance scheme in China.

Indonesia

Minimum wages set by the government

The Indonesian Government stipulates the regulation on minimum provincial wages (UMP).

The 2017 UMP for DKI Jakarta Province is Rp 3.355.750 per month effective from 1 January 2017 and applies to every employee.

As for sectorial province UMP (“UMPSP”) will be regulated later. The stipulation for UMPSP will be regulated based on agreement between company association and labour /worker union for each of respective sectors.

Company that is unable to exercise the UMP provision, may submit a postponement to Governor of DKI Jakarta through Manpower and Transmigration Institution of DKI Jakarta Province. Postponement to perform the UMP provision shall be submitted by 21 December 2016.

Under Article 185 of Law Number 13 of 2003 on Manpower, anyone who violates the UMP provision without a postponement shall be sanctioned with imprisonment for a minimum of 1 year to a maximum of 4 years with a fine of Rp 10.000.000,- 400.000.000.

France

Compulsory healthcare plans to be compliant with the new legislation by 1 January 2018

As outlined in an earlier legislative update, the new ANI legislation (Accord National Interprofessionel) and "right to health" took effect on 1 January 2016, meaning that all employers must now be providing an occupational health plan to all employees effective from 1 January 2016. The health plan will need to be compliant with the new legislation (minimum level of cover and 50% minimum employer funding) in order to be tax efficient.

Employers have up until 1 January 2018 to ensure a compliant health plan is put in place as the "portability" of rights and transition period ends on 31 December 2017. 2017 will therefore be a year of transition where employers need to ensure medical benefits will be compliant with the new legislation and make decisions on non-compulsory elements such as cover for dependants. However the economic situation in France is still fragile and cost effectiveness is expected to be a significant driver for employers' decisions.

Germany

Flexible Pension

In 2017, the new flexible pension model will become effective. This means individuals will be able to retire from 63 (under certain conditions) whilst still working part-time without their pension being cut as drastically as before. The reduction in pension will now be calculated based on 40% of any amount earned over the limit (currently €6,300). Voluntary contributions will be allowed from age 50, and in general an individual will be allowed to work later than the statutory retirement age (currently 65).

EU Mobility guidelines - impact on pension

The EU Mobility guideline will take effect from 1 January 2018. Key changes are:

- Vested benefit is increased by extending the age that it is applied from (21 instead of 25).The promise has been in force for at least three years (currently five years) at the time employment is terminated. Only Germany has adopted this regulation. Employers will need to cover the extra costs of additional vested entitlements, and extra administrative costs of implementing the change.
- The employers have an obligation to provide more information regarding the pension promises upon employees' request, which may lead to an increase in administrative costs as well.

Employers need to review their pension plans with their pension consultants and be prepared for the new requirements.

New legislation: Occupational pension improvement act

Merkel administration is pushing to establish this new law. While still in draft stage, it is intended to be effective in January 2018. Cornerstones:

Pure defined contribution pension commitment possible – meaning total relief for employer from any risks in financing the pension promise.

Statutory subsidy for employer financed pension benefits for employees with a monthly salary of below 2,000 euros. The employer will be refunded with 30 percent of his contribution when paying an amount of 240 to 480 Euros a year into a benefit scheme.

Doubling the tax- deductible amount of salary conversion into occupational pension schemes within the framework of §3, No. 63. Future deductible contribution over 6,000 Euros a year.

Employee will be granted to catch up missing contributions for out-of-work periods such as having been abroad or on maternal leave.

Additional bank holiday

From 2017, 31 October will become a bank holiday in all federal states, to mark the 500th anniversary of the Reformation in Germany.

Minimum wage increase

From 1 January 2017, the minimum wage will be increased from €8.50 to €8.84 (or higher in some sectors).

Switzerland

The long-term financing of the Swiss Social Security System as well as the Pension Reform 2020 is still being discussed by Parliament. The following legislative changes are proposed:

- **Pension Age -** From 2018, increase the pension age for women from 64 to 65 (matching the current pension age for men). From 2033, the retirement age could gradually increase to 67 for men and women.
- **Conversion Rate -** In order to determine a fixed retirement pension, insurers currently use a conversion rate of 6.8%. This conversion rate is determined by the Swiss government. It is planned that from 2021, the conversion rate would gradually decrease to 6%.
- **VAT rate -** Currently a rate of 0.3% is used for the financing of the disability state insurance (IV). As of 2018, the 0.3% will be used to finance the old age insurance (AHV), and from 2021, there may be another increase of 0.3%, totalling 8.3% (the current VAT is 8%). In 2035 and 2038, the VAT could get increased by another 0.2%.
- **Retirement contributions -** Retirement contributions and insured salary thresholds might get adjusted in order to make up for the lower conversion rates. Compulsory contributions may still start at 25 but go up to 9%, then to 13.5% from age 35 (currently 7%/10%/15%/18% for each age bracket).

Minimum guarantees to “1e” pension plans eliminated

The government has approved to eliminate the legal requirements for companies to guarantee the minimum amount invested in the ‘1e’ plans from 1 January 2017.

‘1e’ pension plans are a special arrangement enabling employees to choose an Investment strategy for their pension contributions based on earnings above CHF 126,900. These plans have been viewed as DB plans – this means the risks associated with this promise are accounted for on the employer’s balance sheet as substantial reserves.

From an accounting perspective, liabilities can now be reduced under IFRS and US GAAP as no guarantees will apply for the part above CHF 126‘900.

This also means that ‘1e’ plans will be more attractive for many employers that would previously not have considered offering them.

Following the changes to ‘1e’ plans, employers who have got employees with an income over CHF126,900 should review their pension plans.

- For employers who do not have ‘1e’ plans in place, they can consider offering ‘1e’ plans and potentially reduce their premium costs as well a reduce their contigent liabilities.
- For employers who have got ‘1e’ plans in place, they should discuss with pension experts and look at ways to reduce their risks and contingency on book reserves.

Interest rate reduced to 1%

In 2017, the guaranteed minimum interest rate on mandatory second-pillar pension contributions will be reduced from 1.25% to 1%. Employers should communicate the changes to their employees.

Turkey

Employees under 45 years old will be automatically enrolled in a private corporate pension plan as of 1 January 2017

Parliament has approved in its final reading, government-sponsored legislation that will require workers under age 45 to join a retirement savings scheme. Employers will be obliged to draw up retirement contracts for enlisting these workers into the Individual Pension System (BES). Employees will be expected to contribute about 3% of annual income (as defined in the social security system) to this scheme. There will be no mandatory employer contribution and employees will be free to opt out of the system after two months of joining. In the existing system, the government is matching the employee’s own contribution at 25% up to a ceiling pegged to the minimum annual wage. To promote the system, the government will make TRY 1,000 an additional contribution for each participant who does not opt out of the system. Many details of the initiative, including registration of providers and the scope of coverage, are yet to be determined. If the necessary regulations are published in time, the system will launch on 1 January 2017.

Key notes on Chancellor's Autumn Statement 2016

On 23 November 2016, the Chancellor Philip Hammond delivered his first Autumn Statement. Below summarises the main announcements affecting pensions and employee benefits, tax and National Insurance.

State Pensions

For the remainder of this Parliament the triple lock will remain in place, meaning that the State pension rises every year by the highest of price inflation, earnings growth or 2.5%.

Money Purchase Annual Allowance

The amount of money purchase savings that can be made into a registered pension scheme without triggering a tax charge is restricted to £10,000 p.a. for 2016/17. The proposal is that this will be reduced to £4,000 p.a. from 2017/18.

Foreign pensions

The tax treatment of foreign pensions will be more closely aligned with the UK's domestic pension tax regime by bringing foreign pensions and lump sums fully into tax for UK residents, to the same extent as domestic ones.

Measures also include:

- Closing specialist pension schemes for those employed abroad ('section 615' schemes) to new saving
- Extending from 5 to 10 years the taxing rights over recently emigrated non-UK residents' foreign lump sum payments from funds that have had UK tax relief
- Aligning the tax treatment of funds transferred between registered pension schemes
- Updating the eligibility criteria for foreign schemes to qualify as overseas pensions schemes for tax purposes.

Salary Sacrifice Arrangements

From April 2017, most salary sacrifice schemes will be subject to the same tax and National Insurance treatment as cash income.

However, there will exemptions to this change, notably arrangements relating to pension contributions and also for pension advice, childcare, cycle to work and ultra-low emission cars.

Arrangements in place before April 2017 will be protected for up to a year but a longer protection period of up to 4 years will apply for cars, accommodation and school fees.

Savings

The ISA limit (a savings account with a maximum amount where no tax is applied) will be increased from £15,240 to £20,000 in April 2017 and the band of savings income that is subject to the 0% starting rate will remain at its current level of £5,000 for 2017/18.

Termination payments

From April 2018 termination payments over £30,000, which are subject to income tax, will also be subject to employer National Insurance Contributions. The first £30,000 of a termination payment will remain exempt from income tax and National Insurance.

Tax-free Childcare arrangements

Tax-free Childcare will be introduced gradually from early 2017, with the roll out beginning upon completion of the trial.

Reforms to the taxation of non-domiciled individuals

The Government has stated that individuals who live in the UK and make use of public services should pay their fair share of tax. The reforms to the taxation of non-domiciled individuals include:

- Ending the permanency of non-domiciled tax status.
- Closing a loophole that has been used by non-domiciled individuals to avoid paying inheritance tax on their UK residential property.
- Changing the rules for the Business Investment Relief (BIR) scheme from April 2017 to make it easier for non-domiciled individuals who are taxed on the remittance basis to bring offshore money into the UK for the purpose of investing in UK businesses.

Personal taxes and National Insurance Contributions (NICs)

Income tax personal allowance – this will increase from the current level of £11,000 to £11,500 in 2017/18. The personal allowance is expected to increase to £12,500 by the end of this Parliament with increases after this expected to be in line with prices inflation (CPI) as opposed to increases in the National Minimum Wage.

Higher rate threshold increase - this will increase from the current level of £43,000 to £45,000 in 2017/18. The intention is that by the end of Parliament this threshold will be £50,000.

Corporation Tax – Corporation tax will decrease in line with previous announcements to 17% from 2020.

Insurance Premium Tax – Insurance premium tax (IPT) will increase from 10% to 12% from 1 June 2017.

National Minimum Wage rates – The National Minimum Wage rates which were last increased in October 2016 will increase from April 2017 as set out below:

- 21 to 24 year olds from £6.95 to £7.05 per hour
- 18 to 20 year olds from £5.55 to £5.60 per hour
- 16 to 17 year olds from £4.00 to £4.05 per hour
- apprentices from £3.40 to £3.50 per hour

National Living Wage – the National Living Wage for those aged 25 and over will increase from £7.20 to £7.50 per hour from April 2017.

National Insurance thresholds – the National Insurance secondary (employer) threshold and primary (employee) threshold will be aligned from April 2017, meaning that both employees and employers will start paying National Insurance on weekly earnings above £157.

Class 2 NICs (Self-Employed) – will be abolished from April 2018, simplifying National Insurance for the self-employed. Following the abolition of Class 2 NICs, self-employed contributory benefit entitlement will be accessed through Class 3 and Class 4 NICs.

Employment and Support Allowance reduced from 6 April 2017

In the July 2015 Budget the Chancellor announced that from 6 April 2017, applicants for Employment and Support Allowance (ESA) who are assessed as unfit for work but capable of work-related activity, will receive a lower level of State benefit, equivalent to Jobseeker's Allowance. This means those applicants who are entitled to the Work-Related Activity Component (WRAC) of ESA currently receive an annualised value of State Benefit of £5,312, but from 6 April 2017 that amount will reduce to £3,801. This is a reduction of approximately 30%.

This means the insured benefits will increase for employers who have a Group Income Protection (GIP) scheme with a fixed benefit deductible based upon the ESA plus WRAC, (e.g. 75% salary minus ESA and WRAC).

Employees who have got income protection in place will be impacted by this depending on their respective salary level as the current offset is a fixed amount.

Middle East

Israel

Mandatory contributions to occupational retirement plans to increase

Employers in Israel have been required to provide their employees with defined contribution pension arrangements since 2008. The minimum mandatory contribution rates to such arrangements from both employers and employees will be increased starting July 1, 2016. The government has also announced other changes that will affect employer and employee costs associated with occupational retirement plans.

The new percentage contribution rates for retirement benefit plans (pension funds and/or "Managers" retirement insurance policies and/or retirement provident funds) will be as follows:

Employee's contribution will be at least 6% (may vary up to 7.00% - according to individual option). The current rate is 5.75%.

Employer's contribution towards saving will be at least 6.5% (up to 7.50%) as compared to the current rate of 6.25%.

Compulsory insurance for visitors

The Council of Cooperative Health Insurance (CCHI) which is the Health Insurance Regulator in the Kingdom of Saudi Arabia (KSA) has issued new regulation stating that anyone obtaining a visitor or business visa to enter KSA must purchase local travel health insurance before travelling.

The directive states that the insurance must be purchased from a provider licensed in KSA and may only be bought through the KSA online visa application system. The system does not offer the option to 'opt out' with proof of outside or international insurance.

This new mandate does not change the requirement for residents in KSA to have compulsory local health insurance as it only applies to short-term visas. The visa application system offers users the choice of several local KSA providers' plans. The coverage of the plan is limited to SAR 100,000 (approximately US$ 26,000). After a user selects a plan, they will pay for both the cost of the visa and the cost of the insurance. It's estimated that the insurance plans usually cost between $70 and $300 (but can be more), for a short-term stay.