June 6th, 2006

International Issues in Pensions
- Round up of Developments

Agenda

- Background
- Trends and Pressures
- Key themes and developments
- Increased focus on solvency

Background

Overview

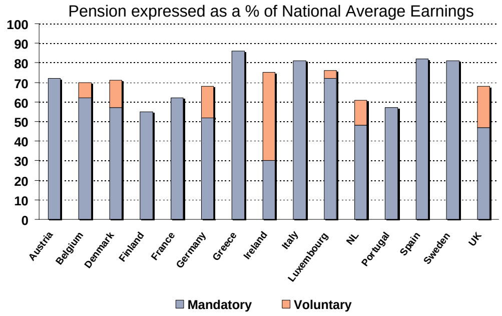
- Occupational benefits market differs from one economy to another
  - Relative size of pensions market
  - Form of benefit
  - Funding mechanisms
  - Solvency Protection

Country	Aus	Bel	Fra	Germ	Ire	Swe	Swi	UK	USA
Pension assets (€bn)	17.8	38.2	127.2	342	50.6	8.9	378	1,559	~9,700
Form of benefits	DB	DB	Stat	DB	DB/DC	DB	DB	DB/DC	DC/DB

1. Data from Mercer's European Pension fund Manager Guide, effective 12/2003
2. Assets ignore recent changes in cash flow (e.g. significant funding of German plan benefits)

Social security varies by country….

Pension expressed as a % of National Average Earnings



….with very little consistency of design

	Finland	Franc	Germany	Italy
Typical proportion of companies that provide this benefit	45%	40%	90%	20%
Mainly defined benefit or defined contribution?	90% DB	15% DB, 40% DB and DC, 15% DC	50% DB, 40% hybrid, 10% DC	100% DC
Typical beneficiaries	Execs and employees in key positions	Execs and "Cadres"	All employees	All employees
Typcial financing of benefit	Insurance policy	Insurance policy or bank	Book reserve combined with various funding vehicle	External pension fund (collective)
Trends	Increasing employee investment choice	New tax regulations simplify use of DC plans	Tax rules for DC plans starting to ease	TFR reform and encouragement of younger members of workforce to save

… and different solvency standards

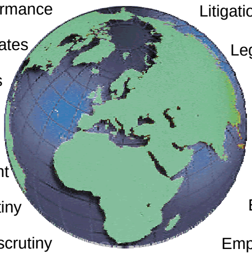
Country	Aus	Bel	Germ	Ire	Swi
Reserving Method	VBO	ABO + withdrawals + reserves for early ret.	VBO + approx. 4.5% cushion	ABO + revaluation	No MFR
Typical Discount Rate p.a.	3% to 4%	6%	2.75% - 4%	4.6% (pen-sioners); higher for non-pens.	
Inflation p.a.	n/a	n/a	n/a	2.5%	
Earnings escalation	n/a	n/a	n/a	n/a	

Excluded: Sweden (benefit schemes are insured & all risks transferred to insurer); France (there are no pre-funding requirements for employer sponsored DB schemes).

Source:Groupe Consultatif Pensions committee

Trends and Pressures

Global pressures



Global Pensions
Trends and Pressures

Blair fights back: Brown overruled on pensions
Scotland on Sunday, 2 April 2006

Turkish Daily News, 4 May 2006
Greece to begin debate on social security reform

FINNS SHOULD WORK HARDER, FOR LONGER, OECD SAYS
Reuters, 4 May 2006

Reuters, 17 April 2006
Cyprus needs pension system overhaul-finance minister

Global Pensions
Trends and Pressures

- Overall trend is for greater dependence on private plans and savings, as social security / mandated benefits are cut back
- Scheme design in any particular country also under heavy influences
  - Taxation
  - Statutory legislation
  - Regulatory funding requirements
  - Requirements of Collective Bargaining Agreements
  - Employee negotiation requirements
  - Competitive pressures

Key Themes & Developments

So what themes have emerged?

- **Legacy arrangements –** Handful of countries have organizations dealing with large legacy defined benefit plans.
  - These restrict business decision-making.
  - Mainly affects traditional industries [Germany, Ireland, Netherlands, UK, USA]
- **Recognition of retirement risk –** Has led to centralized corporate governance across Europe
- **Weight of social security –** Other countries have large (and rising) social security / mandatory costs. Affects all organizations within the country [France, Italy, Spain]
- **Union pressure** - Strength of unions / collective bargaining strong in Continental Europe [France, Germany, Italy]

And what do we expect of the future

- **Ongoing legislative changes**
- Continued **decline of DB plans** in nearly all countries. Move from "paternalism" to "empowerment" **–** Collective DC Plans?
- **Pan European pensions** (possible now but administrative obstacles currently)
- Significantly **increased European global mobility** (with pension consequences)
- **Consolidation of vendors** for certain services in order to obtain global efficiencies
- **Relaxation of restrictions on DC plans**, especially in Germany
- Eventual movement towards EET tax regime

Developments - multinationals

- Development of policy (balances corporate philosophy with market practice)
- HQ staff movement from consultative to directive role to align pensions with corporate objectives (affects funding, accounting, investment policy and design)
- Centralized risk management
- Improved information flow and supervision / monitoring of risks
- Global efficiencies
  - Asset pooling (Unilever, IBM & Nestle)

Developments - Pan-European Pensions

- Pan-European Pensions – Cross-Border Plans
  - Issues with solvency provisions for cross-border membership
  - Likely to mean that Pan-European DB plans will be unpopular
  - Cross-border DC plans already in place
- Providers believe that a package pension solution across the 25 Member States is unlikely to provide sufficient returns
- Insurance companies and investment houses are developing market offerings covering some markets
- Cross-Border Pooling
  - Luxembourg – SICAV vehicle
  - Ireland – CCF vehicle
  - Dutch -'Fonds voor Gemene Rekening'

Developments – European Portability Directive

- Portability Directive: Focus on increasing mobility of European workforce by making occupational pensions more portable
  - Acquisition rights
    - minimum age for eligibility for a pension of 21
    - Maximum vesting period of 2 years
    - Return of employee contributions
  - Preservation of vested benefits including indexation
  - Right to transfer value of benefits
- Costs of implementation of the Directive in its current form could be significant,
- Still in draft

Increased Focus on Solvency - learnings for the UK?

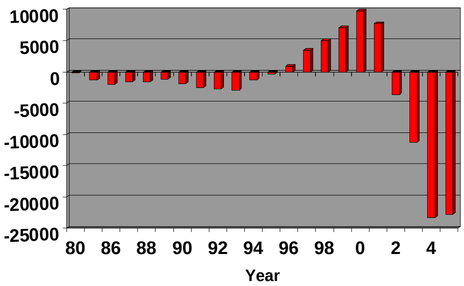
Solvency – USA style

- PBGC guarantees "basic benefits" earned before plan termination:
  - Pension benefits at normal retirement age
  - Most early retirement benefits
  - Annuity benefits for survivors of plan participants
  - Disability benefits for disabilities that occurred before the date the plan ended
- PBGC does not guarantee:
  - Lump-sum death benefits
  - Disability benefits

Solvency – USA Funding

- PBGC is funded by insurance premium, earns money from investments and receives funds from pension plans it takes over.
  - An annual basic flat-rate premium of $19 per participant
    - Soon to be $30!
  - Underfunded pension plans pay an additional variable-rate charge of $9 per $1,000 of unfunded vested benefits.
  - The premium for the smaller multi-employer program is $2.60 per participant per year.
- Premium revenue of about $1.5 billion in 2005.

PBGC Results



USA : PBGC
The need for change

- In 2005 added
  - $10.5bn in assets
  - $21.2bn in liabilities
- Probable terminations would add $108bn in underfunding
  - Credit rating below investment grade
  - Other financial criteria

$m	Single Er	Multiple Er
Assets	56,470	1,160
Liabs	79,246	1,495
Net	(22,776)	(335)

2005 revenue was $1.5bn

The Netherlands : FTK
A new framework

- Implementation of a new financial framework (FTK) effective January 2006
- Market-related basis for valuing liabilities and new funding/solvency tests
  - Liabilities discounted using bond yields
  - Discounted using the €-based swap curve
- Minimum solvency test requires a 5% buffer of guaranteed liabilities
- Additional solvency test that 97.5% certain assets will cover liabilities on one years time.

The Netherlands : FTK
Additional solvency test

The test can take two forms:

- Set formula, taking into account six factors:
  - Interest, equity, currency, credit, commodity and mortality risk
- A Plan's internal capital adequacy model

If Plan fails the test:
  - Recovery plan must be submitted
  - Funded status to be restored over 15 years
  - For Plan with 50% equities normal buffer is 30%

The Netherlands : FTK
What's the Impact

- Greater focus on matching assets and liabilities
  - Duration match
  - More use of complex strategies using derivatives
- Continued focus on greater bond strategies
- Does the regulator have teeth?

UK Learning's from the US

- Full funding
- Business Intelligence:
  - Funding
  - Credit Risk
- Early intervention – desirable and possible
- Beware elision into Industrial Policy
- Sector Risk – shark attack or piranha?

Issues from other Countries

- Book Reserve system too volatile (and purchase of annuities arguably too expensive).
- Desire for UK levy to be more stable over the economic cycle.
- Elements of capital adequacy concept in Netherland approach to asset allocation.

Summary

- Pensions still a key attraction / retention tool for multinationals
- Though shift to defined contribution / cash balance / career average will continue
- Will continue to be very little consistency among countries with respect to pension design and taxation.
- Multinationals will obtain efficiencies where possible, some are more advanced asset pooling, insurance pooling
- Legislation constantly changing – need to keep under control

The market and trends will continue to change

Summary

- Greater corporate focus on framework of tight governance and risk control
- Solvency will take increased prominence through minimum funding and solvency premium requirements

Companies need professional help to cope with change and manage risk

Questions