



Allianz Arena

OECD/ IOPS Global Forum On Private Pensions

Reforming Private DB Plans

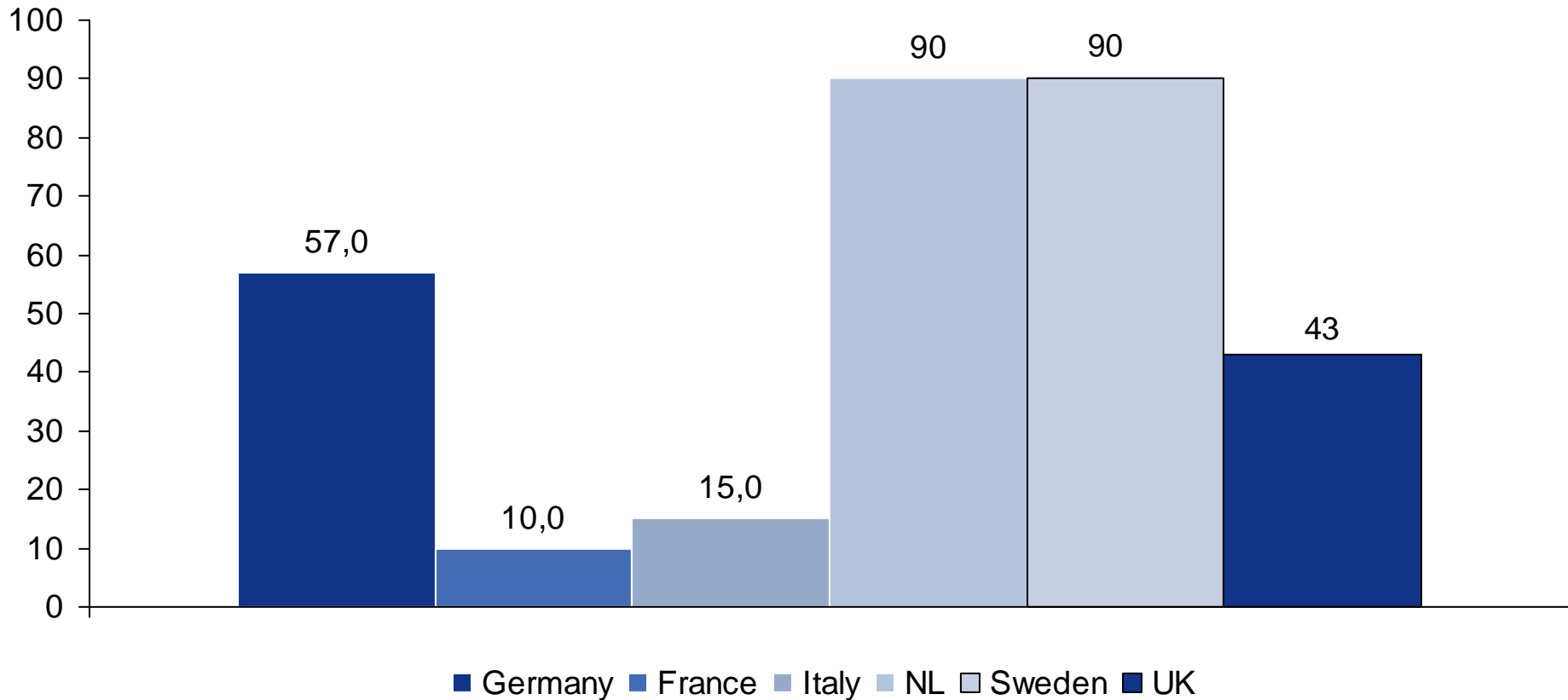
Istanbul, Nov 2006

Brigitte Miksa, Head of AGI International Pensions

Allianz 
Global Investors

The coverage of occupational pensions varies considerably

Coverage rates of the second pillar [%] 2005



Source: Center for Research on Pensions and Welfare Policies Turin (CeRP) / EU

Occupational pensions – shifting from DB to DC plans

DC and DB plan assets distribution [%] 2004

Country	DC plans	DB plans
Australia	83	17
Canada	7	93
Germany	0	100
Netherlands	9	91
Spain	97	3
United Kingdom	22	78
United States	35	65

Source: OECD Pension Markets in Focus October 2006

The trend to DC plans is triggered by six developments

- “The Perfect Storm”* - Underfunding of pension plans
 - Shortfall among S&P 500 companies: \$ 442bn**
- Increased volatility in financial markets makes funding of retirement benefits less predictable
- New laws and regulations in the areas of funding, solvency, and asset allocation as well as taxation have made DB plans overly complex and costly
- Labour mobility is on the increase
- Market-based accounting standards result in funding deficits of DB plans being reflected on balance sheets and volatile pension expenses
- Higher administrative costs of DB plans

*Gordan L. Clark and Ashby H.B. Monk, The „Crisis“ in Defined Benefit Corporate Pension Liabilities: Current Solutions and Future Prospects. University of Oxford, 2006

**Standard&Poors 2005

In the UK the shift toward DC is ongoing, but a wholesale transformation will take a long time

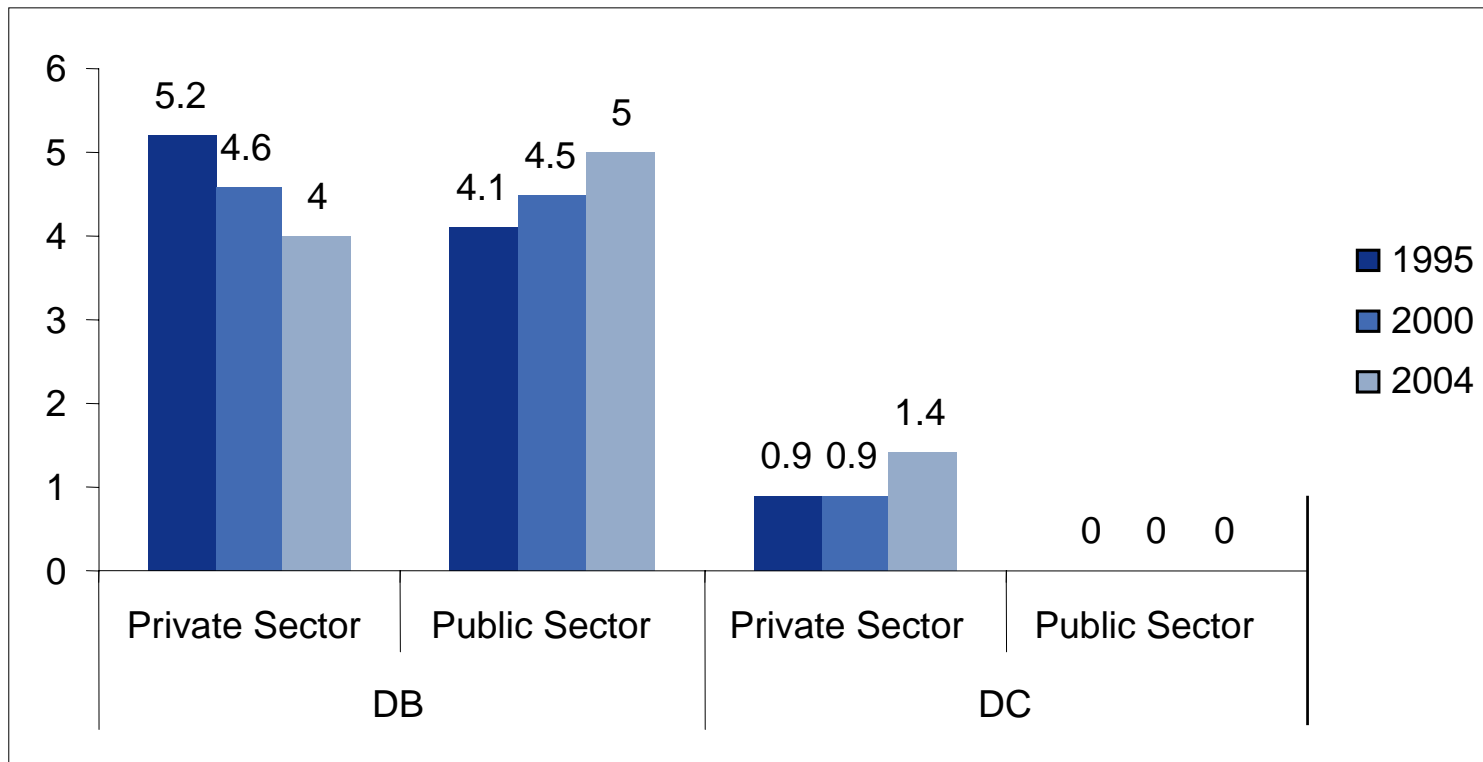
	% of firms with such schemes	% closed to new entrants	% closed to new entrants and new accruals	Total asset value [£ bn]
DB schemes	71	58	10	119.1
DC schemes	39	5	2	5.8
Mixed DB/DC	14			5.4

Survey among 390 firms with 2.8m plan members

Source: Association of Consulting Actuaries 2005, UK Pension Trends Survey

The number of participants in DB plans in the UK declines in the private sector, but rises in the public sector

UK occupational plan participants in different plans [m]



Source: Gordon L. Clark, The UK Occupational Pension System in Crisis? University of Oxford, 2006

Pension fund regulation in the UK and the Netherlands fosters DB schemes differently

UK

- Limits on overfunding encouraged contribution holidays in bull markets
- Pension protection fund opens up risk of moral hazard
- Underfunding aggravated by raising accrued benefit obligation
 - Compulsory indexation
 - Compulsory survivor benefits
- Uniform minimum funding requirements
- Result: Complex system that discourages DB schemes

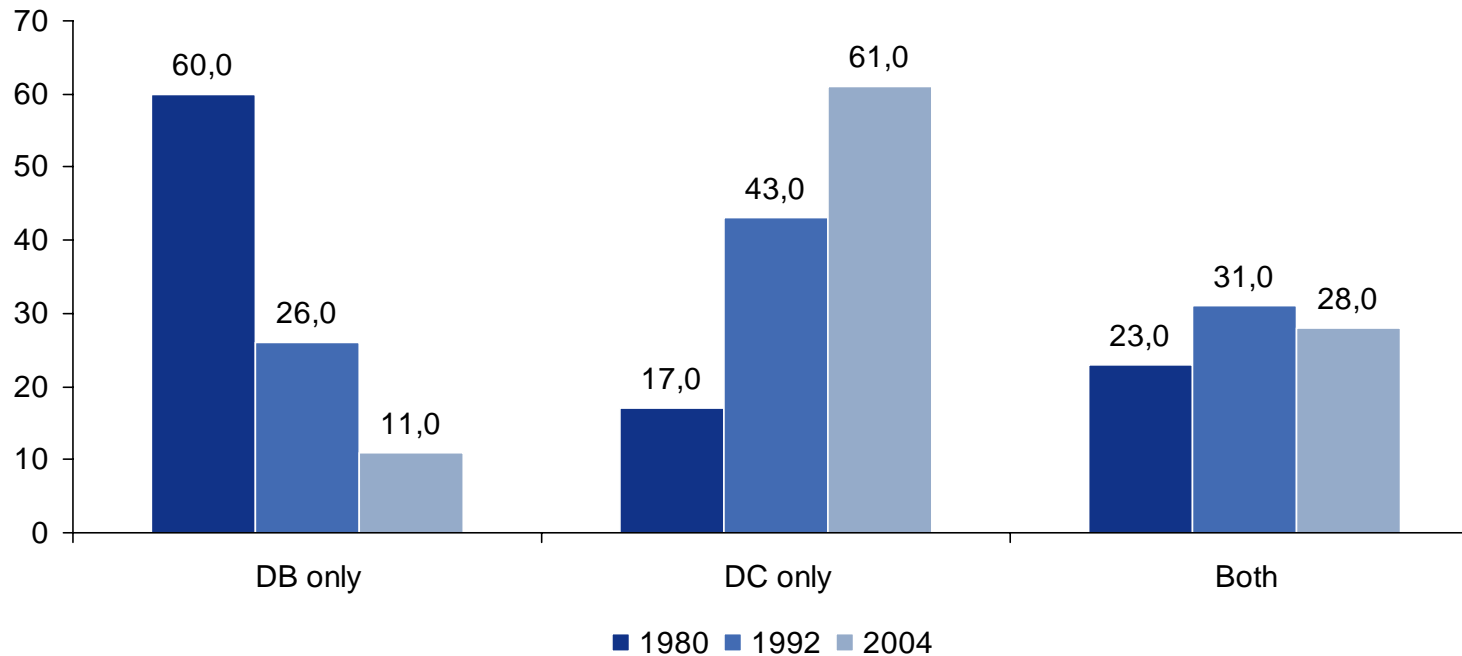
Netherlands

- Funding coverage of 105%
- Cushion of up to 130%
- Flexibility in increasing funding status
- No extra capital for indexed benefits, only nominal benefits guaranteed
- Result: Rigid solvency requirements for nominal pension rights / flexibility for conditional pension rights reduce risks for sponsor and link up benefits and returns

Sources: Philip Davis, Is There A Crisis in the UK? Manuscript, 2004; Gordon L. Clark and Ashby H.B. Monk, The „Crisis“ in Defined Benefit Corporate Pension Liabilities : Current Solutions and Future Prospects, University of Oxford, 2006

The shift to DC plans has been particularly pronounced in the U.S.

Workers with pension coverage, by pension type in the U.S. [%]



- Pension participation of male workers dropped from 55% in 1979 to 45% in 2004, but rose from 36% to 42% for women
- 88% of assets and 86% of participants of DC plans are in 401(k) plans

Source: Center for Retirement Research / Boston College 2006

Only after termination of DB switch to DC plans in the U.S.

- **Terminating (single-employer) pension schemes**
 - Procedure of a standard termination
 - Plan must have enough money to pay all benefits, whether vested or not, before plan ends.
 - Promised benefits are paid out in the form of a lump sum or annuity
 - Procedure of a distressed termination
 - Employer must prove severe financial distress, so that PBGC will pay guaranteed benefits

- Between 1975 and 2004
 - 165,256 adequately funded plans were terminated vs.
3,469 under-funded plans
 - peak 1985-1989 with 48,500 terminations vs. 7,000 in 2000-2004*.

- **“Roll-over” to IRA** - Transferability of a DB plan into a DC plan
 - If participants of a terminated plan choose lump-sum distributions, they have the option of rolling over their accrued benefits to a DC plan (IRA or 401(k))

- Conversion into a DC plan only possible after termination of DB plan with all standard procedures

Source: *PBGC

Germany: from DB to (nearly) DC

1

Defined Benefit (DB)

Pre-defined benefit level
Pay As You Go - no capital funding

guarantee of lifelong pension provision
financial risks lie with provider (state, company)

Beneficiary bears no investment risk

2

Defined Benefit contribution oriented (Hybrid)

defined benefit, based on periodical
assignment of contributions
financing internally or capital funded

guarantee of lifelong pension provision

investment risk lies with employer, total risk
reduced compared to defined benefit scheme

3

Defined Contribution with minimum benefit guarantee

Benefit = total of contributions with
minimum benefit guarantee (min yield > 0%)
(employer's covenant)

tax sponsored -
benefits as lifelong pension payments

capital funded -
investment risk lies with provider (guarantee)

4

Defined Contribution (DC)

Benefit = total of contributions invested

lump-sum payment possible

occupational old-age-provision - typical for
anglosaxon countries and Asia (reforms)

beneficiary bears investment risk

not constituent of occupational pension system

German Pension Reform of 2001 strengthened DC orientation

- Introduction of a fifth funding vehicle – the Pension Fund (Pensionsfonds), offering attractive investment solutions
- Introduction of DC with minimum benefit guarantee
- Several changes to make defined contribution-oriented plans more attractive
- Legal entitlement for every employee to participate in a deferred compensation plan
- Deferred taxation for limited contribution amounts to Pensionskasse, Pensionsfonds and Direct Insurance
- Introduction of state subsidies for individual contributions into second- and third-pillar arrangements (Riester-Rente)

As a result of the reform, the beforehand shrinking occupational pension system has been expanding again:

increase from 38% (until 2001) to 46% (2004) in private sector; in toto:
60% of all employees (incl. public services) have additional pension provision.*

- In some industries, unions and employer associations offer jointly operated multi-employer Pensionsfonds or even multi-employer multi-vehicle pension systems.

Sources: BetrAVG, German law on occupational pension provision; *TNS Infratest Sozialforschung, Situation und Entwicklung der betrieblichen Altersversorgung in der Privatwirtschaft und im öffentlichen Dienst, München 2005

Overview on multi-employer and industry pension systems

Traditional multi-employer schemes

Syndicate pension offer: consortium of insurance companies with one company or a group of companies, organised as industry e.g.

- Underwriting group for chemical industry: 7 insurance companies offer 3 pension vehicles (direct insurance, re-insured support fund and re-insured direct pension promise)

Pensionskasse or Support Fund of large company, open for 3rd parties (smaller companies) and professional associations e.g.

- **Höchster Pensionskasse VVaG** covering 170 companies with more than 40.000 employees in chemical industry (a.o.)
- **Dachverband der Gerling Unterstützungskasse für Kunden e.v. (GUK)/ umbrella association of Gerling Support Fund and industry-wide Support Fund**

Reform-induced multi-employer schemes (since 2001)

- Joint endeavour of unions and employers' associations to provide new pension fund and/or other tax-sponsored pension vehicles (Riester-Rente)
 - aims at high coverage of participating workforce with additional private pension provision
 - allows employees' associations to actively influence pension offer
 - allows to offer companies of any size a variety of pension products at bulk discount conditions e.g.

- **MetallRente** (more details on following charts)

Chemie Pensionsfonds

- operated by Unicredit/ HVB on the basis of the collective labour agreement of the employers' association BAVC and the union IG BCE, accessible to industry-near associations (e.g. in Glas and Ceramics industry)
- HVB's Pension Consult offers special advice for employers and employees of the industry
- covers around 25.000 e-ees (around 30% of entitled e-ees)*

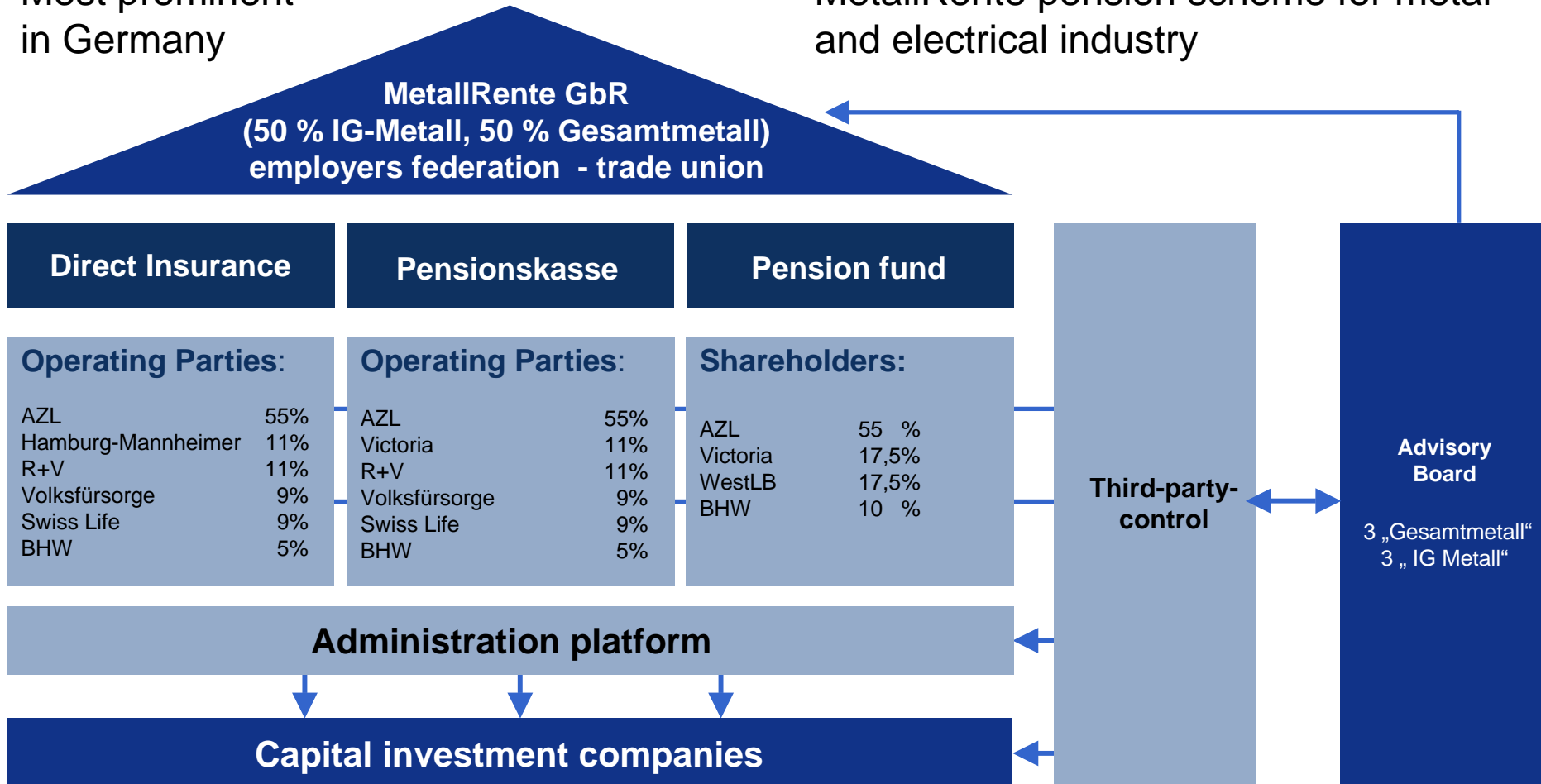
- **PENSOR Pensionsfonds AG** – independent provider operated by Höfer Vorsorge-Management and Commerzbank

Sources: *Pension Consult Beratungsgesellschaft zur betrieblichen Altersvorsorge mbH (on Chemie Pensionsfonds, 2006); Schack, Tacke, Thau: Praktiker-Handbuch zur Umsetzung der betrieblichen Altersversorgung, 2.Aufl. 2005

Organisation of MetallRente pension scheme.

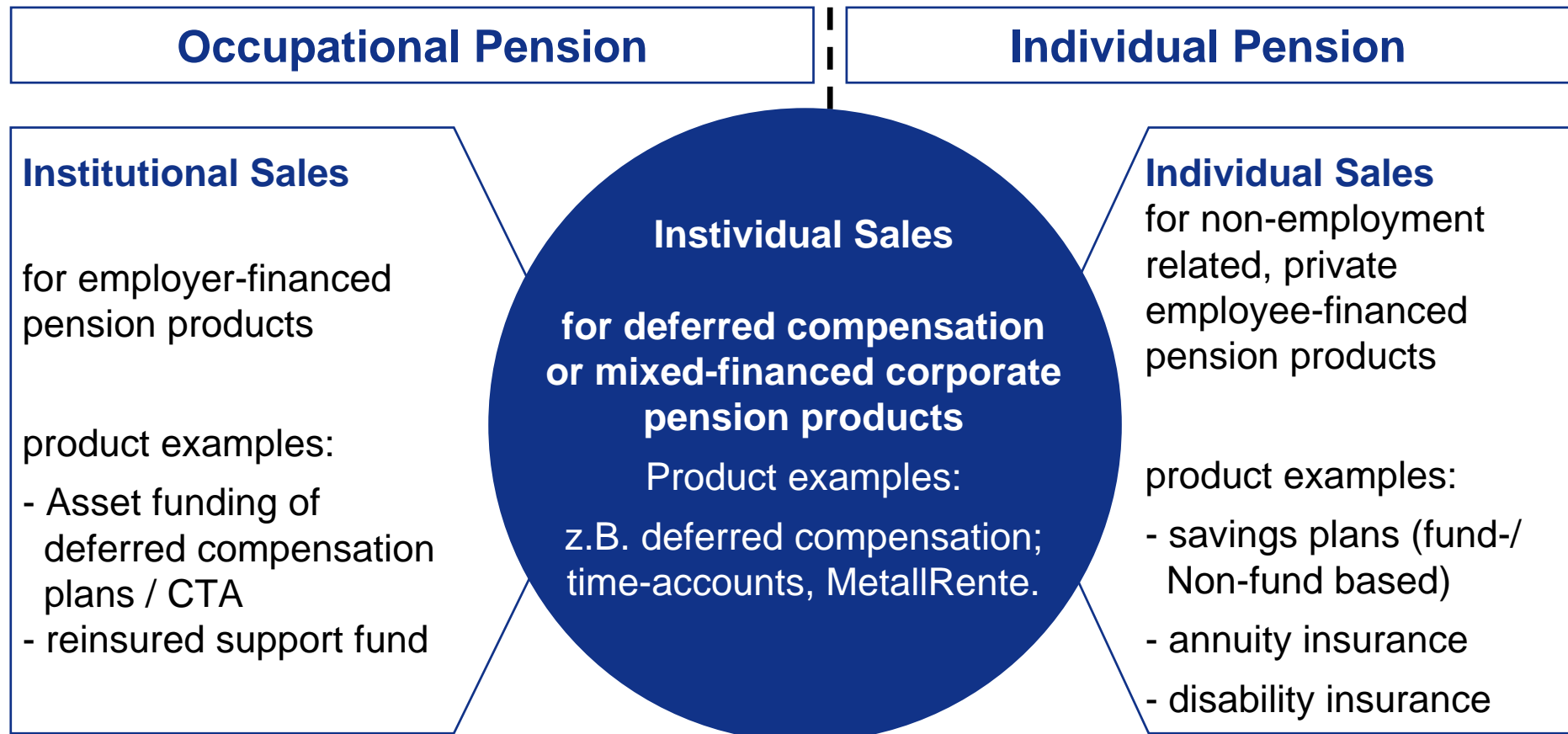
Most prominent
in Germany

MetallRente pension scheme for metal
and electrical industry



Source: Allianz Pension Partners, Munich (2006)

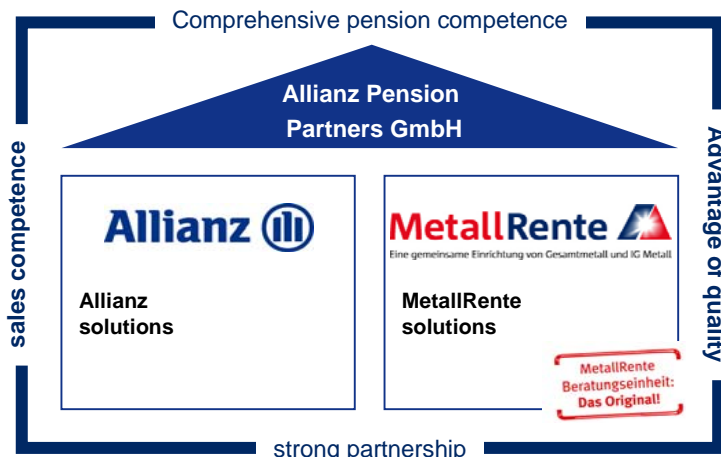
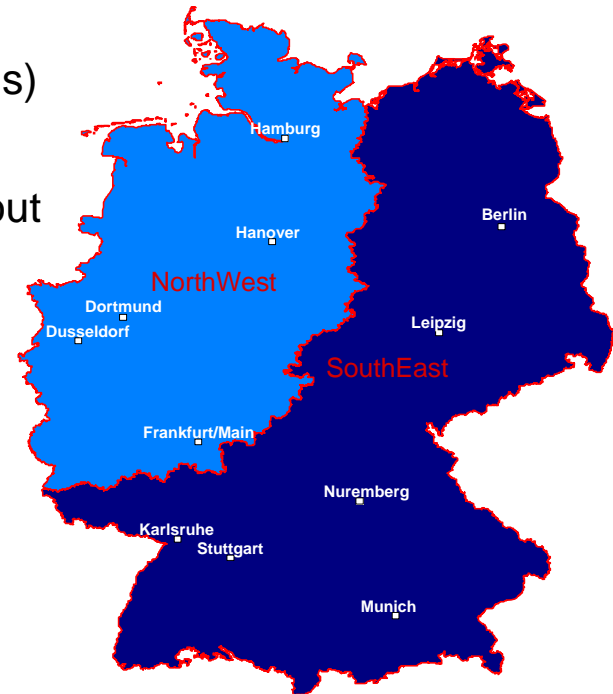
DC schemes linked to employment contract require
‘instividual’ approach:
Institutionally organised individual distribution



Source: Allianz Pension Partners GmbH, 2006

Strong focus of MetallRente on offering an individual advice package tailored to the needs of the industry

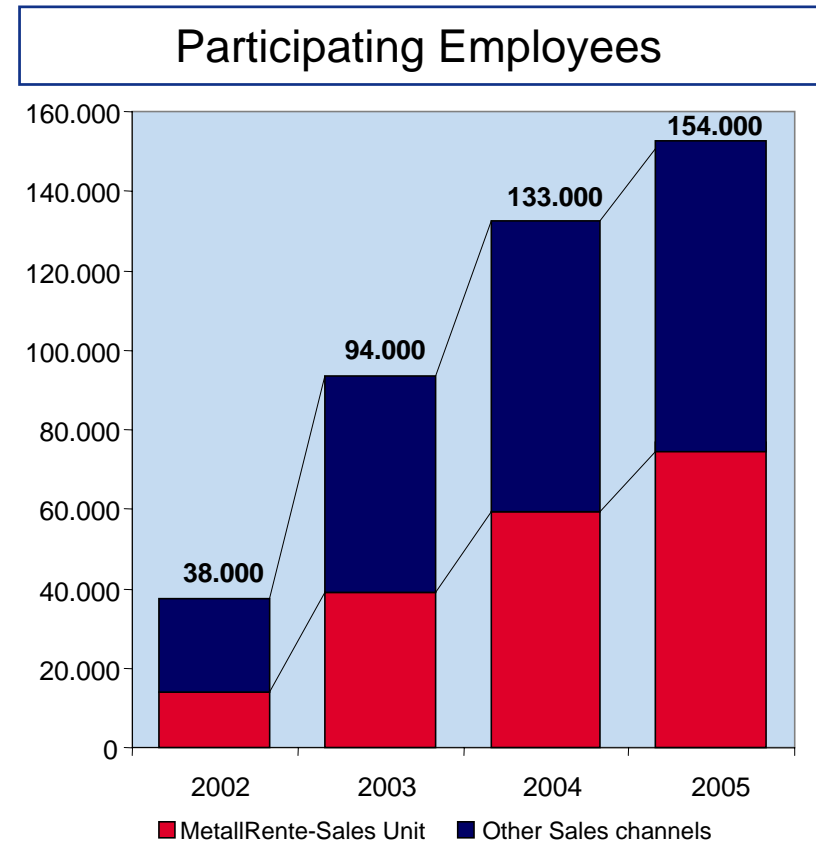
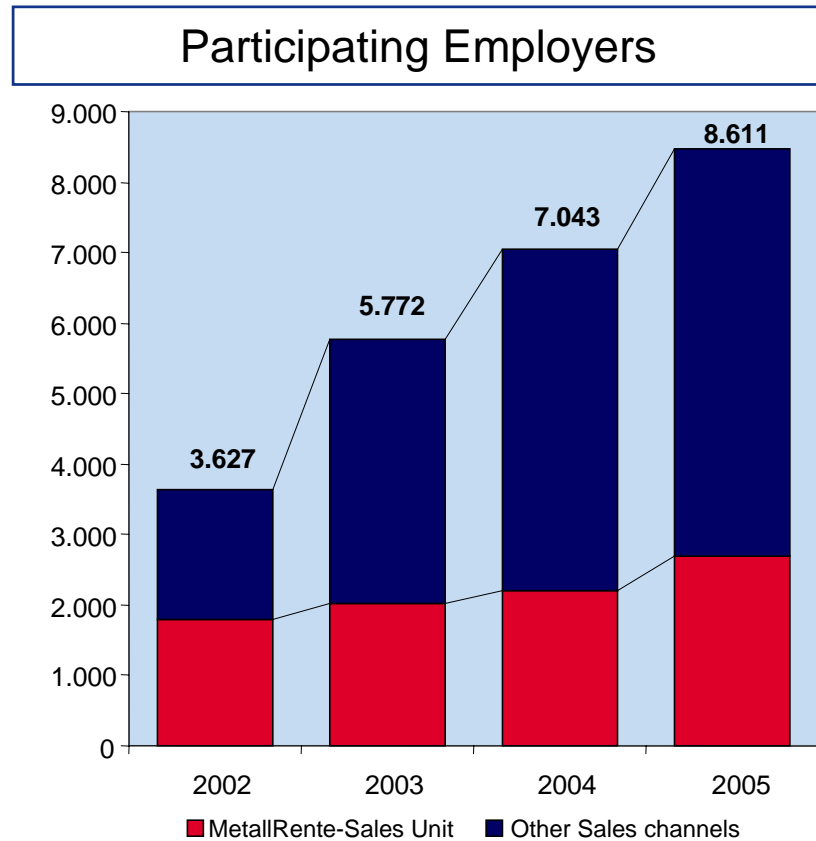
- MetallRente requires high commitment of participating product providers to grant advice and support for MetallRente target companies.
- Allianz therefore established a sales entity dedicated to MetallRente sales support only, integrated within Allianz Pension Partners GmbH (APP), a subsidiary of Allianz Global Investors in Germany.
- The mission of APP is specialist selling of company pension plan solutions, based on life insurance, hybrid, and asset management products. Focus of sales activities is the distribution of MetallRente products.
- Core customers of APP are small and medium enterprises (SMEs) and their employees.
- Decentralized organizational structure with 11 locations throughout Germany ensures short distances to customers.



Source: Allianz Pension Partners, Munich (2006)

Coverage of MetallRente pension scheme

Within the last four years, MetallRente has become the largest German pension scheme.



Source: Allianz Pension Partners, Munich (2006)

Thank you for your attention!