EFAMA Pension Day

24 April 2012

Brussels

Enhancing the Role for Complementary Private Retirement Schemes
## The European Commission’s White Paper on Pensions

### Programme

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<td><strong>The White Paper: an Agenda for Adequate, Safe and Sustainable Pensions</strong></td>
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<td>• Steffen Hörter, Senior Partner and Business Director at Risklab, Allianz Asset Management AG</td>
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<td>• Pierre Genest, Head Workplace Saving, Amundi Asset Management</td>
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<td>5:30 pm</td>
<td><strong>Concluding Address</strong></td>
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<td>Philippe De Backer, Member of the European Parliament</td>
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<td><strong>Close of Conference</strong></td>
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Good afternoon ladies and gentlemen, welcome to the third EFAMA conference on pensions. I am pleased to see again such a large gathering, although it does not surprise me given the existing concerns about our pension systems and the important policy agenda set by the European Commission in its White Paper on Pensions.

Supporting independent research on pensions

At its previous conferences, EFAMA presented two reports to contribute to the regulatory work and the debate on the future of European pensions:

- The first report, which we commissioned to Oxera Consulting, focused on the risks and advantages of defined-contribution schemes. We had asked Oxera to ascertain the extent to which the criticisms made about DC schemes were justified. Based on a comprehensive and independent analysis, the report showed that the risks associated with DC schemes are often overstated while their advantages are downplayed.

- The second report we published, which was authored by the German Professor, Raimond Maurer, formulated some important proposals to improve the regulatory framework for the payout phase of funded pension schemes. One of the key findings of Professor Maurer’s research was that the requirement to purchase an annuity at the time of retirement does not give individuals the level of flexibility needed to choose the best approach to suit their circumstances and risk tolerance.

The reason I wanted to say a few words here about these reports is because their findings and conclusions still hold true today and provide useful materials to support the initiatives that the European Commission has announced in the White Paper to enhance the role of complementary private retirement savings in Europe. These initiatives, Ladies and
Gentlemen, can only be carried out effectively if they are based on careful, balanced and transparent analysis. This is this belief that led EFAMA to take the lead again in organizing a first conference on the White Paper.

As you know, the European Commission has not merely called for a greater role of complementary private pensions in Europe. It has also noted that funded private pension schemes should become safer and more cost-effective.

Improving the quality of complementary private pensions

We fully understand that it will only be possible to enhance the role of complementary private retirement savings if the European authorities, Member States and all other stakeholders are convinced about the quality of the retirement products that are proposed to individuals and employers. And we agree with the European Commission that the quality of complementary pension schemes depends on achieving two key objectives:

- Securing the safety of supplementary private pensions, and
- Improving the quality of the information provided about pension schemes

The main goal of this conference is to stimulate an open and transparent debate on how to achieve these two objectives in the best way.

To this end, we have articulated the program of the conference around two panel discussions:

- The first panel will discuss how to manage investment risk in pension savings. The risk can be reduced or even eliminated. However, a reduction in risk usually means a reduction in average returns. This means that regulations that strictly limit investment may result in pension assets not being invested in the best interest of pension scheme members. This first panel discussion will highlight the issue better, and the role that asset managers can play by offering different solutions for different risk requirements.
• The second panel will discuss different ways of improving information requirements and transparency standards for private pension scheme members. The link with the first panel is clear, that is to say members should be well informed about the risks to which they are exposed, especially when they are asked to make choices.

As I am sure you know, EIOPA has advised the European Commission Services on how to strengthen the information requirements to occupational pension schemes members; it has also supported the introduction of a document similar to the Key Investor Information Document which is now required for UCITS. It will be interesting to hear the panelists’ views on the extent to which the KII Document can be used for complementary private pension schemes and to get insightful information on market practices and existing solutions that are available in their countries to facilitate individual choice and decision-making.

The panel discussion will be moderated by my colleagues from the EFAMA secretariat, Bernard Delbecque and Peter De Proft, who will introduce the members of the panels and elaborate further on the issues at stake.

*Developing a unified certification standard for a pan-European pension product*

In the few minutes that remain to me, I would like to say a few words about the importance EFAMA gives to the White Paper and the interesting prospects it offers.

Given the impact of the financial crisis on public finances and the implications of ageing on future public spending, action is needed to encourage people to save more and longer for retirement. The White Paper agrees with this assessment, noting in particular that tax and other financial incentives, as well as collective bargaining, should play an important role in improving access to supplementary pension schemes.

The White Paper also confirms that the Single Market is a key instrument to support pension adequacy by contributing to the reduction of the cost of pensions. And the White Paper suggests that the revision of the IORP Directive will be the main tool used to achieve this objective by facilitating cross-border activity for pension funds.
Whilst strongly supporting the objective of facilitating cross-border activity for IORPs, EFAMA believes that the principal obstacle to the establishment of a single market for pensions relates to the absence of a unified framework for pan-European pension products. Without such a framework, the pensions market in Europe will remain extremely fragmented and will continue to result in limited scale economies and therefore high costs.

To contribute to the debate on what should be the basic characteristics of a pan-European pension product, EFAMA has called for the introduction of a personal retirement plan complying with a set of unified standards across Europe, which is known as the Officially Certified European Retirement Plan or OCERP. When certified by a competent authority in one Member State, an OCERP could be offered across Europe by authorized providers such as insurance companies, pension funds and asset managers.

When we read the White Paper, we noted with interest that the Commission will take an initiative aimed at raising the quality of third-pillar retirement products via – I quote – “voluntary codes and possibly an EU certification schemes for such products”. We welcome this proposal, and we very much hope that the Commission will offer to work on a unified certification standard that would allow national legislators to approve plans based on uniform European guidelines.

Ladies and Gentlemen,

Through the current financial and sovereign debt crisis, Member States have shown a propensity to adopt national rules on investor protection and financial stability that risk reversing the Single Market. In this context, it may seem paradoxical to propose that the European Commission should take an initiative to strengthen the Single Market in an area – the organization of national pension systems – where Member States have retained full responsibility. We feel, however, that there are times where it is essential to question the status quo to offer a vision that rises to the new challenges facing our societies and the expectations of European citizens.

We trust that the conference of today, and the ideas and recommendations that will be proposed, will convince all of us that the creation of a new pan-European vehicle for
retirement saving is not a utopian ideal but a realistic, attainable and meaningful goal for Europe.

At this point I’d like to turn to Jung Lichtenberger, who has accepted to participate in this conference. Jung has the difficult task to replace Karel Van Hulle, who was invited to represent the Commission in a hearing organized by the House of Commons in London. As Karel’s right-hand man, Jung knows all the fabrication secrets of the White Paper. I am therefore very pleased to give him the floor to share with us everything we should know about this very important report from the European Commission.

Thank you for your attention.
Introduction

- Green Paper of July 2010: integrated approach to coordinate financial market regulation with economic and social policies.

- Follow-up in parallel:
  - Structured pension reform discussions with Member States as an essential part of economic policy – European Semester
  - Deepening the Single Market: review of IORP Directive (institutions for occupational retirement provision)
  - White Paper on Pensions published on 16 February 2012
Agenda

1. Review of the IORP Directive

2. White Paper on pensions
Still a long way to go ...

Source: EIOPA.

84 cross-border cases in EEA

Source: EIOPA.
Strengthening the Single Market

- IORP Directive adopted in 2003; but just an “enabling” directive
- Limited take up so far however!
- Review aims to:
  1. Facilitate cross-border activity for IORPs
  2. Introduce risk-based supervision for IORPs and ensure regulatory coherence with Solvency II for insurers
  3. Increase transparency
1. Facilitate cross-border activity

- Reduce costs for employers by simplifying the legal, regulatory and administrative environment.
- Clarify the definition of cross-border activity.
- Eliminate additional rules for cross-border activities: shorter recovery plans, investment rules and disclosure requirements.
- Clarify the scope of prudential regulation (in relation to social and labour law)
2. Risk-based supervision in coherence with Solvency II

- Introduction of risk-based supervision (also to account for diversification) based on three pillars
- Market consistent valuation of assets and liabilities
- Substance over form:
  - The IORP takes risks -> IORP II should allow for additional security risk mitigation mechanisms: eg benefit cuts, conditional indexation, contingent assets and liabilities, reinsurance, pension protection fund.
  - The IORP takes no risks -> no capital requirements, but there should by a simple illustration of the liabilities and assets (eg sponsor covenants) to ensure comparability – Holistic balance sheet
- Quantitative Impact Study
3. More transparency for scheme members and beneficiaries

- Pillars 2 and 3 of Solvency II contain useful principles to promote good governance and transparency

- Particularly for defined contribution (DC) and mixed DB systems: claims, guarantees, risks and costs

- Key Investor Information Document (KIID) for PRIIPs (investment products for retail investors) as a good starting point?
White Paper on Pensions

• Annual growth Survey
  – Balancing time spent in work and retirement
  – Developing complementary private retirement savings

• 20 EU initiatives
Initiatives related to MARKT

- IORP Directive review
- Develop a code of good practice for occupational pension schemes: better coverage of employee, the payout phase, risk-sharing and mitigation, cost-effectiveness
- Consumer information for third-pillar retirement products building on PRIIPS, and possibly an EU certification scheme
- Pension tracking services
More?

- EU enlargement increased DC pension schemes operated by private financial institutions.

- Shift towards DC across EU

- Facilitate pan EU vehicles

- How can the Single Market help more?
A busy agenda

• IORP Directive review: QIS timing

• White Paper on pension: launching projects on occupational schemes, consumer information, pension tracking

• More?
Ladies and gentlemen,
Dear colleagues,

I am very pleased and honored to chair the first panel of this conference. We have formed a panel of high quality speakers, and I am sure their presentations will be very interesting.

By way of introduction, I would like to say a few words about the overall theme of this first panel discussion, namely the management of investment risk in private pension schemes.

The White Paper has emphasized the need to review the regulatory framework and the design of DC schemes to improve their safety.

Safety is a notion that is not defined in the White Paper. However, we know that the European Commission Services are worried about the fact that the trend towards DC schemes is shifting investment risks to DC scheme members, who may not be always well placed to bear these risks individually.

We cannot therefore separate the question of safety from that of investment risks.

On the basis of this understanding, we thought that it would be useful to have a discussion on the management of investment risk in private pension schemes.

Without wanting to anticipate the conclusions of our speakers, I have to admit that one concern we have is that the development of complementary private retirement savings would go hand-in-hand with new regulation that would call for all DC schemes and private pension schemes to deal with investment risk either by investing in “safe” assets or by offering a minimum return guarantee.
Both approaches give individuals some certainty over their investment. However, both come at a cost, as supported by a significant body of quantitative evidence. In other words, what seems like a good idea from an investor protection perspective, often, tends to result in sub-optimal retirement wealth accumulation.

This does not mean, of course, that investment risk should not be managed and mitigated.

My point is that relying on government bonds or minimum return guarantees is too simplistic an approach to the management of investment risk.

And the challenge today is not to wait for the emergence of specific solutions for managing investment risk; proven risk management solutions are already available.

The real challenge is to raise European and national policymakers’ awareness about these solutions and their potential, and to build a consensus, within the industry and among policymakers, about the solutions that would be compatible with a EU certification standard for DC schemes.

To discuss these issues, I am pleased to introduce the three experts who have accepted to join this panel:

- Dick Saunders is the Chief Executive of the IMA, which represents the investment management industry in the UK. The very large base of pension fund assets managed in the UK has led Dick to become, by necessity and personal interest, a highly recognized expert on long-term saving and pension issues. I am therefore also very pleased to have Dick with us today.

- Laurens Swinkers is a Portfolio Strategist within Robeco’s Investment Solutions department. Laurens’ responsibilities include the development of quantitative models for risk budgeting and asset allocation. Laurens has published papers in academic journals, and he is also assistant professor of Finance at Erasmus University Rotterdam.
Steffen Hörter is a Director and Partner of Risklab which is a business unit within Allianz Global Investors, which is developing investment and risk strategies for pension products. As Head of Client Implementation and Investment Regulations, Steffen is well placed to speak to us about the needs of participants in DC schemes and the mitigants that can offer greater certainty about investment result.

Before giving the floor to our panelists, I would like to introduce our second keynote speaker of the day, Pablo Antolin.

Pablo is Principal Economist at the Private Pension Unit of the Financial Affairs Division of the OECD. In this capacity, Pablo is working on different projects, including a very important one from the perspective of this conference, namely the preparation of a book that will provide a set of recommendations on how to improve the design of DC pension plans in order to protect retirement income.

Pablo has honored us by accepting to give an overview of the recommendations that are relevant for the discussion of today.

Pablo, you have the floor.
Coping with Investment Risk in Funded Pensions Plans

Pablo Antolín
OECD DAF/FIN Pension Unit
EFAMA’s Pension Day
Brussels 24 April 2012

Background

➢ The OECD has been working for a few years on improving the design of DC pension plans in order to strengthen retirement income from these plans.

➢ We have compiled a set of recommendations for regulators and policy makers.

➢ Different OECD committees are discussing them with the aim of endorsing them.
Policy messages: guiding principles

- Policy options based on three guiding principles:
  - **Coherence**: context of each country overall pension system.
  - **Adequacy**: DC pensions complementary to other arrangements (e.g. PAYG) need to be designed so that their retirement income complements other sources.
  - **Efficiency**

Efficiency

- **Efficiency**: reducing risks for retirement income or saving for retirement (de-risk).
- E.g. choosing investment strategies (many in the return-risk spectrum) that reduce the impact of extreme negative outcomes on retirement income.
- Efficiency also required to structure the payout phase: allocate assets efficiently. Strike out a balance between liquidity and flexibility, and protection from longevity risk.
Main policy messages

There are 12 main policy messages, but two are particularly relevant for the discussion here today:

7. Establish default investment strategies with appropriate risk exposure
8. Establish life-cycle investment strategies as defaults

Structure of the presentation

- Potential impact of investment and market risk on retirement income in DC plans
  The impact can be quite large (volatility) ➔ how market risk can be addressed
- Regulating investment risk (investment restrictions inc. minimum return guarantees)
- Establishing default options (inc. life-cycle investment strategies)
Potential impact of market conditions on retirement income in DC plans

Uncertainty in DC plans

- Retirement income in DC plans is uncertain as a result of
  - financial,
  - labour market and
  - demographic risks

- Returns on different asset classes and thus on portfolio investment, inflation and interest rates (discount rates) are unknown
Uncertainty in DC plans

- Whether people may suffer spells of unemployment (and how many and when), as well as career real wage growth paths (flat, growing) is also uncertain.
- Assets accumulated would finance retirement for a certain # of years. The length of the retirement period to finance is unknown as life expectancy it is uncertain.

The OECD has looked at the impact of all this uncertainty on retirement income in DC plans using two methods:

- Using historical data to calculate hypothetical replacement rates (RR) in DC pension plans
- Using stochastic modelling where the unknown variables are randomly generating using their historical first moment
Main outcome stochastic modelling

- Given contributions & contribution period:
- 10,000 MC simulations of assets accumulated (and RR) for each investment strategy
- Distribution function of the value of assets accumulated, and depending on structure: retirement income and RR
  - Mean, median, standard deviation
  - Different percentiles, in particular the 5th and 95th percentiles.

Main results (stochastic)

- Impact of financial, labour and demographic risk is far from negligible.
- Large potential shortfall in retirement income: Close to 60% probability that RR may fall short of expectations (median).
- RR is extreme negative situations can be dangerously low
- Dispersion of RR around the median is relatively high.
Main messages

- Financial market risk (uncertainty about returns on investment and inflation) and labour market risk have the largest impact.
- The timing at which unemployment occurs in one’s career affects ret.inc. Those who suffer u/e early worse off (compound interest and portfolio size)
- Yet, life expectancy and interest rates play an important role as well.

Hypothetical replacement rates (RR) in DC Plans

- Let’s examine the impact of market risk of retirement income from DC plans from an historical perspective
- Hypothetical replacement rates using historical returns on equities, and government bonds, interest rates and inflation since 1900 until 2010 (source: Credit Suisse and Barclays).
Hypothetical RR in DC Plans

- Assuming contributions of 5% wages, 40-year accumulation period, buying an annuity at retirement, life expectancy at 65, 20 years.
- Portfolio allocation 60% in equities and 40% in long-term government bonds

Impact of market conditions at the time of retirement is large ➔ large fluctuations in RR
How can the effects of market risk on DC pensions be alleviated?

• There are two approaches being discussed by regulators, policy makers & the industry
  • Quantitative approaches to regulate investment risk (inc. minimum return guarantees).
  • Setting up default life cycle investment strategies.

• The OECD has assessed the hypothetical impact that those measures would have had on the RR in DC using stochastic modelling and historical data.
Why regulate investment risk in DC plans?

- DC plans may expose individuals to excessive risk in particular investment risk.
- Raising possibility that pension benefits below expectations.
- Recent crisis has highlighted the volatility of RR in DC plans. Loss of confidence.
- In many countries pensions from DC plans are the main source of retirement income.

OECD examined

- The impact of different quantitative approaches to regulate investment risk on the retirement income stemming from DC pension plans (voluntary and mandatory).
- Quantitative investment regulation affect retirement income through its impact on the choice of investment policies available.
- Use of stochastic modelling and historical data.
Policy variable

- The policy objective variable used to assess the impact on retirement income of different quantitative approaches to regulate investment risk is:
  - the replacement rate.
- the amount of pension benefits relative to the last wage
- given a certain contribution rate and a certain contribution period

Main outcome of the modelling

- 10,000 MC simulations of RR for each of 33 investment policies (3 investment strategies: fixed or balanced portfolio, dynamic risk budget, life-cycle) and 11 portfolios (cash, bond, equities, property)
- Distribution function of RR:
  - mean,
  - median,
  - the standard deviation and
  - different percentiles, in particular the 5th and the 95th percentile.
Assessment measures: Risk

• Risk criteria to assess different investment policies is the 5th percentile:
  – Probability that replacement rates above that value equals 95%
  – Probability that RR are below is 5%

• Policy makers and regulators may prefer investment policies that provide a higher replacement rate with only a five percent probability that the replacement rate may fall below.

RR by level of risk and investment policy (40 yrs)
RR by level of risk and investment policy (40 yrs)

RR at the 5th percentile (40 yrs)
Median RR (40 yrs)

Main results

• Trade-off between RR expectations and risk.
• Very low allocations to equities (<20%) and very high allocations (>80%) look unattractive in this context. In btw wide range of options for regulators and supervisors to consider
• Risk adverse regulators/individuals ➔ conservative investment policies: no more than 30% risk assets and life cycle investment strategies (optimal?).
• However, large loss of potential RR as a result. Less risk aversion higher expected RR.
Regulatory Approaches

- Limits on equities
- VaR: investment policies with a monthly portfolio return below -2% in more than 5% cases excluded.
- Minimum return:
  - 2% nominal $\Rightarrow$ RR=22% (40yrs); RR=13% (20).
  - Wa e rowth (3.8%) $\Rightarrow$ RR=31% (40); RR=16% (20).
- RR expected shortfall: 95% RR below minimum RR (e.g. 25%) are within 5 pp of the minimum RR

Quantitative I limits (max. 30% equities)

- Steer pensions funds and people to investment policies with a large share in bonds, reducing the downside risk, but also reduces potential gains in RR
- Setting quantitative limits could be efficient a priori (if you believe your model is right) but not a posteriori (you model may not be confirmed by real events)
Value at Risk (-2% in 5% cases)

- This short-term investment return regulation steers pension funds and investors to investment policies with no more than 30% in risk assets (equities).
- Complicated way of achieving same results that limits on equities?
- The investment policies available under this regulatory framework are independent of the length of the contribution/accumulation period.

Min returns, Min RR, Expected Shortfall

- The availability of different investment policies under these regulatory approaches depends on the severity or strictness of the probability threshold.
- It also depends on the length of the contribution and accumulation period.
Min returns, Min RR, Expected Shortfall

- Relatively high minimum returns (e.g. wage growth, 3.785%) or RR (e.g. 25%) render all investment policies unavailable when individuals only contribute around 20 yrs instead of 40 yrs.

- For lower minimums and longer contribution periods which investment policies are available depends on the probability threshold
  - 99.5% ➜ very conservative I policy (bonds>70%)
  - 80% wider range of options and higher potential RR

Minimum rate of return (2%) – 40yrs

- Dynamic Risk Budget
  - Fixed Portfolio
  - Life Cycle

- Individual in a DC pension plan for 40 years
Minimum rate of return (2%) – 20yrs

Individual in a DC pension plan for 20 years

Minimum rate of return (3.79%) – 40yrs

Individual in a DC pension plan for 40 years
Minimum rate of return (3.79%) – 20yrs

RR expected shortfall of 5 pp below a 25% minimum RR – 40 years
RR expected shortfall of 5 pp below a 25% minimum RR – 20 yrs

Conclusions

• Choosing among different investment policies requires balancing the trade-off between higher potential retirement income and risks associated.

• Risk adverse regulators & supervisors will aim for policies reducing the downside risk or that minimise the risk of unfavourable outcomes from DC plans.

• This would require moving into relatively conservative investment policies, where the share of assets allocated in bonds is quite large (≥ 60%).
Conclusions

• Important to stress that there is not a single correct trade-off, depends on the country context and the risk aversion levels.

• Countries where payments from DC pension plans are the main source of retirement income, the cost to the society of downside risks or unfavourable outcomes is much larger than in countries where they have other sources of retirement income (public pensions).

Establish default investment strategies with appropriate risk exposure
Establish default investment strategies with appropriate risk exposure

• DC plans aimed at providing people choice

• Behavioural econ and financial literacy research show that some people are either unwilling or unable to choose among I strategies.

• Default I strategies concentrate on reducing the risk of extreme negative outcomes on retirement income.

Establish default investment strategies with appropriate risk exposure

• Choosing the appropriate default options
  ➢ Balancing trade-off higher potential ret. inc. and associate risk.
  ➢ Risk measured as ret. inc. in extreme negative outcomes
  ➢ Choose the probability threshold established to assess risk: I strategies reduce downside risk by e.g. 99%
What type of default investment strategies?

Default investment strategies

- Stochastic modelling with different structures of the payout phase
- Different investment strategies:
  - Fixed portfolios
  - Life cycle strategies (diff gliding paths):
    - Linear decrease
    - Step-wise linear approach
    - Piece-wise linear approach
    - Dynamic multi-shaped
    - Average multi-shaped
  - Dynamic risk budgeting
Default investment strategies:
Payout Phase

- Life annuity
- Inflation-indexed life annuity
- Fixed programmed withdrawal
- Variable programmed withdrawal
- Combined arrangement mixing:
  - Variable programmed withdrawal
  - Deferred inflation-indexed life annuity that starts paying at age 80

Default investment strategies: Results

Life annuity: Median replacement rate vs. 5th percentile

- High equity exposure, large trade-off between risk and replacement rate
- Medium range equity exposure, small trade-off between risk and replacement rate
- Low equity exposure, suboptimal
Default investment strategies: Results

- The relative performance of investment strategies depends on the type of benefit during the payout phase.

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<tr>
<th>Payout Options</th>
<th>Default Investment Strategies</th>
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<tr>
<td>Life annuities at retirement</td>
<td>Step or piece-wise life cycle strategies with medium exposure to equities (50-60%)</td>
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<tr>
<td>Programmed withdrawals</td>
<td>Average multi-shaped and dynamic risk budgeting with medium exposure to equities</td>
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<td>Combined arrangements</td>
<td>A mixed of investment strategies from the other two payout options</td>
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Default investment strategies: Results

- The introduction of dynamic management strategies can provide somewhat higher replacement rates for a given level of risk than the more deterministic strategies, at least in the case of pay-outs in the form of variable withdrawals.
Default investment strategies: Results

- Life cycle strategies that maintain a constant exposure to equities during most of the accumulation period, switching swiftly to bonds in the last decade before retirement seem to perform best.

Establish life-cycle investment strategies as defaults
Establish life-cycle investment strategies as defaults

- Life cycle I strategies reduce the exposure to risk assets (e.g. equities) as people ages. Easy to understand
- They provide protection for those close to retirement in case of a negative stock market shock just before retirement
- They provide protection when contribution periods are short
- The glide path important: ones with sharp decrease in equities in the last decade

Estimated probability that pension benefits based on LC strategies will be higher than those based on a fixed portfolio strategy for two different contribution periods

<table>
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<tr>
<th>Life-cycle investment strategies</th>
<th>Contributions (entire random sample, 10,000 obs)</th>
<th>Contributions (negative stock market shock)</th>
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<tr>
<td></td>
<td>20 years</td>
<td>40 years</td>
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<tr>
<td>Sharp decrease after age 55</td>
<td>30.2</td>
<td>42.1</td>
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Establish life-cycle investment strategies as defaults

- Life cycle I strategies not a panacea: provide protection from extreme negative shocks for those close to retirement, but do not eliminate volatility, do not address adequacy

- LC strategies can be organised around one single fund (e.g. target date, US) or around several funds (e.g. multi-funds, Chile, Mexico)

Performance of different LC investment strategies using historical data
Hypothetical RR diff. LC (40 yrs)

United States

life cycle steep at 55

life cycle steep at 45

fixed portfolio 50-50

Year retiring


Hypothetical RR diff. LC (40 yrs)

JAPAN

Fixed portfolio 50-50

life cycle steep at 55

life cycle steep at 45

Life cycle ld

Year retiring

Conclusions

- To protect and ensure adequate RR from DC in a world of uncertainty, policy recommendations need to focus primarily on the amount of contrib. and the length of the contribution period.
Conclusions

• LC LC strategies appropriate default investment strategies
  – address the problem of lower RRs for people close to retirement when a negative shock to stock market occurs,
  – they are relatively easy to understand public than other investment strategies such as dynamic strategies
  – LC strategies also seems to provide protection when contribution periods are short.

Life Cycle Strategies

• Warning: LC strategies do not remove the volatility of retirement income as a result of market fluctuations
• and they do not address the problem of inadequate or insufficient retirement income

• Therefore, the main policy recommendation to policymakers and regulators is:
Conclusions

• First, set up your target replacement rate from your DC pension given the overall structure of the pension system in your country.

• Then set contributions and the length of the contribution period accordingly keeping in mind that to reach adequate replacement rates people needs to “contribute and contribute for long periods”.

Conclusions

• Afterwards, focus on asset allocation strategies. In particular, if contribution periods are short or intermittent, or concerns about replacement rates falling sharply for people close to retirement when a negative stock market occurs is a main policy issue, establish default life-cycle investment strategies that reduce exposure to equities in the last decade before retirement.
Thank you very much
Key messages

1. Minimum return guarantees do not improve the pension system!

2. Flexible life cycle investment solutions incorporate human capital

3. Rethink European harmonization of the decumulation phase
How to prevent our retirement to look like this?
1. No minimum return guarantees!

Goal of minimum return guarantees is to protect the consumers against the financial institutions

- Solve principal-agent problems ("uninformed consumers vs bad institutions")

Other types of regulation that have proven to be much more effective:

- Minimum enrollment requirement ("more or less forced participation")
- Minimum contribution level ("problem is that people do not save enough")
- Minimum investment horizon ("do not take out for new house or car")
- Minimum diversification requirement ("no own company stock allowed")
A new Dutch cross-border pensions vehicle: PPI
2. Flexible life cycle investment solutions

Why life cycle investing?

Human capital is like a bond!

Allocation changes closer to retirement

- Human Capital decreases due to less future salary payments
- Financial Capital increases due to contributions and returns
2. Flexible life cycle investment solutions

Investment policy depends on human capital and risk profile of participant
Investment choice for participant is easy!
Investment choice for participant is easy!
3. Rethink harmonization decumulation phase

Rethinking Retirement Income Strategies – How Can We Secure Better Outcomes for Future Retirees?

Raimond Maurer
Barbara Somova

February 2009
Key messages

1. **Minimum return guarantees** do **not** improve the pension system!

2. Flexible life cycle investment solutions incorporate **human capital**

3. Rethink European harmonization of the **decumulation** phase
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Coping with Investment Risk in Private Pension Schemes
Dr. Steffen Hörter
Brussels, 24 April 2012
Coping with Investment Risk in Private Pension Schemes

01 Pension Risk Management

02 Pension Investment Solutions

03 Summary
Pension Risk Management
General Market Environment, Client’s Investment and Retirement Needs Raising Questions to be Solved

<table>
<thead>
<tr>
<th>Changes in Society</th>
<th>Adapted needs of private investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ageing Societies</td>
<td>Increased demand for outcome oriented solutions</td>
</tr>
<tr>
<td>Declining government annuities</td>
<td>Certainty about investment result</td>
</tr>
<tr>
<td>Demographics</td>
<td>Risk management becomes key, especially for retirement investments</td>
</tr>
<tr>
<td>Longevity</td>
<td>Participation in capital markets during accumulation and decumulation period</td>
</tr>
<tr>
<td>Regulations</td>
<td>Individualization of investment solutions</td>
</tr>
<tr>
<td></td>
<td>Reduction of complexity</td>
</tr>
<tr>
<td>Capital Market Environment</td>
<td>One-Stop-Solution to cope with the challenges ahead</td>
</tr>
<tr>
<td>Financial Crisis</td>
<td></td>
</tr>
<tr>
<td>Credit-Crisis</td>
<td></td>
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<tr>
<td>High Volatilities</td>
<td></td>
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<tr>
<td>Low Interest Rate Levels</td>
<td></td>
</tr>
<tr>
<td>Black Swans</td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td></td>
</tr>
</tbody>
</table>
Key Question: How to Allocate Assets over the Life-Cycle?

<table>
<thead>
<tr>
<th>Age</th>
<th>Traditional Focus</th>
<th>Growing Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulation</td>
<td></td>
<td>Decumulation/Spending</td>
</tr>
<tr>
<td>Pre-retired</td>
<td></td>
<td>Gifting</td>
</tr>
<tr>
<td>Typically 45 - 65</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retired</td>
<td></td>
<td></td>
</tr>
<tr>
<td>65 - 80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retired+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>80+</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Major Risks Faced by Private Pension Investors

<table>
<thead>
<tr>
<th>Risk</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Market Risk</strong></td>
<td>Decrease of portfolio value due to adverse capital market environments</td>
</tr>
<tr>
<td><strong>Longevity Risk</strong></td>
<td>Risk of outliving one’s assets</td>
</tr>
<tr>
<td><strong>Inflation Risk</strong></td>
<td>Losing purchasing power due to high inflation rates</td>
</tr>
<tr>
<td><strong>Transition Risk</strong></td>
<td>Risk of unfavorable exchange of the accumulated wealth at retirement into a life long annuity stream</td>
</tr>
</tbody>
</table>

Source: risklab; Please refer to the disclaimer at the end of the presentation.

---

**Efficient & integrated management of different risks is the key challenge for optimal Investing**
Allocation and Risk Management Approaches for Private Pension Investing

**Asset Allocation Strategy**

**Allocation Strategy**  +  **Risk Management Strategy**

1. **Liability Matching** (e.g. Duration Matching)  
   (e.g. of a forward annuity at retirement)
2. **Fixed Allocation**  
   (e.g., constant risk profile 50% equity/50% fixed income)
3. **Pre-defined deterministic glide path**  
   (e.g. equity quota decreases with increasing age)
4. **Fully stochastic and optimized glide path**  
   (e.g. allocation results from dynamic optimization)
5. ...

1. **Time & Asset Diversification**
2. **Tail Risk Hedging Strategies**  
   (e.g. asymmetric risk/return profiles through Dynamic Asset Allocation)
3. **Guarantee Structures**  
   (e.g. through CPPI or option strategies)
4. **Longevity Hedging Strategies**  
   (hedging of systematic longevity risks)
5. ...

A trade-off needs to be made between individualization and standardization
Illustration of a Dynamic Investment Policy

- **Defensive Portfolio**: 73%
- **Balanced Portfolio**: 56%, 13%, 29%
- **Dynamic Portfolio**: 43%, 13%, 44%

Legend:
- Gray: Annuity Matching (Nominal Bond Portfolio)
- Blue: Real Return and Growth Portfolio
- Purple: Lump Sum Matching (Money Market Portfolio)

Risk of a Decrease in Retirement Income
We provide Target-driven and Life/Asset Solutions Most Suited to the Preferences

<table>
<thead>
<tr>
<th>Type</th>
<th>What does it solve?</th>
<th>The options</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset-only: Target-Driven Solutions</strong></td>
<td>- Projectable Investment Outcome at a certain time</td>
<td><strong>Target Date</strong>: Reach a certain financial target in time</td>
</tr>
<tr>
<td></td>
<td>- Investing with risk control</td>
<td><strong>Target Risk</strong>: Investing with limited downside over a certain period</td>
</tr>
<tr>
<td></td>
<td>- Outcome oriented solutions</td>
<td><strong>Target Return</strong>: Aim to achieve a predictable yield over a certain period</td>
</tr>
<tr>
<td><strong>Life-Asset: Hybrid Solutions</strong></td>
<td>- Minimum guaranteed amount resp. minimum guaranteed annuity</td>
<td><strong>Dynamic Hybrid Solution</strong>: Unit-linked combination of an insurance and mutual funds</td>
</tr>
<tr>
<td></td>
<td>- Coverage of financial and biometric risks</td>
<td><strong>Variable Annuities</strong>: Hybrid combination of fund investing with guarantees via dynamic hedge</td>
</tr>
<tr>
<td></td>
<td>- Tax Optimization</td>
<td></td>
</tr>
</tbody>
</table>
Summary
Summary

1. There is increased client demand for outcome oriented solutions and certainty about investment result

2. Risk management becomes key, especially for retirement investments

3. Participation aspired in capital markets during accumulation and de-cumulation period

4. There are sophisticated and proven risk management techniques available which form part of private pensions solutions; examples:
   - Asset only: Target driven solutions (for example Target Date Funds)
   - Life-Asset: Hybrid Solutions (for example Variable Annuities).
Appendix
### Allianz Global Investors Global Solutions

Your Partner to Address These Needs and Challenges

#### Your expert for risk management and pension solutions

- Global Solutions is a **business unit within Allianz Global Investors**
- **80+ experienced professionals** dedicated to three core areas: investment and risk advisory, pensions and manager selection
- Strong and supportive **ownership by Allianz SE** – one of the leading financial service provider globally: serving 76+ million customers in 70+ countries

#### Our approach to your customized smart solutions

- **Listen** to your specific situation, **understand your needs** and within an **ongoing and interactive dialogue** with you, we select and combine these competencies for your customized client solutions
- **Product-agnostic advice** with governance **separated from portfolio management** – minimizing conflicts of interest and ensuring best advice for you
- **One-stop solutions** for complex client needs: e.g. Fiduciary Management, Defined Contribution or Life Asset

#### AllianzGI Global Solutions at a glance

- More than **€ 50 billion in assets under advice/management** for more than 100 high-caliber institutional clients across the globe
- Strong **track record in risk management** proven over different market regimes with proprietary risk engine launched in 2005
- Constant **innovation** based on proprietary research
Selected Publications

- Overview of the Financial Wealth Accumulated under Funded Pension Arrangements
- Life Cycle Asset Allocation – A Suitable Approach for Defined Contribution Pension Plans
- Assessing Investment Strategies for Defining Contribution Pension Plans under various Payout Options
- Assessing the Nature of Investment Guarantees in Defined Contribution Pension Plans
- Evaluating the Design of Private Pension Plans: Costs and Benefits of Risk-Sharing
- Defined-Contribution (DC) Arrangements in Anglo-Saxon Countries
- Assessing Default Investment Strategies in Defined Contribution Pension Plans
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Back-testings and hypothetical or simulated performance data has many inherent limitations only some of which are described as follows:

It is designed with the benefit of hindsight, based on historical data, and does not reflect the impact that certain economic and market factors might have had on the decision-making process, if a client's portfolio had actually been managed. No back-testings, hypothetical or simulated performance can completely account for the impact of financial risk in actual performance.

It does not reflect actual transactions and cannot accurately account for the ability to withstand losses.

The information is based, in part, on hypothetical assumptions made for modeling purposes that may not be realized in the actual management of portfolios.

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Thank you
Investment Risk in Private Pension Schemes

Dick Saunders
Chief Executive
The illusion that risk can be removed

• DC puts risk in the hands of the member?
  – True that member carries investment risk
  – DB carries default risk – relies on inter-generational transfer
  – All the more dangerous for being hidden

• Private schemes riskier than state schemes?
  – Provided governments can afford them indefinitely
  – And younger generations prepared to pay the necessary taxes

• Government bonds the risk-free asset?
  – Equities offer growing income and less inflation risk
  – Today, Government bonds either carry default risk…
  – …or risk of significant capital loss if interest rates increase…
  – … and prospect of longer term inflation risk

Risks need to be balanced against each other and managed
Equity returns vary widely

100% UK Equities Investment
All 40 year histories from 1899 to 2011

Real returns, gross income reinvested, 0.5% TER and 2% real wage growth rate assumed. Auto enrolment 8% minimum.
Source: Barclays E uit, Gilt Stud, IMA.
Government bonds not the answer

100% UK Gilt vs 100% UK Equities Investment
All 40 year histories from 1899 to 2011

Real returns, gross income reinvested, 0.5% TER and 2% real wage growth rate assumed. Auto enrolment 8% minimum.
Source: Barclays UK Equity Stud, IMA
Classical diversification?

60%/40% Equity/Gilt Split vs 100% UK Equities Investment
All 40 year histories from 1899 to 2011

Real returns, gross income reinvested, 0.5% TER and 2% real wage growth rate assumed. Auto enrolment 8% minimum.
Source: Barclays E uit, Gilt Stud., IMA
Simple lifestyleing

10 Year Lifestyling vs 100% UK Equities Investment
All 40 year histories from 1899 to 2011

Real returns, gross income reinvested, 0.5% TER and 2% real wage growth rate assumed. Auto enrolment 8% minimum.
Source: Barcla’s E uit Gilt Stud, IMA.
The accidental investor

• DC scheme members not financially expert
  – May be new to investment products
  – Obvious problem of information asymmetry

• Risks
  – Over-exposure to volatile assets when liquidating portfolio
  – Excessive caution during accumulation phase
  – Under-saving – good investments cannot compensate for inadequate contributions
Potential solutions?

• **Asset restrictions**
  – Likely to prove inappropriate, eg government bonds today

• **Risk-based measures**
  – VaR discredited – proved pro-cyclical during crisis

• **Guarantees**
  – Expensive and opaque
Guarantees – a cautionary tale

• UK National Savings issued 19 “Guaranteed Equity Bonds” between 2002 and 2010
  – 5 year bonds
  – Return related to FTSE 100 index (but not total return)
  – Guaranteed return of capital after 5 years if FTSE down

• IMA analysed returns in detail, comparing with UK index tracking funds

• UK stock market returns negative over 15 of last 107 five-year periods
  – Average loss 12% in 15 periods, average gains 65% in 92 periods
  – So risk insured not large

• But costs are large: relative to index-trackers 1.8% - 5.0% a year

Costs on average 17 times value of benefits
Conclusions

• No simple answers
  – Rushed or quantitative regulation will not work
  – Unintended consequences

• Way forward is to focus on good governance of DC

• Clear allocation of responsibilities: employer, employee, manager

• Default strategy design

• Proper processes for objective setting, monitoring, reporting
Good afternoon ladies and gentlemen,

It is now time to move to the second part of our conference to address the issues related to the information to be given to the members of private pension schemes.

These issues should not be taken lightly because private pension schemes by definition tend to require choices and decisions on a number of important issues such as: whether or not participate, how much to contribute, what to invest in, and how to receive the pension at retirement.

Personal responsibility can have significant advantages, notably in terms of flexibility and choice for individuals to adjust their pensions in line with their needs and preferences. At the same time, there are valid concerns about the ability of individuals to make the right decisions when it comes to planning for their retirement. And this situation contributes to explain why take-up rates associated with voluntary pension scheme participation tend to be low in many countries, indicating that many individuals do not want to make an active choice. Research in behavioral economics and financial literacy confirms this is a real problem.
As far as I know, there are four main types of solution available to address the individual choice problem:

- One involves automatic enrolment, with possible opt-outs. By allowing individuals to opt-out of the scheme if they choose not to participate, this solution has the advantage of not forcing people to save more.

- A second approach consists of incentivizing participation and scheme contributions, for instance through tax incentives or matching employer contributions in occupational pension schemes.

- A third approach involves limiting the choice set for individuals, or proposing a default option for those individuals who are unwilling to make an investment choice. To the extent that a significant proportion of individuals may fall back on the default, the design of the default option is particularly important. To avoid imposing the same risk-return investment profile to the young and older participants, it is also possible to propose a default option with a life-cycle overlay along the line discussed by Pablo.

- Finally, an alternative – or, rather, complementary – approach to facilitate individual choice and decision-making is to provide financial advice and tailored information about the scheme.
In its recent advice to the European Commission, EIPOA has stressed the potential benefits of this approach, and made a number of recommendations concerning in particular the elements that should be provided for the investment options that are offered by DC schemes.

Given that the European Commission will take an initiative aimed at improving consumer information and protection standards, we at EFAMA felt it would be interesting to address this issue to contribute to the preparation of this initiative and to raise awareness on the practices and experiences in different countries.

One of the challenges is to assess whether it would be possible to harmonize the information and transparency requirements across Europe. EIOPA believes that this would be impossible and undesirable for occupational pension schemes given the diversity of such schemes and the specificities of the national pension legislation and practice.

Whilst agreeing with the general view that pension systems are different across Europe, we consider that it would be desirable to aim at EU-level information requirements as a low level of harmonization would continue to hamper cross-border activities. If this objective appears too ambitious for occupational pension schemes, we would hope that it could be reached for third-pillar retirement products that would be designed to be offered across Europe.

To discuss these issues, I am very pleased to introduce the three experts who have accepted to participate in this panel:
• Gunnar Anderson served as Head of Insurance for the Swedish Financial Supervisory authority in 1991-1994. Since then, Gunnar has been working with different insurance companies as CEO for many years, and today, Gunnar is working as a university professor as well an expert with EIOPA, in particular in its Occupational Pensions Stakeholders Group. It will be interesting to hear Gunnar’s views, especially in light of the experience of Sweden with the Premium Pension Savings system.

• Fabio Galli is the Director General of Assogestioni, the Italian Association of Investment Management. Fabio is also a member of the Board of Directors of EFAMA as well as of the Board of the European Federation of Retirement Provision (EFRP). Fabio is more than used to participate in debates on pensions, and I am very pleased he agrees once again to share with us his views on information and transparency standards for pension scheme members.

• Pierre Genest is the Head of workplace saving at Amundi Asset Management. In this capacity, Pierre has accumulated a rich experience on long-term savings issues, in general, and on all the issues related to the PERCO – the Plan d’épargne retraite collectif. As you may know, the PERCOs are occupational retirement plans that were launched in 2003 to support the development of complementary funded pension schemes in
It’s time I give the floor to our distinguished speakers. I propose to start with Gunnar, and to continue with Fabio and Pierre.

Gunnar: you have the floor.
Short about Folksam

- Folksam is one of the main players in the Swedish insurance and pension market
- App. 4 million customers (almost 50% of the population)
- AuM 300 bill SEK (~33 bill. €)
- Annual premium income over 30 bill SEK

- Long tradition with individual pension products and collective pension schemes.
History on information requirements – insurance and occupational pension

- Sweden has had binding informations rules for more than 20 years, of different scopes

- Current rules came into effect 2012-04-01 and include insurance and occupational pension

- The launch (?) of Solvency II will enhance the need for information and thus, information rules will be reviewed once again – this is an ongoing process

- ... and yet; the customers are not informed enough!
Current rules refers to - FFFs 2011:39

- Insurance providers (incl. foreign providers), writing direct business
- Pension funds
- Foreign providers of occupational pension
Scope of current rules - FFFs 2011:39

- Current rules covers
  - Information before signing a contract
  - Information to be given during the duration of the policy to insured and beneficiary
  - Information to be given during a payment period to beneficiary
  - Occ Pen: information to be given to the beneficiary and those who are eligible to receive information
  - Fact sheet for individual life insurance (*cf. KIID – Key Investment Information Document*)
  - Geometric mean (calculation of average yield)
Example of a national pension system – the Swedish PPM system

• 1994 the five major political parties agreed to launch a pension reform

• PPM, the administrator of the system, has celebrated its 10th anniversary

• Today each individual can monitor their own pension scheme, all three pillars, including creating proper forecasts

• … at www.minpension.se
Välkommen Anna Panna

Här kan du få en samlad bild av din inbjuda pension och göra en personlig pensionsprognos.

A
  - Videointroduktion på 3 minuter
  - Prognosstolen - 4 filmer om pensionsprognoser

B
Under stegen Attin pension, Tjänstepension och Privat pension ovan kan du se samlade uppgifter om vad du hittills tjänat in till din pension.
  - Insamling av pensionsuppgifter klar
    Dina pensionsuppgifter uppdateras årligen.
    Om du nyligen bytt jobb eller ändrat dina försäkringar kan du begära en ny uppdatering.
    Uppdatera nu

C
Om du tänker uppgift om en eller flera försäkringar under stegen Tjänstepension och Privat pension ovan kan dina möjligheter variera. De inmatade uppgifterna tas sedan med i din pensionsprognos.

D
Nu är du redo att göra en personlig pensionsprognos under stegen Pensionsprognos ovan, och få en samlad bild av din pension.
<table>
<thead>
<tr>
<th>Pensionsinstitut</th>
<th>Uttagsperiod</th>
<th>Intjänad pension</th>
<th>Värdedatum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alecta</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Försäkringstyp</td>
<td>Ålder</td>
<td>Tid</td>
<td>Kapital</td>
</tr>
<tr>
<td>ITP avdelning 1</td>
<td>65 år</td>
<td>Livsvarigt</td>
<td>28 500 kr</td>
</tr>
<tr>
<td>Summa</td>
<td></td>
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<td>28 500 kr</td>
</tr>
<tr>
<td></td>
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</tr>
<tr>
<td>Handelsbanken Liv</td>
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</tr>
<tr>
<td>Försäkringstyp</td>
<td>Ålder</td>
<td>Tid</td>
<td>Kapital</td>
</tr>
<tr>
<td>STPK egenpension</td>
<td>65 år</td>
<td>5 år</td>
<td>100 000 kr</td>
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<tr>
<td>Summa</td>
<td></td>
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<td>100 000 kr</td>
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<tr>
<td></td>
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</tr>
<tr>
<td>Totalsumma kapital</td>
<td></td>
<td></td>
<td>128 500 kr</td>
</tr>
</tbody>
</table>

Saknar du uppgifter om någon tjänstepension? Du kan själv lägga till de uppgifter som saknas.

Lägg till uppgift
### Min pension

#### Uppgifter för Karl Demosson (1967-03-12)

#### Min intjänade pension

<table>
<thead>
<tr>
<th>Pensionsinstut</th>
<th>Uptagsperiod</th>
<th>Intjänad pension</th>
<th>Sparande</th>
<th>Värdedatum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordea Liv &amp; Pension</td>
<td>65 år</td>
<td><strong>78 123 kr</strong></td>
<td><strong>500 kr/mån</strong></td>
<td>2011-08-24</td>
</tr>
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<td>Försäkringstyp</td>
<td>Ålder</td>
<td>Tid</td>
<td>Kapital</td>
<td>Sparande</td>
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<tr>
<td>Ips</td>
<td>5 år</td>
<td></td>
<td>78 123 kr</td>
<td>78 123 kr</td>
</tr>
<tr>
<td>Summa</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Totalsumma kapital

- **78 123 kr**

Saknar du uppgifter om någon privat pension? Du kan själv lägga till de uppgifter som saknas.

**Lägg till uppgift**

Frågor och svar om privat pension:

- Mitt privata pensionsparande syns inte på minpension.se. Varför?
- Ska jag lägga in mitt IPS-parande?
Min pension

Uppgifter till din pensionsprognos

Hur planerar du att tjäna in till din pension?

Arbetsart: 
- Privatanställd tjänsteman (TPT)

Månadsönskning: 
- 2000 kr

Tänker du arbeta rättidig, vara försäkringsledig, eller slutara?
- Lägg till tillfällig förandrad inkomst i prognosen

Förväntad löneutveckling: 
- Förväntad åkastning på pensionssparande:
  - 0,00 % (Låg)
  - 3,50 % (Låg)

Hur planerar du att ta ut din pension?

- Enligt pensionsavtalet
- Önskad pensionsålder: 65 år
- Olika uttagsperioder för olika försäkringar

Visa avtalade uttagsperioder

Återställ Beräkna prognos
## Pensionsprognos

Andra uppgifterna och gör en ny prognos

Visa beräknad sluttning

Visa halvårsbudget

Visa diagram:

- Visa utbetalningsperioder som ålder
- Visa utbetalningsperioder som kalenderår
- Visa detaljer för samtliga perioder

### Ålder

<table>
<thead>
<tr>
<th>Ålder</th>
<th>Allmän pension</th>
<th>Tjänstepension</th>
<th>Privat pension</th>
<th>Totalt före skatt</th>
</tr>
</thead>
<tbody>
<tr>
<td>65 år, 0 mån tom. 69 år, 11 mån</td>
<td>15 000</td>
<td>4 700</td>
<td>5 100</td>
<td>24 800</td>
</tr>
<tr>
<td>70 år, 0 mån och livet ut</td>
<td>15 000</td>
<td>1 700</td>
<td>0</td>
<td>16 700</td>
</tr>
</tbody>
</table>

### Värden som används för denna prognos

Avkastning: 3,50 %
Löneutveckling: 0,00 %
Sluttion: 23 300 kr/mån

### Beskrivning av tabellen

Minpension.se - Iphone & Android app
To be seen at a bank near you:
or at the PPM authority:
Short CV – Gunnar Andersson

• Actuary, PhD in mathematical statistics
• 15 years as CEO in different Swedish insurance companies
• 3 years at the Swedish FSA
• Adj professor in math stat, KTH, Stockholm
• Board member in Swedish 7AP fund (pillar 1)
• Academic member of OPSG at EIOPA

• gunnar.andersson@folksam.se
Information and Transparency Standards for Private Pension Schemes

The Italian Experience
Information and Transparency Standards: EIOPA’s view and Italian experience

EIOPA advice to the EC on the IORP Directive Review

“The EU requirement to actually deliver documents before joining should be limited to a summary document such as the Key Investor Information Document (KIID)”

Pre-enrolment information

ITALY

Ongoing basis information
Pre-enrolment information: *Nota Informativa* (Informative Note)

*Synthetic document aimed at improving awareness of potential subscribers and promoting the comparability between alternative pension schemes.*

- Similar to UCITS Prospectus

The Informative Note contains the same level of information provided by the KIID, but the content is presented in a less schematic manner.

- The approach currently adopted by the Italian regulator on Pension Funds (COVIP) is in line with the view expressed by EIOPA.
Pre-enrolment information: Nota Informativa (Informative Note)

Structure and content:

The Italian watchdog on Pension Funds (COVIP) strictly defined the structure and content of the Information Note which must contain the following parts:

1. **Synthetic Form**

   This section aims at facilitating the comparison between the pension fund and alternative pension schemes.

2. **Pension Fund Characteristics**

   This section contains detailed information about the contribution model, the investment policy, the pension scheme benefit model and any other relevant information.

3. **Information on Management Performance**

   The last part of the Document illustrates the investment and risk management policy and the historical trend of a return/risk index.
Pre-enrolment information: 
*Nota Informativa* (Informative Note)

**Italian peculiarities**

1. **The Synthetic Costs Index (*Indice Sintetico dei Costi*)**

   The methodology for the calculation of the Index is the same for every typology of pension schemes, and is aimed at giving an easy and immediate measure of the percentage impact of costs on the return of the pension scheme for the single participant.

   The Synthetic Costs Index is defined through different assumptions (years of participation in the pension scheme; annual contribution; annual return rate) and has a purely indicative value.

   The Index is represented as a chart, for immediate and easy interpretation; the chart shows the comparison between the return of the pension scheme and an ideally no-costs alternative investment.
Pre-enrolment information: *Nota Informativa* (Informative Note)

**Italian peculiarities**

2. The **Illustrative Project** (*Progetto Esemplificativo*)

It represents an estimation under different assumption of the annuity the member will receive at the end of his working life.

The Illustrative Project is an instrument participants can use:

- to evaluate the correspondence of the annuity they will receive with their needs/expectations;
- To choose whether to increase or decrease their contribution to the pension scheme.

COVIP strictly defined the criteria which pension schemes must follow to provide these information to participants.
Pre-enrolment information: 
*Nota Informativa* (Informative Note)

**Italian peculiarities**

2 The **Illustrative Project** (*Progetto Esemplificativo*)

**2 TYPOLOGIES**

- **STANDARDIZED**
  - pre-enrolment information

- **PERSONALIZED**
  - ongoing basis information

Contained in the *Pension Fund Characteristics* part of the Information Note, it calculates the level of the annuity under different assumptions regarding:

- The participant age (30, 40 or 50 at the moment of subscription to the pension scheme)
- The annual contribution (€1,500; 2,000; 2,500)
- The Standard Retirement age (67 for both men and women)
Ongoing basis information

Italian peculiarities

In July 2010 COVIP redefined the structure and content of the periodic communication a pension scheme must deliver annually (by March 31\textsuperscript{st}) to its participants.

The periodic communication consists of 2 Sections, respectively dedicated to:

1. Data related to the Individual Position
   - This first Section: contains Identification Data for the participants; defines the individual position value comparing it with the value at the end of the previous year; represents the return on management activities; compares the returns with the selected benchmark.

2. General Information
   - The second Section accounts for any variation occurred to the Pension Scheme structure since the last periodic communication provided.
Ongoing basis information

**Italian peculiarities**

The **Illustrative Project (Progetto Esemplificativo)**

2 TYPOLoGIES

- STANDARDIZED
  - pre-enrolment information

- PERSONALIZED
  - ongoing basis information

Defined for the first time as the member subscribes to the pension scheme, it is updated and delivered to participants at least annually together with the periodic communications.

Differently from the standardized version, the personalized one gives a prevision of the level of the annuity the single member will receive at the end of his participation in the pension scheme.

The aim is to provide members with an instrument to evaluate and monitor their position enabling them to decide whether to change the level of contribution.
Ongoing basis information

**Italian peculiarities**

The **Illustrative Project (Progetto Esemplificativo)**

Since it has to be referred to the position of a single participant, the estimation is based on both pension scheme and member characteristics; it also takes into account external factors periodically defined by COVIP:

- Sex and age
- Contribution rate
- Investment profile
- Pension scheme costs structure
- Annuity calculation techniques
- Contribution to annuity transformation costs
- Expected contribution/salary growing rate
- Expected inflation rate
- Expected return on management
- Expected retirement age

*Factors defined by COVIP*
Amundi Savings and Retirement Schemes

Pierre GENEST – Amundi
French DC – The PERCO

Investments supports are under the scope of the regulation

**Minimum 3 funds including a “solidarity” fund**
- No company shares

**2003**

**2008**

Default option – the less risky fund

**2011**

- Life cycle style management option
- Possible as default option

**Prudent Person Rule**
At the inception – information supervised by the regulator

Negotiated Plan: Employee and Employer Representatives
Formal agreement from the French Authorities

Communication: Paper Based Documentation

“Le Livret d’accueil”

- A precise description of the plan rules
- A detailed presentation of the different management options.
- An Enrolment Kit.

Technically:

- The employer provides a comprehensive list of employees to the account keeper
- The new employees will automatically receive the “Livret d’accueil”
The Defined Contribution Plan for S.A. employees:

3 high quality funds pre-selected 5

Two management options that meet your pension needs 6

- "Life Cycle Management" option 6
- "Do-it-Yourself" option 8

Your contribution, the company matching and fees 9

Who manages your savings? 12

How to monitor your savings plan? 13

Questions & Answers 15

A very easy subscription procedure 18
At the inception – information supervised by the regulator

Negotiated Plan : Employee and Employer Representatives
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Technically :
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- The new employees will automatically receive the “Livret d’accueil”
The investment phase

**Employee = OPT IN Plan**

Livret d’accueil + Enrolment KIT

**Internet Tools**

- The simulations tools
  - Define your investor profile
  - Define your investment profile
- Investment - Do it yourself or a packaged retirement solution
- Life cycle style managed by the accounting platform
- Life cycle fund + guarantee on the capital invested.
- The simulations tools

1. Define your investment profile
2. Select your investment option
3. Compare your investment option with your investor profile
Investment – general information included in the "livret d’acceuil"

- Treasury Fund: the less risky asset

- Equity Fund: a measure of risk associated with a recommended holding period
The investment phase

**Employee = OPT IN Plan**

Livret d’accueil + Enrolment KIT

**Internet Tools**

- **The simulations tools**
  - Define your investor profile
  - Define your investment profile

- Investment - Do it yourself or a packaged retirement solution

- Life cycle style managed by the accounting platform
- Life cycle fund + guarantee on the capital invested.

- The simulations tools
The three allocation grids provide different asset allocations defined between equities, bonds and money market, according to their risk level.

- **Defensive profile**
  - Capital preservation: 99%

- **Balanced profile**
  - Capital preservation: 97.5%

- **Dynamic profile**
  - Capital preservation: 90%

**Smoothing of the performance**: Each quarter a re-balancing of total assets is done to compensate the financial markets drift.
The investment phase

Employee = OPT IN Plan

Livret d’acceuil + Enrolment KIT

Internet Tools

- **The simulations tools**
  - Define your investor profile
  - Define your investment profile

- **Investment - Do it yourself or a packaged retirement solution**

- **Life cycle style managed by the accounting platform**

- **Life cycle fund + guarantee on the capital invested.**

- **The simulations tools**
The guaranteed target funds

3 open-ended guaranteed funds:
A complete investment solution with the flexibility to choose the investment horizon and the amount of regular savings

- **Recommended investment horizon**: 10 years, 15 years & 20 years

- **Flexibility**: subscriptions/withdrawals* at any time

- **Security**: each investment is fully guaranteed at maturity

- **Lock-in of capital gains**: any capital gain is secured and protected against future possible market downturns, with a guarantee equal to the highest NAV reached during the savings phase

* with entry/exit fees, if any
Retirement Solution: illustration

... allowing subscriptions all over the life of the product. Each premium invested is guaranteed at maturity.

Any projections, valuations, and statistical analyses provided herein are provided to assist the recipient in the evaluation of the matters described herein. Such projections, valuations and analyses may be based on subjective assessments and assumptions and may use one among alternative methodologies that produce different results; accordingly, such projections, valuations and statistical analyses should not be viewed as facts and should not be relied upon as an accurate prediction of future events.

Simulated performance is not a reliable indicator of future results.

Source: Amundi IS
An increasing use of videos

PS: 80% of our videos are monitored via smartphones
The investment phase

**Employee = OPT IN Plan**

Livret d’accueil + Enrolment KIT

**Internet Tools**

- **The simulations tools**
  - Define your investor profile
  - Define your investment profile

- **Investment - Do it yourself or a packaged retirement solution**

- **Life cycle style managed by the accounting platform**
- **Life cycle fund + guarantee on the capital invested.**

- **The simulations tools**
Investment choice and risk profile
Reporting during the accrual phase

**Legal constraints**
- Receipts: for each instruction, paper based or internet
- Account statement: 1/year, paper based

**Additional Features**
- Real time valuation of your portfolio

**Internet / Call center**

**In case of dismissal**
- Account statement
- The list of your former account keepers with remaining holdings at your name
The internet Receipt

Preparer votre retraite

Etape 5 : confirmation de votre opération

Votre opération a été enregistrée sous la référence 53167435.

COMpte-Rendu d’Opération

<table>
<thead>
<tr>
<th>Référence</th>
<th>53167435</th>
</tr>
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<tbody>
<tr>
<td>Entreprise</td>
<td>AMUNDI</td>
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<tr>
<td>Fréquence</td>
<td>Mensuelle</td>
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<tr>
<td>Prochain Investissement</td>
<td>31/05/2011</td>
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<td>Date de la demande</td>
<td>26/04/2011</td>
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<td>Statut</td>
<td>FIN_SAISIE</td>
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<td>Montant du versement</td>
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</tr>
<tr>
<td>Coordonnées bancaires</td>
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</tr>
</tbody>
</table>

Sur votre PERCO LIBRE

- AMUNDI PROTECT 50
- AMUNDI DUO ACTIONS EUROLAND

Montant total investi : 131,92 €
Reporting during the accrual phase

Legal constraints

- Receipts: for each instruction, paper based or internet
- Account statement: 1/year, paper based

Additional Features

- Real time valuation of your portfolio

Internet / Call center

In case of dismissal

Account statement

☑️ the list of your former account keepers with remaining holdings at your name
Your Portfolio - Internet real time information
Reporting during the accrual phase

**Legal constraints**
- Receipts: for each instruction, paper based or internet
- Account statement: 1/year, paper based

**Additional Features**
- Real time valuation of your portfolio

**Internet / Call center**

**In case of dismissal**
- Account statement
- ☒ the list of your former account keepers with remaining holdings at your name
The retirement phase

Legal constraints

2 options:
capital or pension

6 months before the retirement date: paper based information including your portfolio + the coordinates of the insurer selected in your plan rules

Additional Features

Internet

Simulation of the different pensions profiles

Asset management / Platform

Programmed withdrawal
Guaranteed withdrawals Program

Accrual Phase

Retirement Phase

10 years (guaranteed)

166 €
500 €
2,000 €

Month
Quarter
Year

Capital pension

Guaranteed Withdrawal Program

20,000 €
Conclusion

Communication processes are complex. They should be managed by strong administrative Platforms, which will deliver online and real time information.

An efficient service at the best cost will need:
- **High volume on the administrative platform**: common solutions for corporate retirement plan and individual retirement plan?
- **Standardization of the legal constraints**: Paper Based or Paper less environment?
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