



THE PAYOUT PHASE OF PENSIONS

Annuities and implications for financial markets

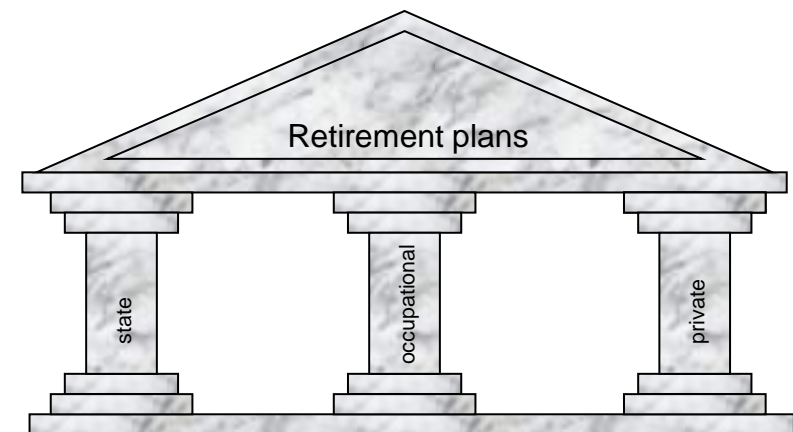
Roundtable on the pay out phase and retirement income

Paris, 12 November 2008

- 1st Pillar:
 - State pension plans provide more than 90% of old age income

- 2nd Pillar:
 - Occupational pension plans provided by pension institutions (Pensionskassen)
 - about 12 % of the workers
 - pension payments for about 2 % of the current pensioners
 - Occupational group insurance: occupational pension plans provided by insurance companies
 - Severance and retirement funds

- 3rd Pillar:
 - Private savings, Life insurance, Investment funds



Plan sponsors may choose between five types of plans:

- Direct insurance
- Pension company (Pensionskasse)
- Occupational group insurance
- Book reserve
- Support funds

Occupational pension system:

a collective system with (increasing) individual rights
blurring borderline between pension and insurance

- Transfer
(in particular situations) the employee may demand the transfer of the vested amount to the *Pensionskasse* or to the occupational group insurance
- Life cycle model (Pensionskassen)
Idea: more risk in the active phase; a more stable pension payment for retirees

A beneficiary chooses one of three investment and risk sharing groups according to his preferred investment strategy (risky, balanced, conservative). After the initial choice, a beneficiary can decide to change the investment and risk sharing group on an individual basis, but only towards a more conservative investment strategy.

Sponsoring employers may conclude a contract to implement the pension plan with

- Pension company (Pensionskasse)
- Insurance company (Occupational group insurance)

- Obligation to make commitments to old-age and survivors' pensions; commitments to invalidity pensions are voluntary. Old-age pensions shall be paid for life, invalidity pensions for the duration of invalidity and survivors' pensions according to the pension contract.
- Same tax treatments
- ***Different types of guarantees***

- **Minimum yield guarantee** (Pensionskasse)
for investment and risk sharing groups with minimum yield arrangements, the obligation of the Pension companies to cover the deficient amount by equity capital in the coming years
Challenge: This guarantee covers a period over 60 months, whereas the pension business is a long term business with long term investments
- **Guaranteed interest rate** (Occupational group insurance)
The interest rate for the calculation of the technical provisions is guaranteed and shall not exceed 2.25%
- **Employer's guarantee**
additional contribution to make up for unforeseen shortfalls which arose due to incorrect assumptions in the bases of calculation or due to underperformance

- Longevity Risk

The mortality reduction leads to updates of mortality tables (released by the Actuarial Association of Austria)

The actuary has to verify the adequacy of these tables.

Every update leads to a reduction of pension payment or to an increase in the required capital, according to the mortality reduction.

- Long term Investment vs short term guarantee

A guarantee does not always cover the whole investment period (eg. Pensionskassen – minimum yield guarantee)

The fulfilment of pension obligations and a short term guarantee lead to suboptimal investments.

- Risk Management (Regulation on minimum standards for the risk management of Pensionskassen)
A continual process in each investment and risk sharing group in accordance with the type, scope and level of risk of the investments and pension commitments.
 - risk analyses and risk assessments with regard to the investment
 - consideration the type of assets and the planned holding period, the liquidity requirements and the current market situation
 - the structuring of the risk process in a risk management manual

- Special Investment Provisions for those Pensionskassen whose actual risk management process does not comply with the requirements set in the Risk Management Regulation.

- Some Investment limits
eg.: investment in shares, negotiable securities equivalent to shares, corporate bonds and other equity securities and other assets will be limited to an overall maximum of 70 %.
If the pension fund guarantees a minimum yield: maximum of 50 %

- Held to Maturity (Pensionskassen)
Mark-to-market-valuation
Exception: debt securities invested directly or via a special fund with a fixed maturity, can be valued at their net book value or their net current value at the time of the dedication
 - liquidity plan
 - no more than 60 % of the assets
 - disposal before its final maturity with the approval of the FMA.

Pensionskassen and Occupational Group Insurance

- The employer shall inform the beneficiaries of the provisions of the contract
- The Pensionskasse or the Insurance company shall inform the beneficiaries of the investment and performance
- The Pensionskasse supports the employer with regard to the information to beneficiaries

FMA minimum standards for informing beneficiaries

FMA minimum standards

- for informing the beneficiaries of Pensionskassen
- for information requirements in Occupational Group Insurance

Information about

- the kind of pension benefits
- the employee's option to pay his own contributions
- the tax treatment of contributions and benefits
- the principles of the investment policy and the structure of the investment portfolio
- the extent of the vested amount
- the disposal options for the vested amount

FMA minimum standards for information requirements in the life assurance sector

Information about

- Termination of the contract
- Premium sum for the guaranteed endowment benefit
- Guaranteed interest rate
- Bases of calculation for pension benefits with annuity option
- Surrender and premium exemption
- Participation in profits

Information requirements for unit-linked and index-linked life assurance:

- General information on the investor profile for unit-linked and index-linked life assurance
- Capital investments
- Surrender
- Presentation of benefits in unit-linked and index-linked life assurance