



Pensions and the Financial Crisis – an International Perspective

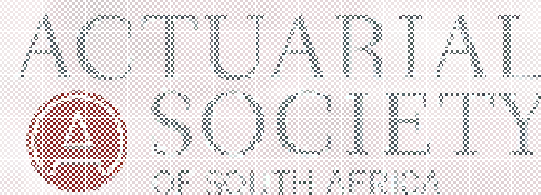
Tommy Doubell



Agenda

- Is it relevant?
- Overview of pension systems
- Impact of the Financial Crisis
- Lessons for South Africa

South Africa vs. The World



- Less serious impact on South Africa
- Lessons to learn

IORP Location - Regional clusters

Ireland:

- Anglo-Saxon region (UK, US)
- contract law / trustees
- DC focus
- asset pooling focus

Netherlands (PPI):

- Broad regional base
- DC focus
- corporate control
- broad experience; pension services

Belgium

- Continental European region
- DB / DC
- integral pension offering
- checks & balances governance

• East-European region

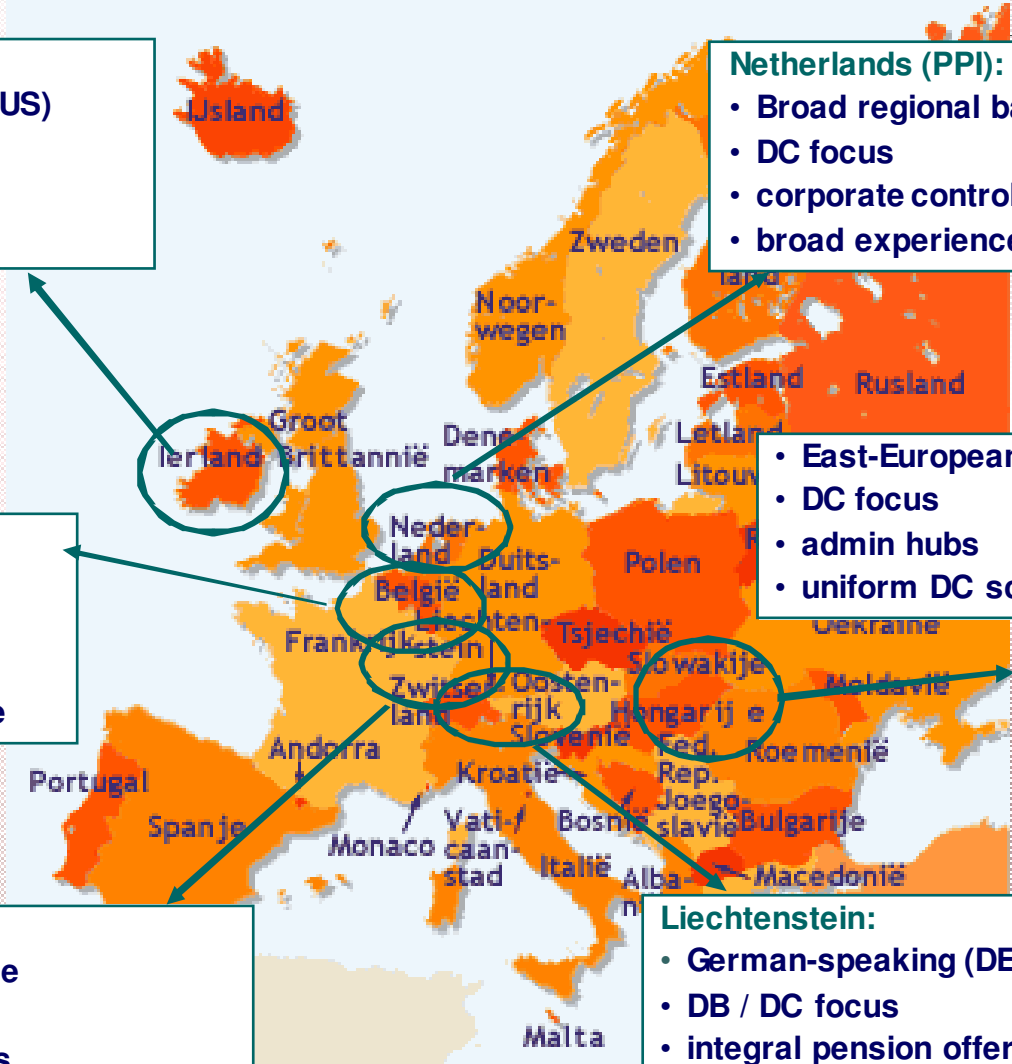
- DC focus
- admin hubs
- uniform DC schemes

Luxembourg:

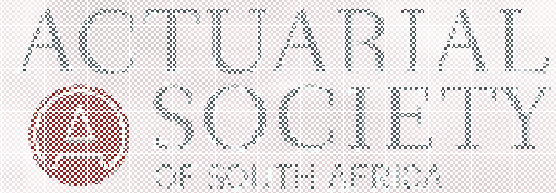
- Broad regional base
- DB / DC
- asset pooling focus
- corporate control
- financial service providers

Liechtenstein:

- German-speaking (DE, CH, AT, IT, SCAN)
- DB / DC focus
- integral pension offering
- “rules-based”; “insurance culture”



International Pension Systems



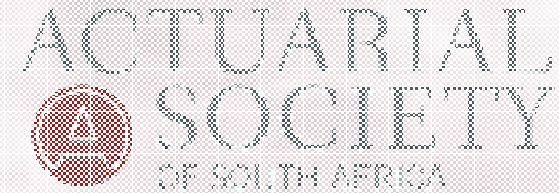
United States

- Significant DB liabilities (62% of Fortune 1000 companies have DB funds; 73% of these funds are “open”)
- New funds mostly DC (401 k)
- Highly exposed to investment markets (avg. 60% in equities)

Germany

- Mostly DB – pure DC not allowed
- Companies carry liability on its books via book reserves – Direktzusage (direct pension promise)
- Conservative investment (85%-90% in fixed interest)

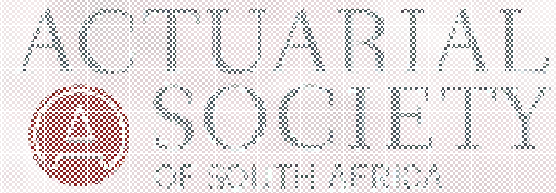
International Pension Systems



The Netherlands

- Mostly DB
- A few very large industry-wide schemes (80)
- Professional management (investment & governance)
- Conservative investments (70%-80% in fixed interest)
- Recent move from unfunded to funded past service

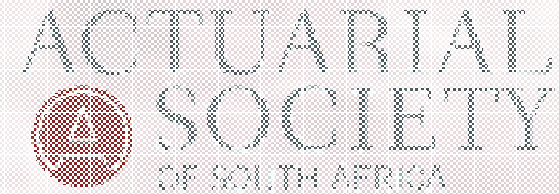
International Pension Systems



United Kingdom

- Older Funds DB, newer DC (about 70% DB)
- Company sponsored funds
- Trust based system
- High equity component (60%-70%)
- Pensions Protection Fund
- Shortfall is a debt on the employer

International Pension Systems



Ireland

- Older Funds DB, newer DC (Assets: €90bn DB vs €30bn DC)
- Company sponsored funds
- Trust based system
- High equity component (65%-75%)
- No Protection Fund
- No debt on the employer

Recent US & Europe history

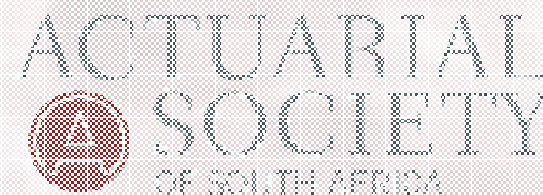
- Social Security (first pillar provision) important
- DB legacy
- Mortality improvements
 - Increases cost of pensions
 - More pensioners relative to active members
- Size of pension fund increases relative to company

International Pension Systems

Key Statistics for Large Irish State-Owned Pension Schemes

Company	Size of Corporate			Size of Group Sponsored DB Liabilities			Source
	Group Net Profit / Surplus	Group Net Assets	Market Capitalisation (30/10/2008)	DB Pension Scheme Assets	DB Pension Scheme Liabilities	Funding Status	Published Annual Reports Dated
	€M	€M	€M	€M	€M		
An Post	43	255	-	2,091	(2,193)	95%	31/12/07
Bord Gais	142	1,263	-	238	(235)	101%	31/12/07
Bord Na Mona	17	234	-	179	(245)	73%	28/3/07
CIE	28	121	-	1,549	(1,711)	91%	31/12/07
Coillte Teo	40	1,204	-	179	(245)	73%	31/12/07
ESB	432	3,366	-	3,830	(5,182)	74%	31/12/07
RTE	26	181	-	997	(979)	102%	31/12/07
VHI	112	415	-	115	(136)	85%	28/2/08
Sub-total – State Owned	840	7,039		9,178	(10,926)	84%	

International Pension Systems

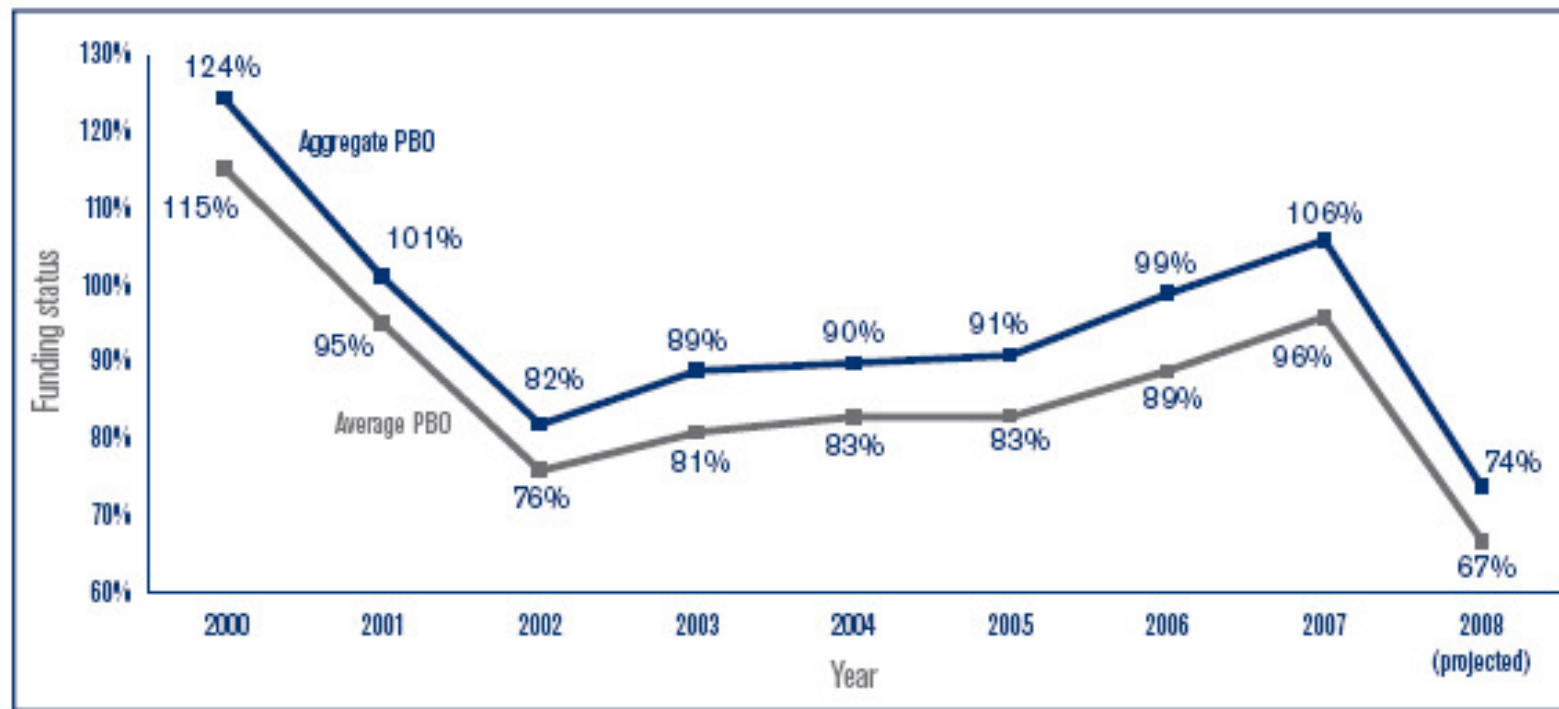


Key Statistics for Large Publicly Quoted Irish Companies

Company	Size of Corporate			Size of Group Sponsored DB Liabilities			Source
	Group Net Profit/ Surplus	Group Net Assets	Market Capitalisation 30/10/2008	DB Pension Scheme Assets	DB Pension Scheme Liabilities	Funding Status	Published Annual Reports Dated
AIB Plc.	€M 1,949	€M 9,827	€M 3,214	€M 3,693	€M (4,062)	91%	31/12/07
Bank of Ireland Plc.	1,704	6,482	1,634	3,967	(4,752)	83%	31/3/08
C&C Group Plc	249	898	441	170	(154)	110%	29/2/08
CRH Plc.	1,438	7,954	8,882	1,846	(1,931)	96%	31/12/07
FBD Holdings Plc	137	392	332	110	(116)	95%	31/12/07
Glanbia Plc	60	235	786	383	(497)	77%	30/12/07
Greencore Group	112	283	244	547	(573)	95%	31/12/07
Independent News & Media	196	747	419	271	(336)	81%	31/12/07
Irish Life & Permanent Plc.	452	2,643	595	1,262	(1,293)	98%	31/12/07
Kerry Group	246	1,229	3,151	700	(806)	87%	2/1/08
Waterford Wedgwood	(233)	(320)	85	705	(853)	83%	3/1/08
Sub-total Private Sector	6,310	30,370	19,784	13,653	(15,373)	89%	
Grand Total	7,150	37,409	19,784	22,831	(26,299)	87%	

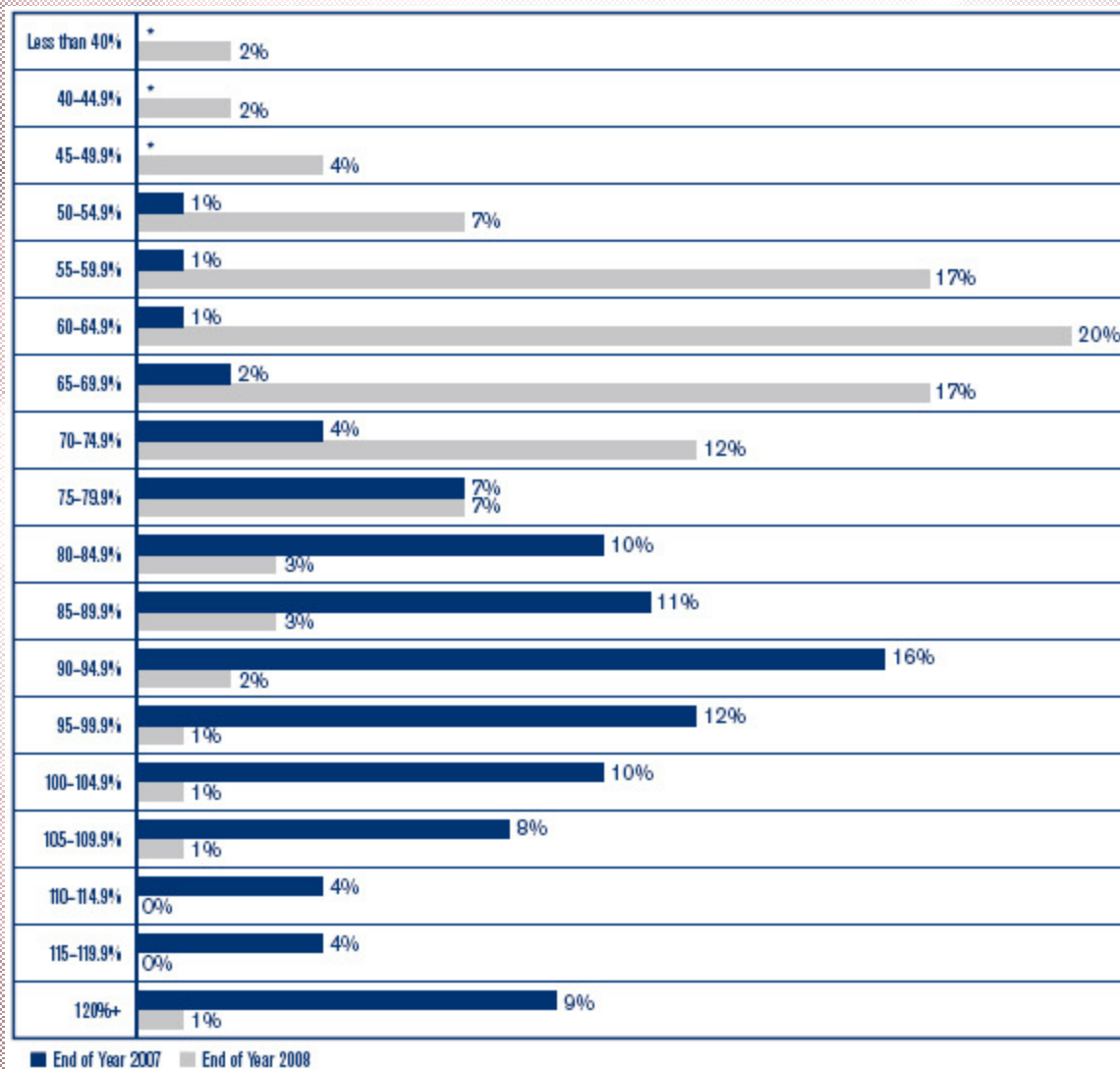
Impact of financial crisis

USA - Fortune 1000: funding level drop by 28 percentage points



Source: Watson Wyatt Worldwide

USA - Fortune 1000: Analysis of funding levels



* Less than 1 percent

Source: Watson Wyatt Worldwide

Impact of financial crisis

Lower funding levels

- UK – about 95% of funds under funded
- Ireland – about 90% of funds under funded
- Due to:
 - Reduction in asset values (equities)
 - Lower interest rates
 - ...also: guaranteed increases, continuing mortality improvements, high long term inflation expectations

Impact of financial crisis

Further implications

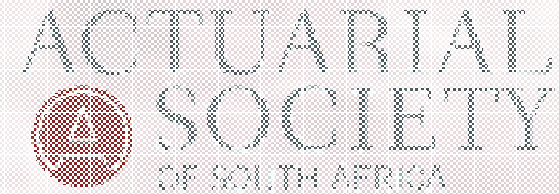
- Pensions impact on sponsoring company's balance sheet
- Plan sponsors' business under pressure – little scope to fund shortfall
- Serious under funding – more conservative investments?
- Final straw for DB funds
- Members cannot afford to retire

Impact of financial crisis

Protective measures

- Call upon insurance / Pensions Protection Funds (...but increased levies)
- Relax rules on breaching Minimum Funding Standards
 - UK – recovery periods of 20 years accepted, back-end loading, contingent assets
 - Ireland – was 3 year to recover to 100% - extended to 10 years 20 years avg. future lifetime of actives
- Ireland measures:
 - State annuity purchase scheme sells annuities at “cost” to insolvent schemes.
 - More protection to active members – pension increases to pensioners ranks with pension increases of actives & scope to reduce benefits of pensioners and deferred members

Protection Funds



United States

- Pension Benefit Guarantee Corporation
- Deficit of \$11bn at September 2008

United Kingdom

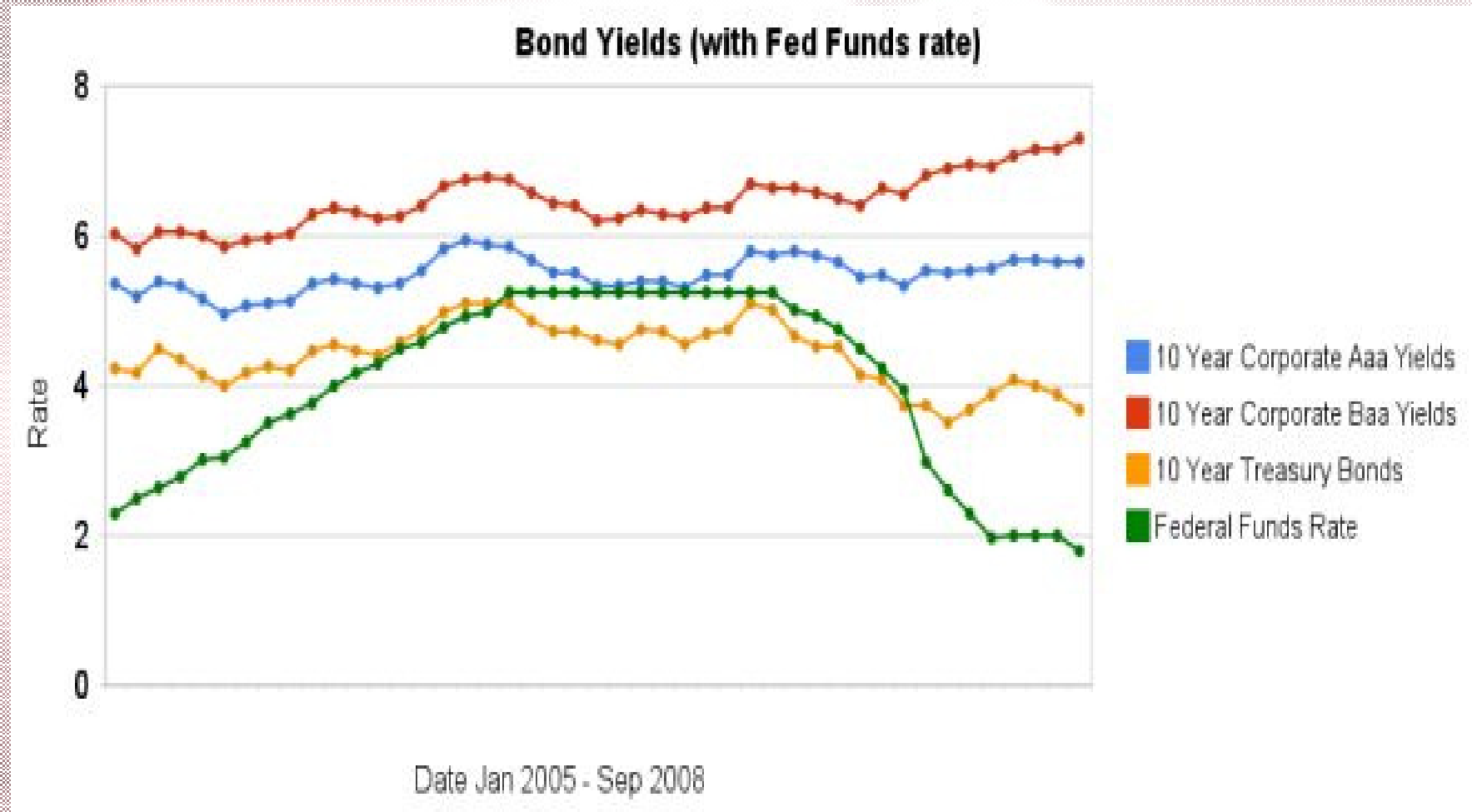
- Pension Protection Fund (from 2004)
- Deficits Growing
- 100 schemes in PPF; another 290 in assessment period

Impact of Financial Crisis

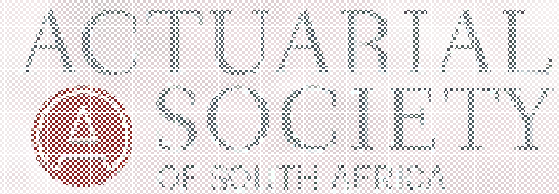
Interest Rates

- IAS 19 require valuation at high quality corporate bond yields
- Yields much higher than gilt yields
- Could lead to undervaluation of liabilities

Impact of Financial Crisis



Impact of Financial Crisis



Telegraph.co.uk

Royal Mail pensions deficit 'to cost taxpayer £12bn'

The Government is planning to hide the crippling cost to the taxpayer of taking on Royal Mail's pension deficit, which could be double the published £6bn figure, under proposals to reshape the postal group, a leading pensions expert has warned.

Los Angeles Times

Government pension agency braces for recession

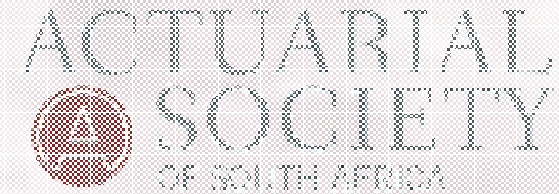
February 17, 2009

WASHINGTON -- The deepening recession spells trouble for a little-known government corporation that insures the pensions of 44 million workers and retirees.

What can we learn?

- Social security safety-net much smaller in SA – occupational pensions are crucial
- Be aware of risks (investment, plan sponsor, demographic, etc.)
- Implications for DC (advise members, suitable products)
- Consider institutional protection measures

Thanks to Members of



Dr. Heubeck G.m.b.H



ESOFAC Belgium



Pragma Consulting



Allvisa AG



Heubeck AG



Peraita y Asociados



Winter & Associates



Logos Ltd



Maher Consulting Actuary



Coyle Hamilton Willis



Crenca & Associati



ESOFAC Luxembourg S.A.



Correspondent Baltic



LnBB Actuarissen

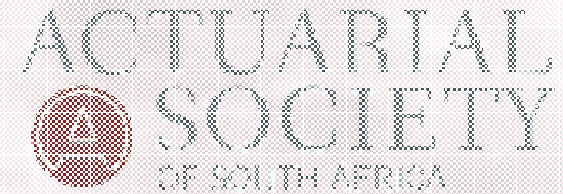


Rietmulder C.S



Barnett Waddingham LLP

Contact details



Tommie Doubell

E-mail: tommie.doubell@genesis-actuarial.com

Tel: +2756 215 1149



or email us at one of our branches;

Centurion
info@genesis-actuarial.com

Kroonstad
solutions@genesis-actuarial.com

Cape Town
outsourcing@genesis-actuarial.com



**2009 Convention Lite and the
Pensions, Health and Life Seminars**

19-20 May 2009

**Sandton Convention Centre
Johannesburg, South Africa**