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INTERNATIONAL TRENDS: INCREASING RETIREMENT AGE GAINING MOMENTUM

Greece: Increasing Retirement Age Part of Austerity Plan

The Greek government announced a drastic pension reform as part of the austerity plan meant to help the state out of its debt crisis. At 12.7% of GDP it has the largest budget deficit in Europe. The main feature of the reform is to postpone actual retirement age by two years, on average, to 63 years by eliminating all incentives to retire early and bringing women's retirement age in line with men's. At present, men retire at 65 years maximum and women at 60 years, a gap that has been condemned by EU courts. This time, there was no other option but to impose a reform, the Labor minister Andreas Loverdos explained, because the country's social security system is "threatened with collapse." "We are changing the pensions system in order to keep it alive", he argued. The Government is trying to cut down the state social budget expenses after years of mismanagement of social funds. Civil servants have organized mass strikes against the reform. The pension reform will also include clean-up measures by introducing a strict separation of healthcare and pension funds, and an independent entity to manage funds after a swirl of accusations of mismanagement of social funds. (Bloomberg, AFP)

Spain: Government Supports Increase of Retirement Age

Spanish Prime Minister said his government had approved a plan to raise retirement age from 65 to 67 years gradually from 2013 to help the social security system cope with an aging population, AFP reported. According to Spain's National Statistics Institute in 2059 there would be one pensioner for every working age person, making the solidarity pension system unsustainable and reform inevitable. The proposal will still be subjected to harsh debate, judging by the reaction of two major labor unions who have rejected the idea, and the country's employers' union arguing instead for an increase to 70 years. (AFP)

Azerbaijan: Retirement Age Increase Process Launched

Since the beginning of this year, Azerbaijan has started a process by which retirement age with full benefits is increased by 6 months every year to reach 63 for men and 60 for women. At present, men retire at age 62 and women at age 57. The Government promises an increase in existing pensions by 20% this year. (issa.gov.org, 1news.az)

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Finland: People Voluntarily Retire Later

Actual retirement age has increased from below 59 years in 1999, to 59.4 years in 2008, and 59.8 in 2009, the Helsingin Sanomat news website reported. Though statutory retirement age is 63 years, many retire earlier with disability or lower pensions. The number of applications for disability pensions (allowing early retirement before the statutory age of 63) decreased 6% in 2009, compared to 2008.

In 2005, a flexible pension age between 63 and 68 years was introduced to encourage work later in life. The Government's strategy is to gradually increase statutory retirement age to 65 years over 12 years starting in 2011, despite resistance of labor unions. (www.hs.fi, www.yle.fi)

Ireland: Increase of Retirement Age for Public Servants

Ireland's Minister of Finance Brian Lenihan says that a separate new pension scheme for all new entrants into the public service will be in place by the end of 2010. Under the scheme, new public servants will retire at age 66 instead of the current 65. (globalpensions.com)

Bulgaria: Considering Various Retirement Age Reforms

The Bulgarian Government is set on extending the work period to be eligible for a full pension. Currently, Bulgarian workers need to contribute for a minimum of 37 years for men and 34 years for women to be eligible for a full pension at age 60. According to one proposal, the minimum retirement age would be raised to 63 years for both men and women with at least 40 years of contributions for men and 37 for women. Another idea is to increase retirement age gradually to 65 years by 2022 with a minimum of 37 years of contributions. (sofiaecho.com, novinite.com).

France: Since January 1 Employees under 70 Free to Go on Working

Employers in the private sector are not allowed to "retire" their employees at age 65 anymore, which was the automatic retirement age. Since January 1, the "automatic" retirement age – when an employer can force his employee into retirement – has been increased to 70 years, meaning that an employee can work 5 years beyond 65 if he notifies his employer. Under the new law, though automatic retirement age is set at 70, the minimal retirement age with full benefits remains at 60 years, providing a worker has contributed 40,5 years. The age reform has been implemented in stages over 2009 but since January 1, 2010, it is obligatory for the whole private sector. The 5 year extension which gives the employee the initiative to opt into retirement is meant to encourage employment of elderly workers without actually imposing an unpopular increase of the statutory retirement age. In 2009, only 38.2% of the 55-64 age group was employed, the Figaro daily reported. According to the new law three months before a worker's 65th birthday the employer must ask him if he wishes to retire or not. The employer must repeat his question on a yearly basis, if he wishes to send the employee into retirement. Debate about increasing the minimal retirement to age over 60 years and increasing the minimal years of contribution to qualify for a full pension have been very intense and public, pushing union representatives and the population on the street. (la.tribune.fr, issa.gov.org, eurorus.org, [le Figaro.fr](http://leFigaro.fr))

MARKETS:

Defined Contribution Schemes

Romania: Second Pillar Returns on a High

Official data showed that the country's 12 pillar II funds have delivered a 2009 return of between 10.15% to 19.39% net thanks to a mixed approach. Many pension funds increased their bond holdings from 42.1% in May until 62.7% in October 2009, a "high interest rate environment, and efficient equity market timing", according to the Romanian Pension Funds' Association APAPR. Voluntary pension funds showed more diversity in performance and an overall average return of 15.88%. At the same time, pillar II funds were affected by the freeze on contributions to 2% instead of a gradual increase to 3% this year (with contributions funneled instead to pillar I), but the government said the increase would be partly resumed this year with a contribution rate of 2.5%. (IPE.com)

Editor's note: The real rate of return after allowing for inflation was 9.58%.

Austria: Participants Unwilling to Risk Losses

Austrian non-state pension funds ("Pensionskassen") showed an average rate of return of 9% in 2009, the pension fund association FVVK announced. Some portfolios with high equity (and more risk-prone) allocation even boasted a 20% rate of return. The association remarked that on the whole, Pensionskassen defied the critics who wanted the funds to get rid of equity holdings at the beginning of 2009, in favor of safer fixed income securities. Though Pensionskassen gained 210,000 new members in 2009, they sometimes faced anger from existing members. Around 150 members of the Siemens private pension fund and former management of the company are looking to sue their former employer, alleging they have not received the pensions that they expected after the fund posted a 14% negative return in 2008. Pension fund representatives argue that the scheme is a defined benefit scheme without guarantees, and that it had not promised any results but only a "likely scenario of pension increases." (IPE.com)

Hungary: Funds Make Up for 2008 Losses

Hungary's pillar II funds returned 21.3% on average in 2009, making up for 2008 losses. According to IPE.com, the returns in conservative funds with low equity exposure were lower at 9.58-16.46% than in more risk and equity exposed funds. (IPE.com)

Editor's note: The real rate of return after allowing for inflation was 17.8%.

Defined Benefit Schemes

UK: Yearly Report Shows DB Schemes in Crisis

The 2009 "Pensions Universe Risk Profile", a joint publication by the Pensions regulator and the Pension Protection Fund (PPF) on the performance and risks of defined benefit schemes in Britain covers 12.4 million memberships in over 6,800 PPF eligible scheme. The report highlights the following points:

- That schemes open to new members continue to decline – 27% of schemes are open in 2009, down from 36% in 2007.
- Funding has deteriorated, and combined with worsening economic outlook and rising sponsor insolvency probabilities, schemes see an increase in escalation of long-term risk. (PPF.co.uk)



Netherlands: Cover Ratios Improve Due to Equity

Funds appear to have improved their funding ratio to an average of 111%, according to Hewitt Associates, a pension investment consultancy. This increase was described as “remarkable” by officials quoted by IPE.com. In March 2009 the ratio had hit a low of 90% on average. Hewitt attributed the increase in the funding ratio to improved equity markets. (IPE.com)

FUND STRATEGIES:

Sweden: Fund to Review Decision Making Process after Scandal

One of Sweden’s main funds, the AP6 fund which specializes in Swedish equity of medium size companies - has been embroiled in a corporate scandal that illustrates a fund’s vulnerability when its investment objects unravel. AP6 owns a 35% stake in a large local IT company Xeratech. But Xeratech tumbled to the brink of bankruptcy in 2009 amidst anger over possible wrongdoing by its founders, thereby putting pension assets at risk. According to AP6 CEO Erling Gustaffson, AP6 is having trouble with other investments where he believes there could be ‘irregularities’, although he declined to name names. (IPE.com)

Global: Pension Funds Recovering but Mulling Changes

Pension funds are reviewing managers’ performance and portfolio allocation in the aftermath of the crisis, a study by Bfinance consultancy of 63 schemes surveyed in Europe and the United States. 27% of respondents said they planned to increase allocation to real estate. Funds were split over equity allocations with 27% planning to increase exposure to equity and 21% planning to reduce it. 13% plan to increase fixed income weightings, and 22% to cut them. Only 8% plan to increase hedge fund placements. Over two-thirds of the funds polled are watching their management very closely, having put managers on a watch list or having already reviewed the management firms. (IPE.com)

GOVERNMENT POLICIES:

Eastern Europe: OECD Blasts Using Mandatory Funds to Boost PAYG

Some countries like Slovakia, Estonia, Romania and Bulgaria have taken the drastic step of slashing contributions into pillar II mandatory schemes from between 4% and 6% to a uniform low of 2% and are using the difference to finance their first pillar systems. The head of pension policy at the OECD Edward Whitehouse told pension magazine Life & Pensions the moves were “unsustainable” and undermined the role of private, occupational pensions. "We're talking big chunks of money – it's got to the point where some of these countries have 70% or more of the workforce in private pension schemes." Lithuania plans to reverse the measure in 2011, and Romania’s government said contributions into pillar II would be back up to 2.5% this year. Though the World Bank had agreed with the government to raise it back to 3%. Interviewed by Life&Pensions, pension expert Adrian Allot with the Bucharest-based pension and insurance consultancy Milliman softened the judgment. Allot said that while cutting private contributions was not desirable, a pragmatic approach to the situation was understandable. "Short-term variations in the

systems are to be avoided, but governments in the region have had a difficult time balancing the books," he told Life&Pensions. (www.risk.net).

Estonia: Lower Maintenance Fees Effective

Estonian Central Register of Securities (EVK) which maintains a central electronic securities register in the country, has cut securities maintenance fees by up to a quarter and maintenance fees on investment fund shares, including third pillar pension funds, by approximately one-third, effective January 1, 2010. In estimation of the EVK, the lowering of maintenance fees will gladden “companies with a higher amount of share capital and equity participation”, as well as “make the voluntary register service more attractive than to date for many other private limited companies”.

"The lowering of the price list of the Central Register of Securities will also give banks an opportunity to adjust their service charges. We hope that through that, the securities market will become more attractive and investing more accessible to people," said Andrus Alber, Chairman of the Supervisory Board of the Estonian Central Register of Securities. (www.e-register.ee, balticbusinessnews.com)

Switzerland: Introducing Incentives for One-Off Pension Payments

People who decide to take lump sum payouts at retirement get tax advantages under the Swiss mandatory second pillar compared to those citizens who choose regular pension payments, according to the government report of November 2009 into second pillar tax issues. Though the report argues that these lump sum payouts “can endanger the retirement provision goal” as citizens may spend this money on something other than pension, currently the government is not planning to alter the tax treatment. The tax experts see this one-off payment as a “widely accepted” and “long-lived praxis”. (ipe.com)

Czech Republic: IMF Says Start Pillar II

The International Monetary Fund's (IMF) comprehensive report on the Czech economy, published January 25, highlights the "long-term fiscal challenge" posed by the outdated, pay-as-you-go Czech pension system and calls the Czech Republic to move to a fully-funded second pillar. “Pension reforms should make the public pension scheme sustainable over the long-term and promote the development of a complementary sound private pension system,” the organization argued. “Over the medium-term, consideration should be given to moving to a fully-funded second-pillar private pension scheme, and to prefunding additional reserves to finance future deficits of the PAYG scheme through upfront fiscal consolidation measures or any privatization revenue”. The IMF also advises that the statutory retirement age in the country should be increased to 65 by 2020. Currently, the Czech government is planning to increase the retirement age by two months every year for men and four months for women to reach 65 for both by 2031. (IPE.com, IMF website)

Mexico: Call for Increasing Workers’ Contributions

Companies and employees should more than double their pension contributions to bolster retirement incomes and the economy, said Oscar Franco, head of the Mexico's pension fund industry association Amafore. He suggested the



contribution should be increased to 14% of an employee's salary. According to Franco, the current 6,5% contribution is "insufficient for a proper pension". Increasing pension contributions would up these holdings to about 50% of GDP by 2030 compared to current 10% and will boost Mexican investments in infrastructure projects, he said. Amafore Association is planning to lobby this issue in the Congress this year. (www. Globalpensions.com, Bloomberg, Mercer)

Slovakia: EU Says to Lift Ban on Non Euro Zone

The European Commission is arguing Slovakia should remove investment restrictions on statutory second pillar pension funds that, in the Commission's view, constitute an infringement of Article 63 of the Treaty of the Functioning of the European Union (TFEU) prohibiting restrictions on the free movement of capital. Currently the country imposes legislation on its six mandatory second pillar schemes authorizing a pension fund to invest its assets, up to 50 % of their net value, only in transferable securities and money market instruments issued or guaranteed by a Member State belonging to the Euro area. Funds can invest up to 20% of their assets in non-euro countries, but are prohibited to invest between 20% and 50% of their assets in financial instruments of a single non-euro area member state. "Thus it allows the Slovak authorities to maintain a discrimination against investments in securities and money market instruments issued or guaranteed by non-euro area Member States or third countries, thus continuing to raise concerns as to its compatibility with the free movement of capital principle. The Commission does not see any overriding principle of public interest that can justify such discrimination," states the European Commission. (IPE.com, www.europa.eu)

FOCUS ON...: SAVINGS AND PENSIONS IN THE EYES OF THE BEHOLDER:

U.K.: Savings Survey Reveals Five Year Trends

The report on five years of savings behavior across Britain has shown an overall increase in the amount Britons have managed to save from 2005 to 2009. In 2005 the average monthly amount saved per capita was 70.23 pounds, whereas in 2009 this amount increased to 83.87 pounds and represents the highest level since the Savings Survey began (Launched in December 2004, the National Savings and Investments (NS&I) Savings Survey monitors trends in people's savings habits on a regular basis, at a national and regional level and is published quarterly). Despite being increasingly squeezed by economic conditions income, the amount put aside by Britons as a percentage of income remained stable in 2008 and 2009 at 6.06% (see figure 1).

FIGURE 1. AMOUNT SAVED AS A PERCENTAGE OF INCOME

2005	2006	2007	2008	2009
6.02%	6.25%	5.86%	6.06%	6.06%

The results show some significant changes in savings priorities (see charts 1 and 2). For instance, the data of winter 2006/2007 shows that savings for retirement (33%) and savings for a holiday or special occasion (32%) were the most popular

savings goals. 27% were saving for an emergency compared to 54% in autumn 2009. Since 2007, saving for a rainy day remains the highest savings target. The data for the past five years shows that men consistently save more than money than women which may be partially result of male's higher average earning. But the survey also suggests that it's not the only reason, since findings show that men have always saved more as a percentage of their income than women. According to the data, the average man saved 102.43 pounds each month which is 6.40% of his monthly take-home money as compared to 86.41 pounds (6.39% of income) in 2005, and the average woman put aside 66.26 pounds which constitutes 5.73% of her disposable income as compared to 2005 figures of 54.91 pounds (5.64% of income). A very revealing fact is that young savers of 16-24 year-old have significantly increased the amount of savings during the past 5 years. In 2009 in average this amount was 10.32% which is the highest figure of all age groups. And on the contrary the amount saved by people for all age groups over 45 and over has decreased: 45-54 year-old: 5.79% in 2005, to 5.57% in 2009; 55-64 year-olds: 5.64% in 2005 to 5.01% in 2009; 65+ year-olds: 4.57% in 2005 to 4.03% in 2009. (nsandi.com)

CHART 1.
WHAT WERE PEOPLE SAVING FOR IN AUTUMN 2009?

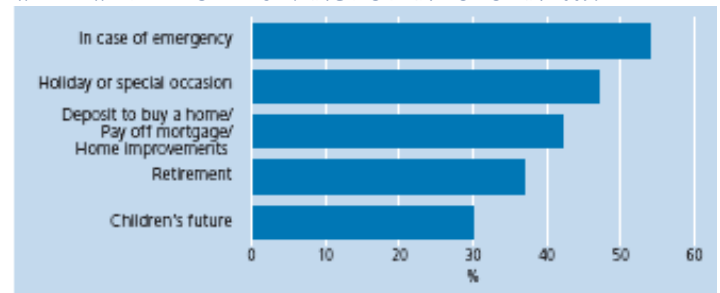
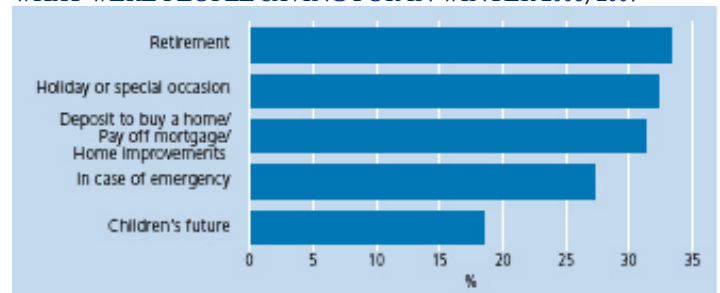


CHART 2.
WHAT WERE PEOPLE SAVING FOR IN WINTER 2006/2007



Annual data from NS&I Survey, Dec – Nov inclusive
Top five options listed, respondents able to record more than one option

Germany: Saving Habit Consistent through Crisis

Gross financial assets held by private household in Germany totaled about 4.64 trillion euro at the end of 2009. This figure is 4.4% higher (roughly 200 billion euro more) than at the end of 2008, when they fell to 4.45 trillion euro. "On balance, financial assets fell by EUR 139 billion in 2008 which was the second fall in financial wealth of private households in the history of the Federal Republic of Germany. This fall was even sharper than the one after the New Economy bubble burst", Allianz reported. But this decline was counteracted by the Germans' persistent saving. Rapid recovery of the stock market was also one of the reasons some 2008 losses were recouped. Private



households preferred to invest their money in accounts that are accessible at short notice and low risk. Deposits at banks and savings banks dominated with 38% (around 1.78 trillion euro) of household financial assets. Despite improvement of capital markets instruments like equities, investment funds, bond securities and unlisted shareholdings, their proportion in private household portfolios is just under 28%. Insurance products remained at about the same level of 28%. (allianz.com)

Germany: Supplementary Pension on Young People's Mind

A quarterly poll commissioned by Union Investment found that for the first time since 2008, young Germans are again thinking more about supplementary pension provision. 72% of surveyed feel they will have to deal with it, which is 4% more than the previous quarter survey result. This increase was expressed by the age group of 20 to 29 year-old. In this age group 63% have actually taken steps in saving. The study also stated that since the market started to revive people had again more trust in fund-based retirement provision as opposed to insurance instruments.

Ireland: Three out of Four Households Manage to Save

The results of the latest Postbank Saving Index have shown that a new savings culture has taken hold, with more than three quarters of all adults (76%) putting away an average of €283 a month for a rainy day, slightly down from €305 in the third quarter of 2009. According to the survey, personal debt is also being curtailed: 26% of people reduced their debt in 2009, and more than 40% stated that they now had no borrowings. Borrowing levels are likely to be reduced in early 2010 since 25% of respondents are planning to trim down borrowings and

only 6% noted they would increase their debt. The main motivation for saving remained a "rainy day fund" for emergencies. (www.rte.ie, www.irishexaminer.com)

Netherlands: Pension Assets – Half of Households' Assets

Pension assets held by Dutch households amount to 740bn euro and equal more than half of their financial assets, according to the Dutch central bank. The amount of pension assets is pumped by the collective pension schemes benefits. (Globalpensions.com)

China: Income Up, Savings Down

A survey conducted by Credit Suisse in October-November 2009 revealed that Chinese household income has increased over the past five years, while the savings rate has decreased. The household income of the bottom 20% has risen by 50% since 2004, in contrast to the 255% increase of the top 10% of respondents which reveals China's growing inequality gap between the poor and rich. As to the middle class, they had a 98 percent increase in income since 2004, according to the survey.

China's savings rate has dropped to 12% in 2009 from 26% in 2004. "The declining share of household savings, particularly from 2008 onwards, could be due to a natural tendency that comes with higher income". Credit Suisse expects China's total consumption to increase from US\$1.72 trillion in 2009 to US\$15.94 trillion in 2020 thus raising China's rate in global total consumption from 5.2 percent to 23.1 percent, and making China the largest consumer market in the world. (credit-suisse.org; China.org.cn)

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The USAID Capital Markets Project (CMP) was launched in October 2005, and is a five-year program designed to assist the country in developing a vibrant and effective financial sector. This effort will promote sustained economic growth and reduce the costs and risks to a sound pension system. You can find out more on the CMP website www.capitalmarkets.kiev.ua or on the website about pension reform in Ukraine: www.pension.kiev.ua

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