



# INTERNATIONAL PENSION NEWSLETTER



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## INTERNATIONAL TRENDS: SOCIALY RESPONSIBLE INVESTMENT

*Editor's note: The authors of a recent study into the future of socially responsible investments (SRI) in pension fund portfolios (see below), noted that socially responsible investment has evolved from ethically driven exclusion to one where SRI "now considers how a company approaches environmental, social and governance issues and what the impact is on investment performance." In other words, companies that reveal environmental, social and governance (ESG) issues may be considered not only "unethical" but also risky investments. Environment-related issues are a significant component of ESG, and among them, the impact of climate change on the global economy has become a major concern. Though the reality of climate change is still being debated in some circles, investors are posed to take the bull by the horns and address the challenges posed by climate change from a risk and return perspective.*

### United Nations: The Principles for Responsible Investment (UNPRI)

There is a growing view among investment professionals that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios. Investors fulfilling their fiduciary (or equivalent) duty therefore need to give appropriate consideration to these issues, but to date have lacked a framework for doing so. In early 2005 the United Nations Secretary-General invited a group of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment (PRI). The Principles for Responsible Investment provide this framework. The over 700 signatories to day signatories represent asset owners, investment managers and service partners, and include a number of large pension funds. Estonia is the only FSU country to have companies represented as signatories. ([www.unpri.org](http://www.unpri.org))

### Global: Socially Responsible Investment, a New Strategy for Pension Funds?

Allianz Global Investors and the Center for European Economic Research has launched a study in France, Germany, the Netherlands, Italy and Switzerland on the future of socially responsible investment in pension fund portfolios.

The authors of the study note that pension fund investments and SRI both imply long-term approach.

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Another reason why pension funds may be interested in screening the market for SRI, is because pension funds increasingly have become “universal owners” – investors that do not approach investment from a company-perspective (and switching between companies) but are invested in the whole market. As a result, their investments are affected by factors – such as pollution costs – that can weigh down a market as a whole but not necessarily companies individually.

The study showed the following trends:

- Most of the pension experts surveyed believe that in the future SRI criteria will play an increasingly important role in how pension funds make investment decisions.
- Environmental criteria are considered to be the most important element of the SRI concept, followed by corporate governance and social concerns. However, responses varied from country to country.
- The SRI trend is being driven less by risk/return concerns, than by public pressure.
- Public opinion is considered to be the single most important factor driving SRI. This appears to indicate that reputation risk seems to be a major issue for funds. The second most important driver is considered to be trade unions, whereas regulators and governments are considered to be the driver for more SRI by less than 50% of experts surveyed.

(see Allianz Global Investors website for the study at - [https://www.allianz.com/static-resources/en/press/media/documents/agi\\_pension\\_survey\\_sri.pdf](https://www.allianz.com/static-resources/en/press/media/documents/agi_pension_survey_sri.pdf))

### **U.S.: Bill Proposes to Ban World Largest Pension Fund from Making “Predatory” Investments**

The California state legislature will be considering a bill banning the California Public Employees’ Retirement System (CalPERS) and the California State Teachers’ Retirement System (CalSTRS) from investing in a “company with business operations engaged in predatory investment practices that prey on, or result in the displacement of persons in rent-regulated housing.” They would also have to sell any real estate holding which involves “predatory equity” – meaning real estate investments in rent-controlled housing to obtain an advantageous loan, followed by the eviction of the rent-controlled tenants in order to raise the rent and make more profit. The bill was introduced after a scandal involving mistreatment of low-rent tenants in estates where the two funds had invested in. ([www.wsj.com](http://www.wsj.com))

### **Norway: Government Pension Fund Excludes Tobacco Companies from Portfolio**

Norway's sovereign wealth fund, known as the oil fund (Oljefondet) has excluded 17 tobacco producers from its portfolio, the Norwegian Ministry of Finance said yesterday. Norway has dropped 17 tobacco companies, including top cigarette makers like Altria, Lorillard, Philip Morris and British American Tobacco (BAT), from its \$450 billion wealth fund for ethical reasons. The fund, which invests the Nordic nation's oil and gas wealth in foreign stocks and bonds to save for future generations, holds more than 1 percent of all global stocks. The central bank-managed fund follows ethical guidelines set by the government and, in the past, has excluded

companies that produce nuclear arms or cluster munitions, damage the environment or abuse human or workers' rights. "A rule has been adopted that in principle will exclude all production of tobacco, regardless of the percentage of business represented by tobacco production," the finance ministry said on Tuesday, adding more companies not classified in tobacco-maker indexes. (Reuters)

### **U.S.: New Regulator Guidance Rules on Climate-Risk Disclosure Spur Filings**

Following the adoption late February 2010 by the Securities and Exchange Commission (SEC), the U.S. markets watchdog, of new guidance telling companies they must disclose the potential impact of climate change on their business, pension funds as well as other institutional investors filed a record number of resolutions requesting more information from issuers. The filings targeted large energy companies such as ExxonMobil and ConocoPhillips, but also retail chains and financial institutions. ([www.investmentadvisor.com](http://www.investmentadvisor.com))

### **Global: Leading Pension Schemes Investigate Climate Change and Investment Strategy Link**

Fourteen leading global investors have launched an asset allocation study to assess to explore the potential impact of climate change scenarios on asset allocation. The study, supported by such investors as CALPER’s, the world’s largest pension fund, Mercer, a leading global pension consultancy, and IFC, a member of the World Bank Group, want to identify potential new investment opportunities and potential future risks. “The importance of private sector capital cannot be understated in the fate against climate change. Yet mobilizing those funds requires a clear understanding of the climate risks and opportunities to help pension funds allocate capital appropriately,” says Greg Radford, IFC director for Environment and Social Development. Mark Delaney, the Chief Investment Officer of AustralianSuper, one of Australia’s largest pension funds says that the study is an important opportunity to understand how different climate change scenarios will impact future investment returns. “Whilst no one knows precisely how climate change will evolve, by considering the impact of a number of scenarios on our fund, we will be better prepared”, he points out. Norway's Finance Minister, Mr. Sigbjorn Johnsen, noted, “Climate change poses major socioeconomic and financial risks worldwide. The Norwegian government takes these risks seriously, also in the management of the Government Pension Fund. The climate scenario study is an important element in our effort to gain a deeper understanding of the robustness and sustainability of our long term investment strategy.” ([Mercer.com](http://Mercer.com))

## **CONFERENCES ON PENSION AND PENSION-RELATED ISSUES:**

### **ISSA: Regional Social Security Forum for Europe (Warsaw, Poland, March 3)**

The International Social Security Association brought together representatives from over 30 European countries to discuss the future of social security in Europe. At the opening ceremony Polish Minister of Labor and Social Policy, Jolanta Fedak,



underlined that social security systems in Europe were facing common threats, including the consequences of demographic changes and the impact of the demographic crisis. Fedak called on social security leaders to develop “long-term responsible policies”. Sarah Harper, a keynote speaker from Harvard outlined the enormous challenges posed by demographic ageing, noting that by “2030 half the population of Western Europe will be over 50 with a life expectancy at that age of 40.” Harper noted that policy lessons in the light of population ageing focus around the development of broad, coherent, and integrated multi-pillar approaches to labor markets, social security and health and social care.” Among other features, these policies should “enable and promote longer working lives.” (www.issa.org)

### **IOPS: Regional Workshop on Pension Supervision for CIS (Istanbul, Turkey, Feb.25-26)**

Together with the Turkish Treasury, the International Organization of Pension Supervisors (IOPS) organized a workshop on pension provision for the CIS, in particular the Caucasus and Central Asian regions. The aim of the workshop was to address topics essential to the establishment of strong and efficient supervisory structures and techniques, such as risk-based supervision, the organization of governance authorities, as well as financial education and pension reform awareness. The workshop gathered Government officials from the region involved in pension supervision as well as from a selected number of IOPS member countries. Yury Prozorov, deputy-chairman of the State Commission for Regulation of Financial Services Markets (FSR) shared Ukraine’s experience with the institutional organization of the non-state pension fund supervision system in Ukraine. (www.iopsweb.org)

## **GOVERNMENT POLICY:**

### *Europe:*

#### **U.K: New NEST Pension Scheme Introduces Low Fees**

NEST (National Employment Savings Trust) is a new pension fund established by the Government that introduces mandatory employer-based defined benefit pension schemes. The goal of this new system is to reach out to low and mid-level earners who at present are not part of a pension scheme. The principle of NEST is to make contributions mandatory for workers and their employers and ensure that the fund levies minimal fees. Total charges would reach about 2.3%, including an approximate charge on contributions of about 2%, and a 0.3% annual management charge. NEST will be introduced gradually starting from 2012, and by 2017 all employers will be obliged to offer it to their employees. Where a work-based pension is already in place – or a new one is introduced – it must be at least as good as NEST. Employees will be automatically enrolled in the NEST scheme, though they will retain the option to leave. An employee in a NEST scheme will initially have to pay a minimum of 1%. Employers will match it, with the government contributing another 1% through tax relief, bringing the total to 3%. These low level contributions will rise over time, so that eventually the total will equal 8%. The employer and the worker may contribute more, if they like.

*Editor’s note: In the last twenty years, UK has gone from having one of the best systems of retirement provision to one of the worst. While a decade ago, workers benefited from defined benefit pension plans through their employer, today the majority of these defined benefit schemes have been closed. Overall, the number of people making their own pension contributions is down, while the value of the state pension is eroded. NEST is being introduced as a way to correct this.*

#### **EU: Court Rejects U.K. “Expat” Pensioners’ Appeal**

The European Court of Human Rights (ECHR) rejected an appeal by a group of non-UK based British pensioners demanding that their pension payments be indexed to inflation, according to the same rules applying to U.K. pensioners living in the U.K. A group of 13 pensioners living in countries including Australia and Canada claimed that the rules unfairly discriminate against them. Even though they had made the full national insurance contributions throughout their working lives, their pensions were denied statutory increase just because of their country of residence. Those Britons living in countries which have reciprocal arrangements, with the UK such as the US, Switzerland, Iceland, Norway, Turkey, Liechtenstein or EU nations, receive the payment increases. But pensioners living in one of about 150 countries without such agreement including popular retirement locations such as Canada, South Africa, New Zealand and Australia do not receive the indexed pensions, but only the pension they were receiving when they left the U.K. Currently the minimum pension is £95.25 per week, while it was 30 pounds in the 1980s. The ECHR said that the decision not to index-link pensions was not discriminatory as the pensioners had chosen to live in economies outside of the UK. (cnn.com)

#### **Netherlands: Regulator Slams Funds for Bad Communication**

The Dutch Financial Markets Authority (AFM) warned of the formal actions to be taken against pension fund administrators if they continue to violate requirements on pensions information. Based on studies looking at Netherlands-based pension providers and defined contribution pension schemes, the AFM concluded that pension administrators are failing to ensure pension scheme participants understand the information they are being sent. Among the failings noted by AFM, the letters written to participants in “incomprehensible” language full of industry jargon, in many cases falling short of the statutory information required of providers. Also, according to AFM, problems start at the very beginning when pension consumers are not enough informed of the risks they face in their investment choices, especially in regard to stock market and interest rate risks. The AFM also stated that findings discovered that rebalancing of lifecycle investments as participants approach retirement is not being done on a timely basis and in accordance with the statutory requirements. “It is very clear: they (pension providers) have to improve things. From now on we will take action if it is very evident they are not meeting legal requirements. Action can be a penalty and can also be a formal letter if a penalty has already been given”, said Flore Kraaijeveld, the AFM spokeswoman. 22 DC pension providers that have been examined now appear to be in a risk group of AFM actions. (ipe.com, allbusiness.com)



## **Maldives: Government Takes First Steps in Pension Reform**

A new pension system is being implemented in the Maldives that is intended to provide coverage to all Maldivians. The new pension system was established by the Pension Act ratified by Parliament in May 2009. The Pension Act establishes two types of pensions: Old-Age Basic Pension and Maldives Retirement Pension Scheme. The newly created Maldives Pension Administration Office is responsible for administering the two new pension schemes. On February 1, 2010, the Old-Age Basic Pension program went into effect. This is a new non-contributory pension scheme where the old-age pension benefits are paid from the government budget. The scheme provides a monthly pension of up to MRF2,000 (US\$156) to all resident Maldivian citizens who are 65 years of age or older. The second stage of the pension reform – the Maldives Retirement Pension Scheme is a mandatory DC scheme that will come into force in May of this year for public sector workers and at a date that is still to be determined (expected no later than May 2011) – for private-sector workers. It will be funded by a contribution of 14% of pensionable wage evenly split between employers and employees, or completely paid by the employer. Workers can access their pension savings when 65 or earlier if they qualify for an early pension (providing the worker is at least 55 years old and has sufficient funds in the account). ([www.ssa.gov](http://www.ssa.gov); [www.cmda.gov.mv](http://www.cmda.gov.mv))

### **Americas:**

#### **Brazil: New Independent Pension Fund Regulator Introduced**

A new closed pension fund regulator called Previc (the National Superintendency of Complementary Social Security) was created on January 26, 2010 to replace SPC, the previous regulator of this type of pension fund that was under the jurisdiction of the Social Security Minister. The new regulator is autonomous, administered by a board with its own budget financed through fees paid by the pension funds based on their assets under management. 372 closed pension funds with assets of 475 billion reais (US\$254 billion) under management were operating in Brazil as of September 2009. ([ssa.gov](http://ssa.gov))

#### **Argentina: Voluntary Accounts Still in Limbo**

On January 14, the Government of Argentina passed a resolution allowing pension fund management companies AFJPs (Administradoras de fondos de jubilaciones y pensiones) to administer the voluntary retirement accounts that were part of the former individual account system. In November 2008 the system of individual retirement accounts was liquidated and the funds from the mandatory accounts were transferred to the new PAYG system. The voluntary funds that belonged to individual account holders were placed in escrow by the National Social Security Administration (ANSES) until a decision was made on how to distribute them. AFJPs need to apply to ANSES for a permit to administrate these funds. Contributions exceeding the mandatory 11% of a worker's wage were considered voluntary under the former system. Now account holders have until March to make a decision on whether to transfer their voluntary funds from ANSES to an authorized AFJP. If the accounts are not transferred, they will

remain with ANSES, and the balance of the account will be factored into the social insurance benefit. ([www.ssa.gov](http://www.ssa.gov); [pensiondevelopment.org](http://pensiondevelopment.org))

#### **U.S.: Government Agency Pushing for Pension Funds to Buy Out Failed Banks**

A U.S. bank regulator, the Federal Deposit Insurance Corporation (FDIC), is lobbying to have pension funds pump money into the banking sector and bail out failed banks. The FDIC, an agency independent of the U.S. federal government that acts as a monitor and insures bank and savings deposits, is encouraging pension funds that control more than \$2 trillion to buy in part or in whole failed lenders. (Bloomberg, Reuters)

### **Central/Eastern Europe:**

#### **Slovakia: Changes Comply with EU Regulations**

The Government of Slovakia has proposed small changes to the investment regulations for Pillar II funds in reaction to the European Commission's request to lift restrictions preventing Pillar II pension schemes from investing in non-euro zone assets (see February 2010 newsletter). The amendments should bring Slovakia's pension investment rules with EU legislation. The legislative act is now heading for Parliament. ([ipe.com](http://ipe.com))

#### **Czech Republic: Reform Commission Mulling Pillar II**

The IMF and the Pension Reform Commission are considering plans for the Czech second pillar system. Though its assets increased from CZK186 bn (euro7,26bn) at the end of 2008 to CZK200bn over one year, IMF stresses that with "current assets worth only about 5% of GDP", Pillar II funds "remain at an early stage of asset accumulation and function largely as a state subsidized savings scheme rather than retirement savings". The IMF is calling the Czech Republic to move to a fully-funded second pillar pension system which should be part of a sustainable pension reform and points out that while "authorities welcomed this proposal" it remained a sensitive political issue since "neither of the major political parties has made any strong commitment yet" on this issue.

In the meantime the pension reform commission has met to discuss the country's demographic prospects and it came as no surprise that the conclusion was that the Pillar I system is facing huge challenges due to population aging. ([ipe.com](http://ipe.com))

## **FUND STRATEGIES:**

#### **Estonia: Funds Exposed to Greek Crisis**

Estonian pension funds purchased Greek government bonds, exposing them to the crisis-induced risk. Some of them continued to purchase them in January, despite the critical shape of Greek public finances. Swedbank's most conservative pension plan K1 has invested 100 million kroons or 5% of its assets in Greek bonds, another 5% in Italian bonds, and 15% in Lithuanian government bonds.

#### **Norway: Government Fund Invests 2.75 billion Euros into Russian Companies**

The Norwegian pension fund, the largest equity investor in Europe, has invested 22 bn NOK (2,75 bn EUROS) in a



selection of 57 Russian companies. The total value of the market value of the fund is 330 billion EUROS, making the investments in Russia about 8% of the overall value. The top ten companies represented in the Norwegian fund's portfolio are the following (in million EUROS): Gazprom ( 679), Lukoil (366.5), Sberbank (247 ), Rosneft (232), Surgutneftegaz (200), Unified Energy Systems (89), Novolipetsk Steel (78), Tatneft (55), Mobile telesystems (52), Severstal (49). (www.Barentsobserver.com, Aftenposten)

## **MARKETS:**

### **2009 RESULTS IN THE NEWS**

#### **Norway: World's Second Largest Pension Fund Rises 26% in 2009**

Norway's Government Pension Fund posted a record return at 25.6% for 2009. It is the best results the fund has had since it was established in 1996 to invest the country's surplus oil revenue abroad and avoid unbalancing the domestic markets. A return of 25.6 percent was achieved by the fund, roughly equivalent to NOK 613 billion (USD 103 billion). This represents a 4.1 percentage point increase on the benchmark portfolio return. The Norway Post reports that analysts have determined that the Government Pension Fund Global has outperformed the market itself and that the massive losses seen during the worst of the global economic crisis in 2008 have begun to be recouped. In 2008 the fund had posted its worst results ever with a loss of 23%. The fund invests about 60% of its capital in more than 7,000 public companies, and the remainder in government-backed bonds. (www.businessweek.com, www.icenews.is)

#### **China: Social Security Fund sees Return of 16.1% in 2009**

The National Social Security Fund (NSSF) saw a return on investment of 16.1% in 2009, after a bad 2008 year. Its total assets increased 38% to 776.5 bn yuan (113\$ bn) in 2009. Safety of its investments had been the fund's main priority in 2009, Reuters reported. In 2009, the fund lifted its investments in foreign stocks. Allocation to equity (both domestic and foreign) amounted to 32.45% of its total assets in December, up from 21.98 at the beginning of the year. The fund was created in August 2000 as an initiative of the Central Committee of the Communist Party and State Council. It is administered by a state agency, the National Council for Social Security Fund (SSF). This reserve fund is funded by assets derived from state-owned shares, fiscal allocation by the state budget, and other investment revenue. (swfinstitute.com, Reuters)

#### **Turkey: Private Pension System Celebrates 2 Million Participants**

Two million people have joined Turkey's Private pension System (PPS), a voluntary defined contribution scheme where workers can chose to contribute for at least ten years, organizers of a special celebratory event announced. Private pension assets represent the equivalent of 4.5 bn euros (TRY 9.3bn) eight years after the system was first introduced in 2001. At present, 13 service providers manage the pension assets through approximately 128 funds. At the end of 2009, the

funds were investing mostly in government bonds (69%), 15% were invested in corporate bonds, and 10% in stocks. The remaining 6 % were invested in money markets, foreign securities, and other instruments. However, Turkish funds still have a long way to go to reach the level of recently emerged pension markets. Private pension assets in Turkey represent only about 1.7% of GDP. "For the system to reach the same level as in Mexico or Poland where the ratio is 10% of GDP the total asset volume would have to reach at least TRY100bn," Turkish duty prime minister Ali Babacan said. (ipe.com. turkradio.us, www.invest.gov.tr)

#### **Switzerland: Cautious Funds Show Less Results**

The pension fund of the Swiss Postal Service (PK Post), and that of the city of Basel (PKBS) yielded worse results in 2009 than other funds because of their lower risk strategies, with returns of 9.43% and 10.4% respectively, against a benchmark return of 13.4%. The PK Post noted it had been cautious last year in its investment strategy, cushioning losses in the first quarter of 2009. But then, the fund was "not ideally placed" when markets began to recover later in the year. The regional council of the city of Basel is discussing recovery measures. (IPE.com)

#### **Hungary: Pillar II Growth Funds Show Good Results**

The 19 mandatory pension funds showed the following (weighted) returns:

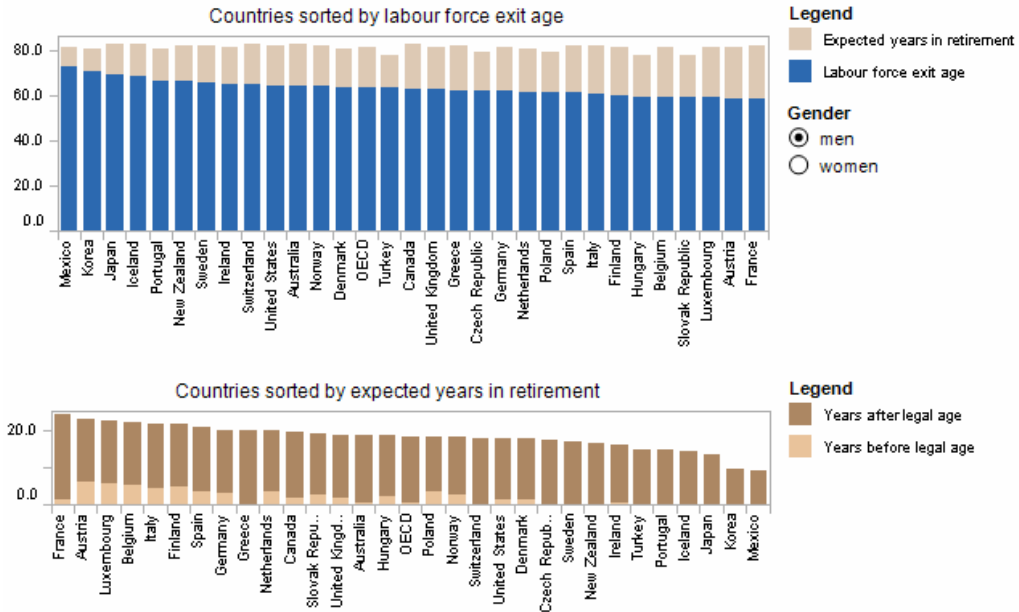
Growth funds (more risk and long-term oriented) returned 25.95% in 2009, while more conservative funds averaged 12.11%, and balanced funds 17.75%. The ten year average shows that classic funds had the best performance with 7.22%, 6.64% for balanced funds, and 5.77% for growth portfolios. 78.6% of Hungarian pension assets are in the growth funds. Growth funds in Hungary can hold up to 40% in equity. (ipe.com)



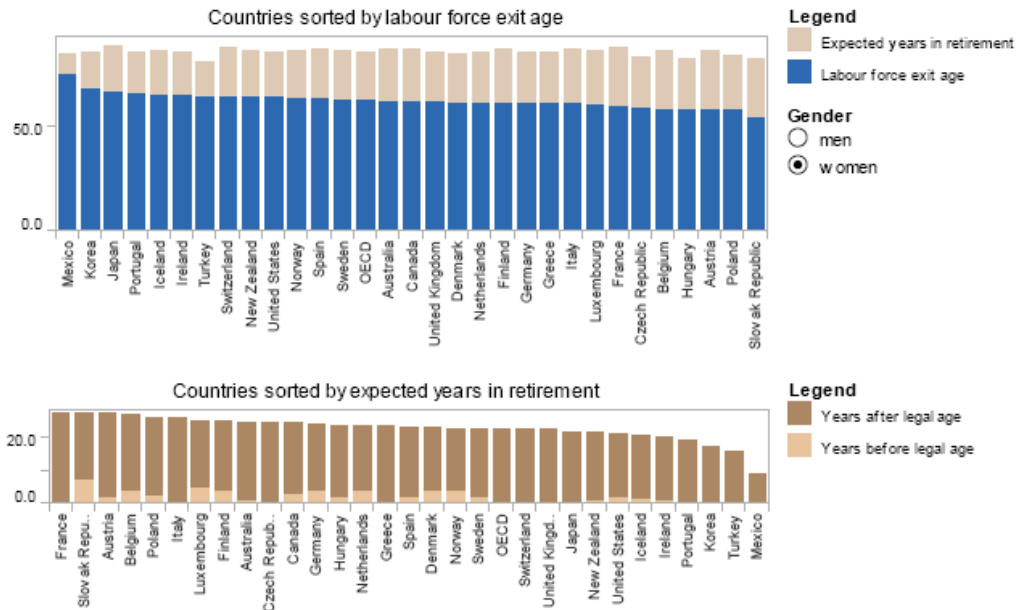
# GRAPH: HOW LONG DO PEOPLE KEEP ON WORKING IN RETIREMENT?

LABOR FORCE EXIT AGES AND YEARS IN RETIREMENT BY COUNTRY, 2007

## MEN



## WOMEN



Source: OECD, Society at a Glance (2009)

This newsletter is prepared by the Capital Markets Project pension and communication team as part of the project's pension reform program. The project is funded by the U.S. Agency for International Development (USAID).

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](http://www.capitalmarkets.kiev.ua) or on the website about pension reform in Ukraine: [www.pension.kiev.ua](http://www.pension.kiev.ua)

USAID's assistance focuses on the following areas: Economic Growth, Democracy and Governance, Health and Social Sector. Since 1992, USAID has provided \$1.6 billion worth of technical and humanitarian assistance to Ukraine to further the processes of democratic development, economic restructuring and social sector reform in the region. For additional information about this and other USAID programs in Ukraine, please call USAID's Development Outreach and Communication Office, tel. (044) 492-7101 or visit the USAID website at: <http://ukraine.usaid.gov>.