

09:45-11:00 - Panel 6 - Etoile

“The Emergence of Pan European Pension Funds”



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"The Emergence of pan-European Pension Funds"

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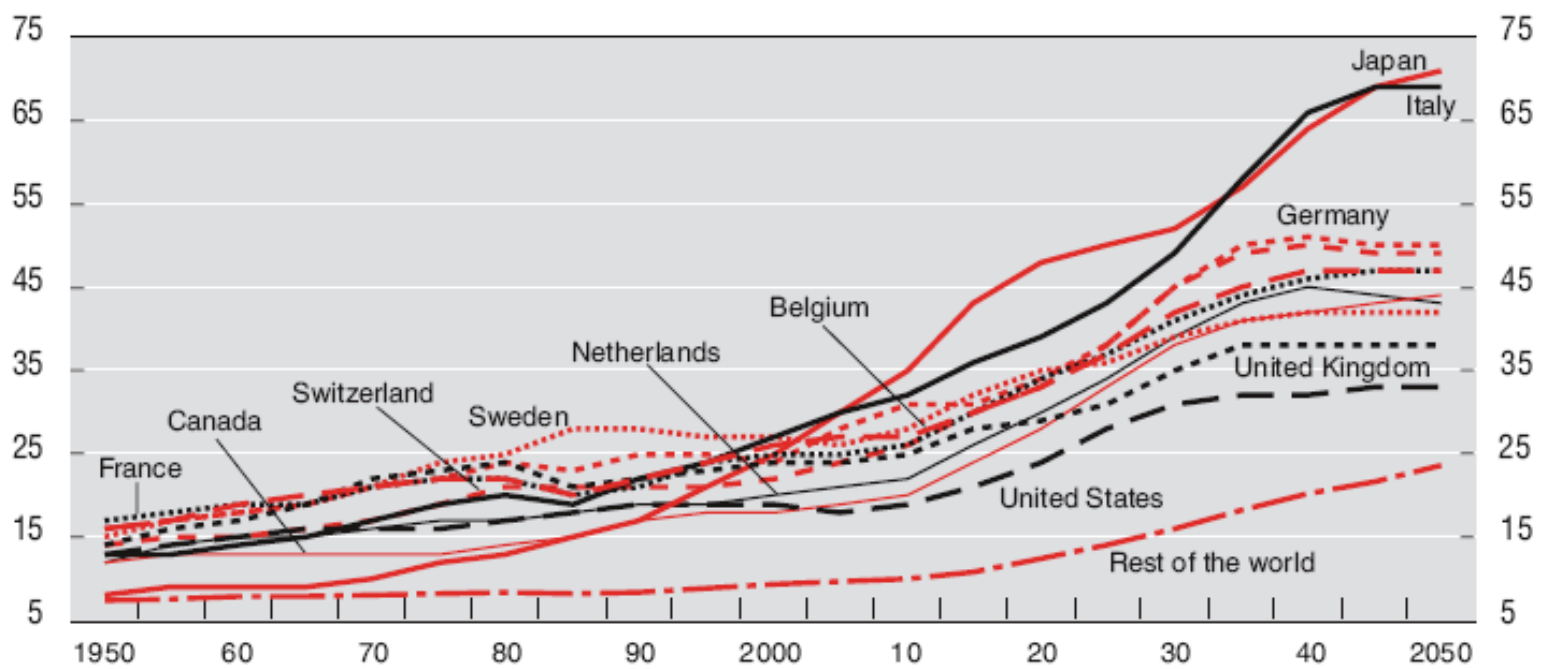
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Old-age dependency ratios are increasing sharply

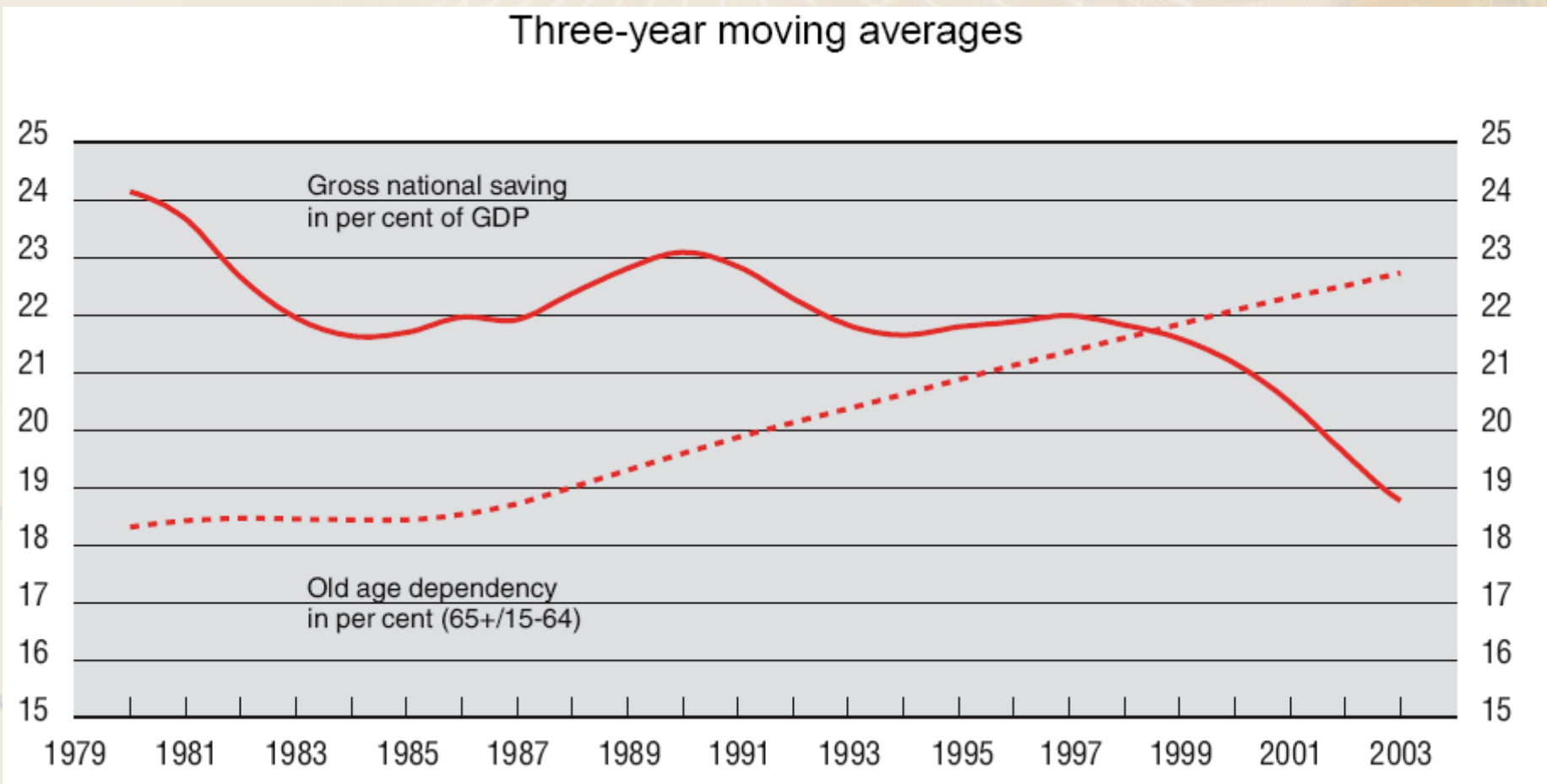
Ratio of the population aged 65 years or over to the population aged 15-64, in per cent



Source: United Nations Population Division, World Population Prospects: the 2004 Revision.

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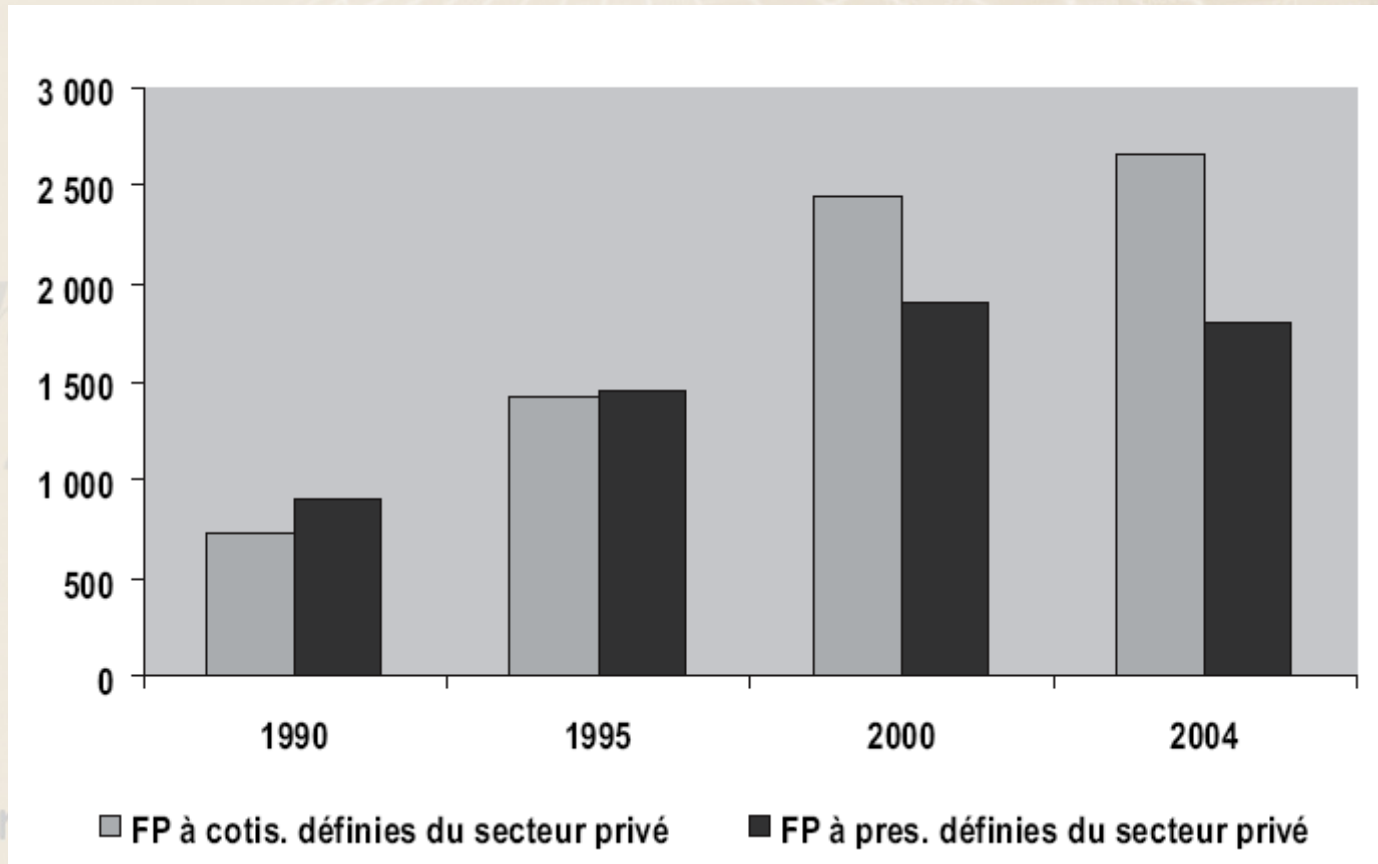
Saving, current account and old-age dependency trends in the G10 countries as a whole



Source: IMF World Economic Outlook Database.

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Pension fund in the private sector in United States



Sources : Federal Reserve, AMF

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What is at stake ?

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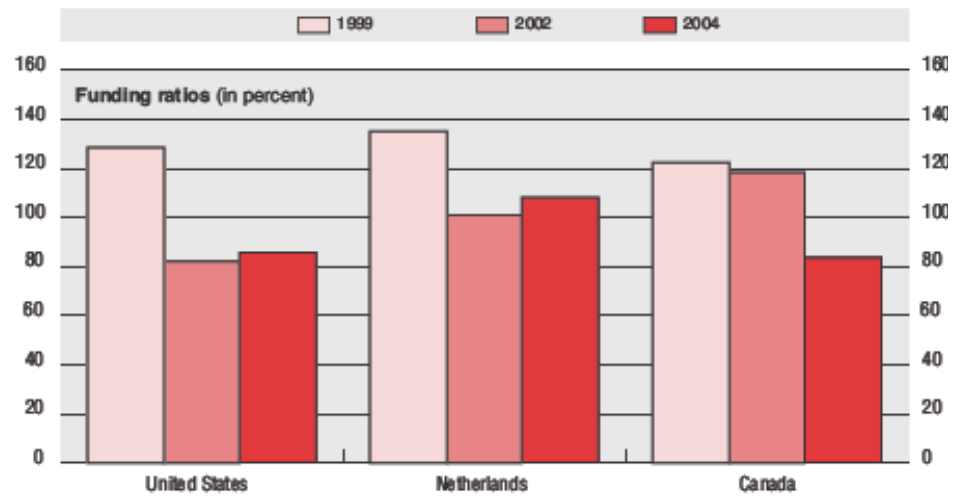
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In countries where DB schemes are well established (US, UK, NL, DE, CH, etc.)

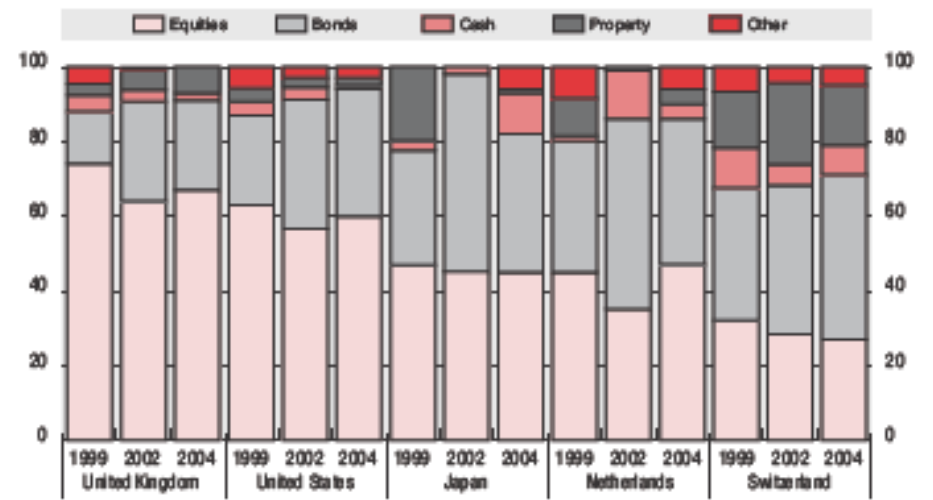
- Corporates can no longer afford the increased volatility and costs associated to DB social liabilities. DB schemes are closed and replaced by DC schemes.
- DB schemes will reduce their allocation to active equity investments in favor of bonds, indexed bonds, structured products and indexed equity.
- BD schemes still represent the bulk of assets managed. This will not change soon: funding still needs to be made in many countries, and liabilities will take years to decrease.

Figure II.3. Declining funding ratios of defined benefit plans



Sources: Netherlands Pension and Insurance Supervisory Authority; van Ewijk and van de Ven (2003); Pacific Investment Management Company LLC (PIMCO); and Bank of Canada.

Figure II.4. Asset allocation of pension funds
In per cent of pension fund assets



Source: Watson Wyatt; International Financial Services, London.

***In countries where there is no history of occupational pension funds⁸
(FR, IT, ES, PL, most continental Europe, Asia)***

- Pension reforms have established (or are in the process of establishing) new occupational DC schemes
- Social and political need, transparency, portability, simplicity, absence of liability are the key success factors
- The fragmentation of legislations is a clear impediment to the development of DC schemes, due to the high level of industrialization required

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The case of the US with the continued growth of the 401(k) market is a reference for what will happen elsewhere

- 401(k) plans held an estimated \$2.6 trillion in assets at year-end 2004 and represented approximately 20.3 percent of the \$13.1 trillion U.S. retirement market.
- Assets in 401(k) plans have increased on average 13 percent per year, from \$385 billion in 1990. At year-end 2002, participants, on average, had almost 62 percent of plan balances invested directly or indirectly in equity securities: equity funds, company stock, and the equity portion of balanced funds.

Source : AMF

What about the asset managers ?

- The wholesale asset management business will structure itself around three pillars:
 - Retail funds through retail distribution networks
 - Institutional products (including DB schemes)
 - DC schemes
- As a first step DC schemes will emerge as a new area of growth
- Later on corporate DB schemes will start to see reduced assets, while DC will continue to grow.

It's all about pensions but....

- DC schemes differ widely from DB in terms of nature of services provided, nature of clients and distribution modes

	DB	DC
Mandates	specialist	Diversified, or multistrategy
Clients	Trustees	Corporates, unions & retail individuals
Distribution	Institutional	From institutional to retail
Providers	International	Domestic
Reporting	Institutional	Institutional & retail
Client servicing		Legal & social advice to employers On site promotion & training Internet, call centers, diagnostic tools Life cycle approach
Administration		Book keeping of individual assets Flow management (payments) Statements of assets Fiscal reporting

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Outlook for Pan-European DC plans

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The IORP Directive

- The IORP (Institutions for Occupational Retirement Provisions) directive establishes the principle of cross border recognition
- A IORP regulated in a home state can be registered and offer its services in a host state
- The fiscal and social treatment will be those of the host state
- As example a French PERCO (sort of 401 (k) plan) could be offered in Italy with the occupational Fondi di Pensione or Fundos de Pensiones in Spain
- Symmetrically foreign schemes could be offered in France
- Most countries have recently established DC schemes
- This opens a 400 million (aging) people market
- But local presence or partnerships will be required to successfully distribute

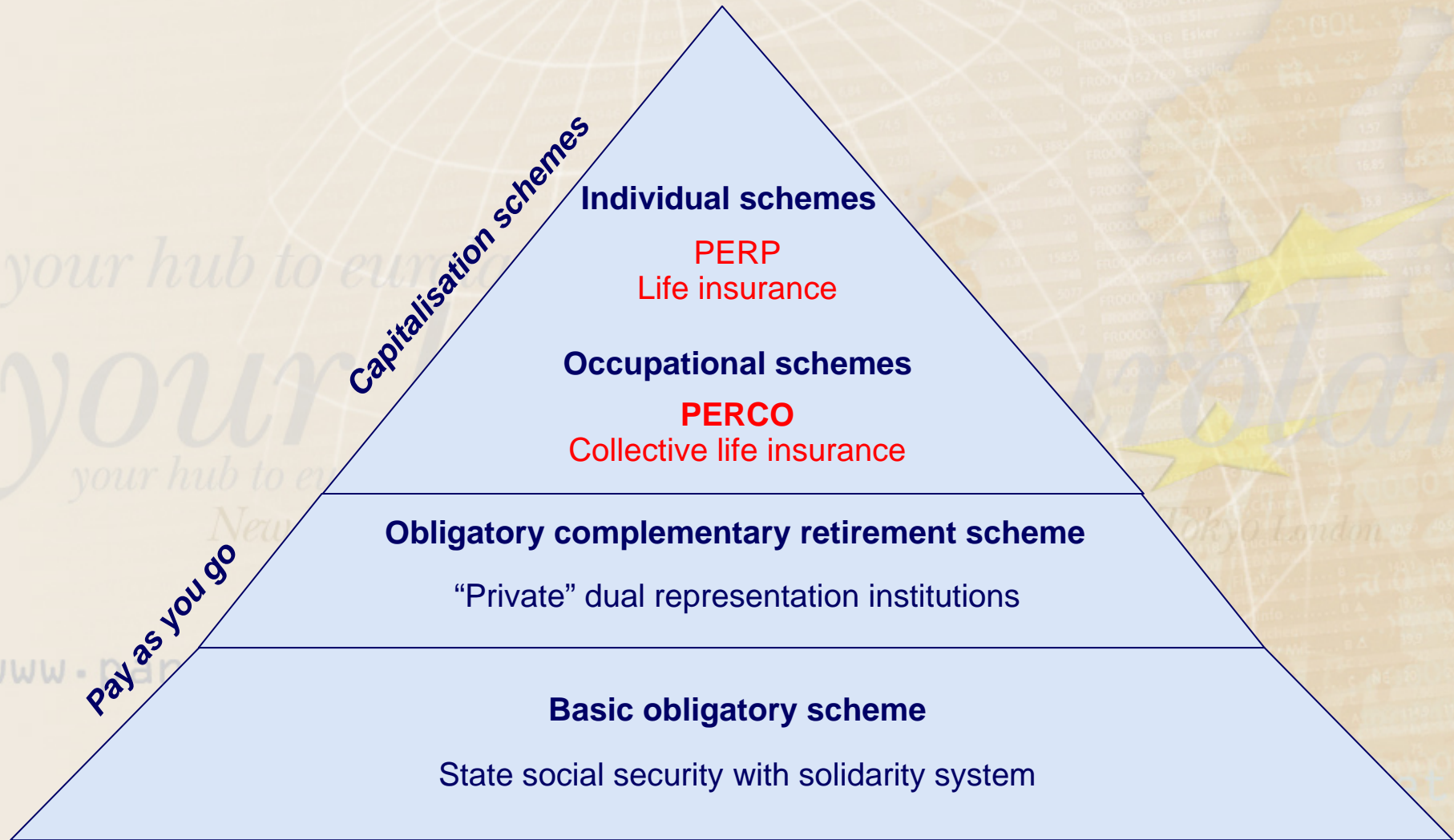
The PERCO

- The French Fillon reform in 2003 introduced some individual choice:
 - Either work longer,
 - Or accept a reduction of the replacement rate,
 - Or make voluntary contributions to occupational or individual pension saving vehicles,
 - Or a combination of these...
- The PERCO (occupational) and the PERP (individual) resulted from these 2003 reform

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The French pension system and the PERCO



The PERCO's structure

- Saving plan established by the employer
- Individual accounts in the name of each employee
- Investments through collective investment funds (UCITS)
- Contributions by employer and employee

Contributions

special profit sharing reserve

Incentive Scheme Bonuses

Voluntary savings by employees

**Employer
Top up
(Max 300%
& 4 600 €)**

Savings

PERCO

Money market

Bonds

Equities

Balanced

The PERCO, a way to motivate and develop staff loyalty

- A voluntary occupational savings scheme which allows each employee to build a portfolio of transferable securities with the company's assistance
- Differed remuneration with significant tax benefits
- Efficient saving vehicle even without employer top up
- The savings invested remain unavailable for withdrawal until retirement (except if purchase of main house, death or invalidity)
- Choice between payout in capital or as life annuity

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Key advantages of the PERCO

- No social liability in the employer balance sheet
- Governance of funds : dual representation supervisory board
- Security
 - Safekeeping (segregation of assets, separation of functions)
 - Diversification of assets
- Portability
 - Asset marked to market
 - Seamless transfers from one plan to another
- Efficiency
 - No bond bias in asset allocation due to accounting rules
 - Better safeguarding of purchasing power
 - Standardization and use of existing infrastructure for economies of scale
 - Cost effectiveness : Fund of funds, multi-company funds, standard Ucits
- Flexibility
 - Different investment options for different individual risk profiles
- Transparency on costs and other informations

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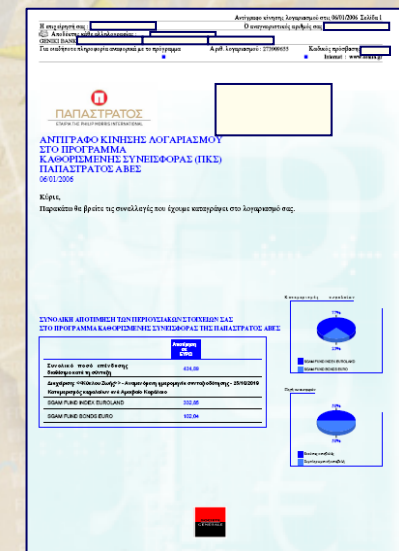
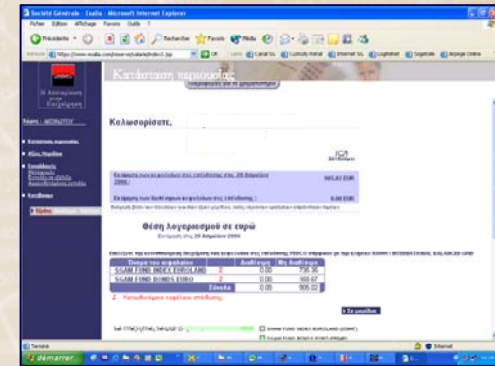
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Papastratos : an European PERCO

- European PERCO for the employees of Philip Morris International Greece:
 - 1,000 employees
 - The annual payroll is estimated at €28,000,000.
- Call Center and middle office based in Greece operated by Geniki Bank:
 - Take employee orders
 - Call Center
- All information available in Greek:
 - Statements and reporting directly sent to the beneficiaries' home address
 - Internet transactional site (contributions, switches, withdrawals)
 - Call center
 - Monthly fact sheet and quarterly fund reporting
- Choice among 3 funds: equities, bonds, money market



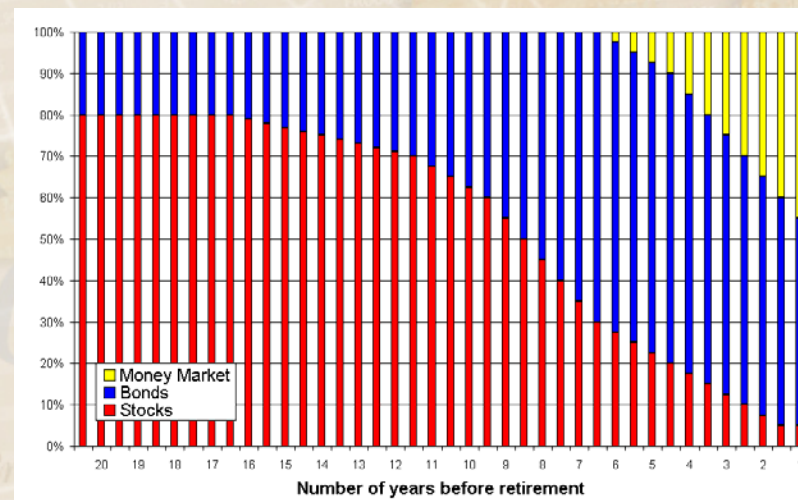
An efficient way to manage retirement *Papastratos Plan*

1 - Life cycle Management :

- The saver delegates the management of the orders,
- After initially being invested with a majority of equities, savings will transfer to a lower risk portfolio as retirement approaches.

2 - “Do-it-yourself” :

- Fund selection by the employee
- Easy switches of assets between Funds without additional fees
- Patrimonial diagnostic tool available



The employee may switch options between the DIY and Life cycle Management at any moment

SG : partner of the largest occupational DC account management platform in Europe

- An account management operational platform shared by 4 partners (SG, BNP Paribas ERE, HSBC, AXA) :
 - 4 000 000 accounts
 - 30% market share
 - 300 staff based in Paris & Nantes specialising in employee account-holding
 - The partners continue to distribute own-branded products to their own clients
- An international experience :
 - Website developed in English, French, Spanish, German, Portuguese, Greek
 - Call Center operated in French, English, German and Spanish
 - Statements available in 15 languages
- SG already services many companies in Europe :

<ul style="list-style-type: none"> ■ 18 000 accounts in Spain ■ 7 500 accounts in Poland ■ 7 500 accounts in Germany 	<ul style="list-style-type: none"> ■ 6 000 accounts in Hungary ■ 4 300 accounts in Portugal ■ 4 000 accounts in Belgium
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How to get there ?

- Autumn 2006 : Achievement of the directive transposition in all countries
- 2006 : Setting up the IORP and getting agreement for cross border services
- 2006-2007 : Selecting test countries and registering the IORP in each with schemes suitable to local labor and fiscal legislation
- 2007 : Active promotion of pension services towards corporate having activities across Europe : 2007

EPPA and 26th Regime

- The EFAMA (European Fund and Asset Management Association) has designed the concept of the EPPA (European Personal Pension Account).
 - This model is very similar to the PERCO.
 - The idea behind the 26th regime is to promote a simple and flexible pan-european architecture for pension savings.
 - The EPPA concept is particularly suitable to this approach
 - The notion of capital guarantees is totally opposite to the interests of both the beneficiaries and the overall economic growth.
- ➔ In order to create a true efficient european pension saving market it is necessary to
- Either interpret the IORP directive as preventing any state from imposing prudential investment rules other than diversification and prudent man
 - Or create through european regulation the 26th regime, with very simple and efficient characteristics as those of the EPPA, and establish that it can benefit from same fiscal and social treatment as the domestic schemes.

Your contacts

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