Fresh Thinking about DC

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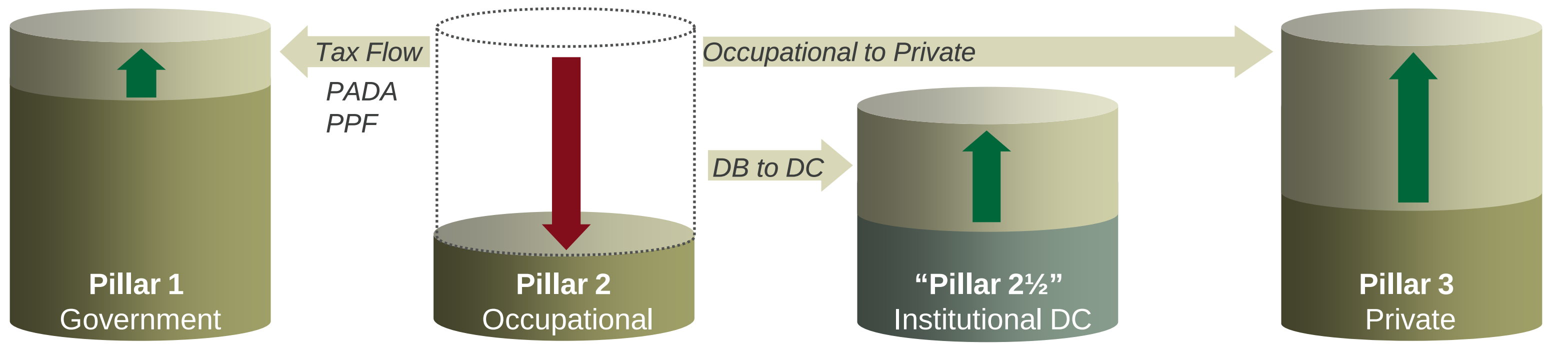
There are 2 good times to plant a tree

Now and……..

20 years ago

Asset flows in 3 Pillar



Market influences

- Longevity
- Dependency ratio
- Buy-outs
- Increasing retail influence
- Funds moving to daily environment
- DB to DC and private plans
- Shifting demographics
- Pan-European pensions
- Funding gap

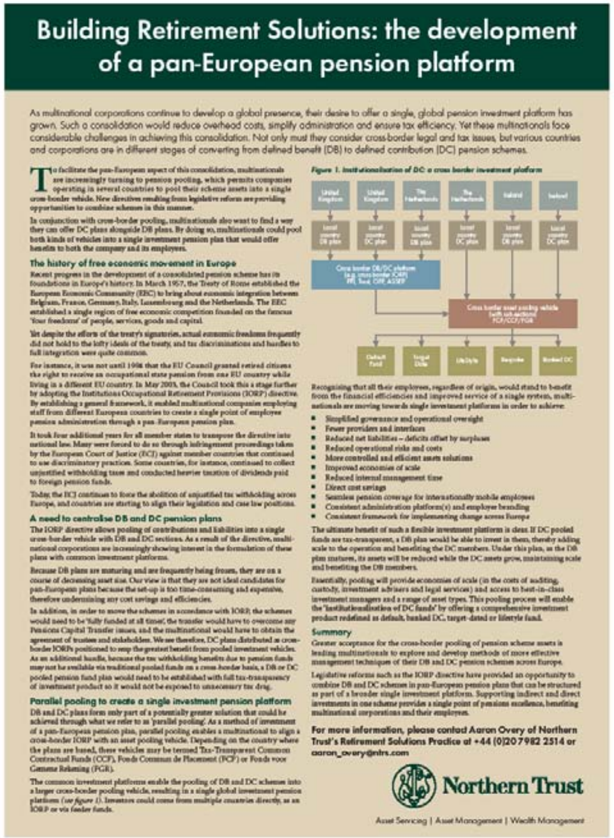
Legislation and regulation

- MiFID / SORP
- Personal accounts by 2012
- Treating Customers Fairly
- Deficits
- Governance
- Conflicts of Interest
- Local government reforms
- Risk management

Investment influences

- Separation of alpha and beta
- Increased use of derivatives
- Short and long converging
- Shifting asset mix
- Matching liabilities more effectively
- SRI/climate change issues
- Challenging markets
- Need to manage / control costs

Institutionalisation of DC



Building Retirement Solutions: the development of a pan-European pension platform

As multinational corporations continue to develop a global presence, their desire to offer a single, global pension investment platform has grown. Such a consolidation would reduce overhead costs, simplify administration and ensure tax efficiency. Yet these multinationals face considerable challenges in achieving this consolidation. Not only must they consider cross-border legal and tax issues, but various countries and corporations are in different stages of converting from defined benefit (DB) to defined contribution (DC) pension schemes.

To facilitate the pan-European aspect of this consolidation, multinationals are increasingly turning to pension pooling, which permits companies operating in several countries to pool their scheme assets into a single cross-border vehicle. New directives resulting from legislative reforms are providing opportunities to combine schemes in this manner.

In conjunction with cross-border pooling, multinationals also want to find a way they can offer DC plans alongside DB plans. By doing so, multinationals could pool both kinds of vehicles into a single investment pension plan that would offer benefits to both the company and its employees.

The history of free economic movement in Europe

Recent progress in the development of a consolidated pension scheme has its foundations in Europe's history. In March 1957, the Treaty of Rome established the European Economic Community (EEC) to bring about economic integration between Belgium, France, Germany, Italy, Luxembourg and the Netherlands. The EEC established a single region of free economic competition founded on the famous 'four freedoms' of people, services, goods and capital.

Yet despite the efforts of the treaty's signatories, actual economic freedoms frequently did not hold to the lofty ideals of the treaty, and tax discriminations and hurdles to full integration were quite common.

A need to centralise DB and DC pension plans

Parallel pooling to create a single investment pension platform

Figure 1. Institutionalisation of DC: a cross border investment platform

Essentially, pooling will provide economies of scale (in the costs of auditing, custody, investment advisers and legal services) and access to best-in-class investment managers and a range of asset types. This pooling process will enable the 'institutionalisation of DC funds' by offering a comprehensive investment product redefined as default, banked DC, target-dated or lifestyle fund.

Summary

Greater acceptance for the cross-border pooling of pension scheme assets is leading multinationals to explore and develop methods of more effective management techniques of their DB and DC pension schemes across Europe.

Legislative reforms such as the IORP directive have provided an opportunity to combine DB and DC schemes in pan-European pension plans that can be structured as part of a broader single investment platform. Supporting indirect and direct investments in one scheme provides a single point of pensions excellence, benefiting multinational corporations and their employees.

For more information, please contact Aaron Overy of Northern Trust's Retirement Solutions Practice at +44 (0)207982 2514 or aaron_overy@ntrs.com

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Asset Servicing | Asset Management | Wealth Management

Utilise DB Experience

Create scale for DC

Best in class

Tax Efficient

Oversight

Banked DC

Cross Border Matters

Copy 401k?

What should a default fund look like?

Equality?

Trust vs Contract

IORPs

Move close onshore

Institutions for Occupational Retirement Provision - IORP

Institutions for Occupational Retirement Provision (IORPs)

- First EU Pensions Directive was adopted in 2003 (EU Directive on Institutions for Occupational Retirement Provision 2003. Directive – Dir 2003/41EC)
- All EU member states were required to transpose this into their national law by 23 September 2005
- EEA have also done so

Key characteristics of an IORP

- Pension legal entity to be separate from the plan sponsor
- Provide security for scheme members through minimum common standards of governance
- Must be allowed to operate cross-border

Prime locations identified (EFRP survey Nov 2007)

- Ireland - Trust
- Belgium – OFP (Transfrontières version)
- Luxembourg – ASSEP
- Netherlands – API and PPI (pending legislative approval in the Netherlands)

National Pensions Framework

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Thank You

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