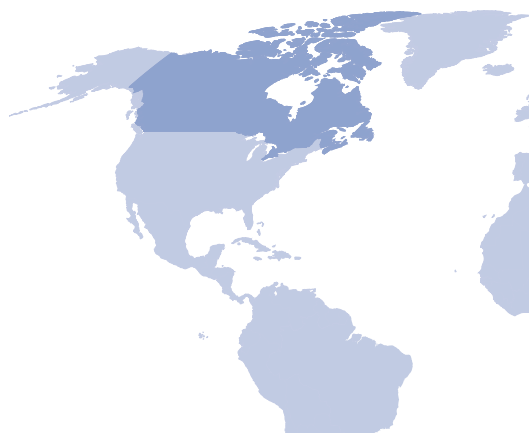


Canada



Pension System Design

Canada's pension system is a mix of public and private pension schemes. Half of all Canadians rely solely on the public pension system, which consists of a flat-rate pension from the Old Age Security program and an earnings-related pension from the mandatory Canada Pension Plan (CPP). The gross pension level from these two tiers amounts to 42.5% of average earnings.

Significant reforms to the public pension were passed in 1997 to improve sustainability and to finance the prospective pensions of baby boomers. These included an increase in the contribution rate to 9.9% in 2003, changes to benefits, administrative changes and the investment of plan assets. The International Monetary Fund (IMF) acknowledged that the 1997 reforms have put the CPP on a sound footing.

Expenditures for Old Age Security amounted to 2.4% of GDP in 2002 and are expected to rise to 3% by 2030. In international comparisons, these figures are quite low and show that Canada is well positioned to meet future pension liabilities.

Voluntary employer-sponsored pension plans and registered retirement savings plans complement the Canadian pension landscape. Retirement reserves held in employer-sponsored registered pensions plans (RPPs), in registered retirement savings plans (RRSPs) and in the Canada/Quebec Pension Plan amounted to CAD 1.7 trillion (EUR 1.25 trillion) in 2005. The bulk of these assets (58%) were invested in employer-sponsored pension plans and 37% fall under RRSPs. In the same year, Canada's GDP amounted to CAD 1.2 trillion.

Private pension assets of CAD 1.6 trillion are three times as large as the non-pension financial wealth, such as stocks, bonds and deposits, held at financial institutions. These

figures reveal that retirement savings represent a large portion of Canadian wealth.

Public Pensions

The public pension system in Canada is made up of two tiers.

Tier I

The Old Age Security (OAS) program provides a means-tested, flat-rate pension to Canadian residents once they reach the age of 65. The pension is non-contributory and financed on a pay-as-you-go basis funded from general federal government revenues.

A full pension is paid to those residing in Canada for 40 years; the amount is reduced for those who have lived in the country for a shorter period. In 2008, the monthly maximum benefit from the OAS amounts to CAD 502.31 (EUR 350).

In addition to the Old Age Security program, retirees who have little or no income may be eligible for the Guaranteed Income Supplement (GIS). In contrast to GIS benefits, pension payments from the OAS are subject to federal and provincial income tax. Pensioners are obliged to file a tax return every year. The OAS pension is reduced if the net pension rises above a set threshold. To maintain the purchasing power of the pension, payments are adjusted quarterly in line with the Consumer Price Index (CPI).

Tier II – Canada Pension Plan

The Canada Pension Plan (CPP) and its counterpart, the Quebec Pension Plan (QPP), represent the second tier of Canada's public

retirement income system. It is a contributory, earnings-related social insurance program and participation is mandatory for every person over the age of 18 who earns a salary. The CPP operates on a pay-as-you-go basis and contributions are expected to exceed annual pension expenditures until 2022.

The CPP was established in 1966 and operates throughout Canada except in Quebec, which has created its own plan. Both plans provide earnings-related retirement, death and disability benefits. The CPP and the QPP are very similar, but not identical. The following description applies specifically to the Canada Pension Plan, the dominant plan operating throughout the country.

The contribution rate of 9.9% of payroll is shared equally between the employer and the employee; the self-employed pay both parts based on their net business income. Employees with an income of less than CAD 3,500 (EUR 2,425) per annum are exempt from contributing to the CPP. In addition, a maximum level applies, which is subject to annual adjustment. For 2007, the maximum limit was set at CAD 43,700 (EUR 30,270); hence, maximum yearly contributions amount to CAD 1,990 (EUR 1,380) for the 2007 taxation year. The income band charged for CPP contributions is called the pensionable earnings. The contribution rate is levied solely on salaries; other sources of income are not charged.

Benefits from the Canada Pension Plan are adjusted annually in line with the Consumer Price Index. CPP payments may affect the income amount from other sources of retirement income such as the Guaranteed Income Supplement or from a voluntary employer-sponsored pension plan.

The benefit calculation is based on the length of time a person contributed to the CPP and how much was contributed during that time. In general, CPP pensions equal about 25% and are averaged out over the working life, with some years of low earnings excluded from the calculation. The earliest time the CPP pension can be claimed is at the age of 60; the normal

retirement age is 65. The pension is increased by 0.5 per cent per month for every year retirement is postponed up to the age of 70. Early retirement, which is possible at the age of 60, reduces the pension by 0.5% per month.

Tax treatment of contributions and benefits

Contributions are deductible for tax purposes. Benefits are subject to income tax.

Investment regulation

CPP contributions that are not needed to pay current pensions accumulate in a reserve fund managed by the Canada Pension Plan Investment Board. As at December 31, 2006, the CPP fund had CAD 119.5bn (EUR 83bn) assets under management. This is expected to grow to approximately CAD 250bn (EUR 173bn) within the next ten years.

Since April 1, 2007, the CPP Investment Board has been fully responsible for the management of total CPP assets.

In general, the few quantitative limits for the investment of CPP assets apply to investment in real estate (max. 15% resource property and max. 25% real estate and resource property) and investment in securities of associated and affiliated persons and corporations (10%). The CPP Investment Board is responsible for the establishment of investment policies.

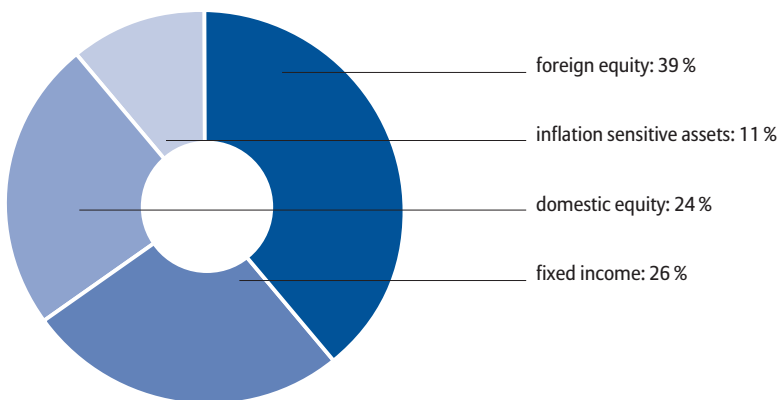
Financial statement

The asset breakdown at as December 31, 2007 was the following:

An Act of Parliament created the CPP Investment Board in December 1997. The Board made its first investment in 1999, which marked the start of the strategy of diversifying the CPP reserve fund from its traditional exclusive reliance on non-marketable provincial and federal bonds and short-term deposits.

CPP fund assets are kept separate from general tax revenues.

CPP Asset Allocation, Dec 2007



Source: CPP Investment Board, Quarterly Consolidated Financial Statements, 2008

Occupational Pensions

The third tier of Canada's retirement income system is made up of voluntary pension savings. Voluntary employer-sponsored pension plans are formally known as Registered Pension Plans (RPPs). They need to be registered with the Canada Customs and Revenue Agency and the appropriate federal or provincial regulatory agency. In order to qualify for tax-assistance private pension plans must meet the legislative requirements as set out in the Income Tax Act.

In general, voluntary pension plans are provided on a single-employer basis, but in some industries industry-wide pension funds were established. However, this is not prevalent.

Employers providing pension plans were given the possibility to make plan participation mandatory for their employees. In all other cases participation is optional.

Employers are free to offer an RPP either in the form of a defined-benefit or a defined-contribution plan. DC pension plans provide individual accounts and in some cases individual choice for the employee regarding the allocation of pension fund assets. Two types of defined-contribution plans are available:

- Money Purchase Plans
The employer contributes a fixed percentage of the employee's earnings or a fixed Canadian dollar amount;
- Profit Sharing Pension Plans
The employer contribution depends on the company's profit but must at least equal 1% of the employee's earnings.

Sometimes DB pension plans take the form of an "integrated" plan that takes into account the pension received from the Canada/Quebec Pension Plan.

About 40% of the Canadian workforce is covered by an employer-sponsored pension plan. Most of them work in the public sector where the coverage ratio is approximately 86%. Defined-benefit plans clearly dominate the pension landscape, covering 4.5 million Canadians. In contrast, 877,000 Canadians are covered by a defined-contribution plan. The low coverage rate of employer-sponsored pension plans can be explained by the relatively high set-up and administration costs. These are unaffordable for small and medium-sized enterprises, which represent a large part of all Canadian businesses.

The shift from the defined-benefit to the defined-contribution plan type can also be observed in Canada. This shift has mainly occurred in the private sector. The DB coverage ratio has fallen from 44% in 1992 to 34% in 2003, 77% of this decrease occurred in the private sector. Companies are

recognising the financial risks and uncertainties associated with DB plans. Almost all public-sector plans are DB.

Portability

In general, pension rights earned under an employer-sponsored pension plan vest after two years of participation. When an employee leaves a company, they can either take a pension upon reaching retirement age, transfer the funds to the new employer’s pension plan or transfer the accumulated assets to a registered retirement account. The Registered Retirement Savings Plan (RRSP) is the most popular method of personal savings for retirement outside an employer-sponsored pension plan. The so-called “locked-in” RRSP is a RRSP that can receive money from a registered pension plan.

By the age of 69, the retiree must transfer funds from the locked-in RRSP to an approved financial vehicle, which could be a locked-in Registered Retirement Income Fund, a Life Income Fund or an ordinary annuity. Approved financial vehicles are products that provide a lifetime stream of retirement income.

If the participation in an employer-sponsored pension plan is less than two years, employee contributions to the fund and earned interest are refunded.

Tax treatment of contributions and benefits

Savings in Registered Pensions Plans and Registered Retirement Savings Plans are tax-assisted. This means contributions up to a certain limit are tax deductible and investment income remains untaxed until the assets are withdrawn. Withdrawals are taxed as income.

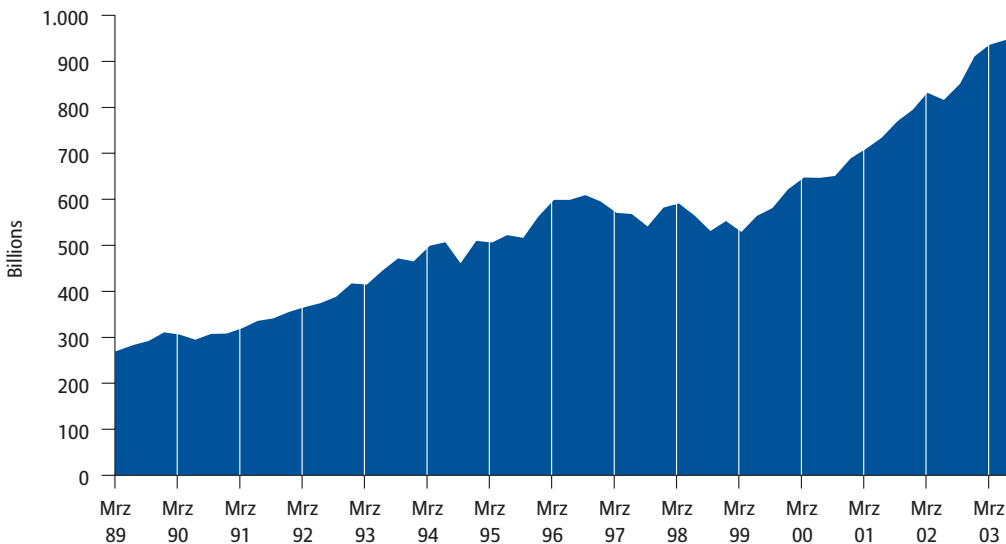
Regulation of private pension plans

Both federal and provincial governments regulate voluntary pension plans. The Office of the Superintendent of Financial Institutions Canada (OSFI) is the official body that regulates and supervises private pension plans at the federal level.

In general, the Prudent Person Principle applies along with quantitative limits (see CPP) for the investment of private pension plans. Each pension plan is required to have a written investment policy.

The 2004 report published by the Certified General Accountants Association (CGA) revealed that approximately 50% of all DB plans had a funding deficit. Pension plans were severely affected by the sharp decline in equity markets at the beginning of the century. They have not yet fully recovered. However, new standards that apply to solvency evaluations reflecting the increase in life expectancy also led to an increase in

Development of occupational pension assets



Source: Statistics Canada

DB pension plans reporting a funding deficit.

Private pension plans are subject to an actuarial valuation every three years. In case the plan is underfunded, concrete steps must be undertaken to return to plan solvency. As it is assumed that governments have endless resources, public-sector pension plans are not required to undertake a similar valuation. In general, public-sector and private-sector pension plans experience a different treatment.

Outlook

Reforms in 1997 to the Canada and Quebec Pension Plan focused on the long-term sustainability of the public pension system, which put the both plans on a sound footing. The fund is expected to grow until 2022 as contributions and investment income will exceed pension payments.

The large share of underfunded DB plans in Canada remains a serious problem. Political activity to correct this has only been evident recently. In 2006, to tackle the funding issue, the government announced a temporary solvency funding relief for federally regulated DB plans.

Both federal and provincial governments are examining ways to strengthen the security of occupational pension plans. Some provinces have already proposed changes to their pension benefits law; other provinces are expected to do so in late 2007 or early 2008. As different pension laws apply in each of the ten Canada provinces, the adoption of a uniform national approach is expected to be a lengthy process.

Outlook

The entire content of this publication is protected by copyright with all rights reserved to Allianz Global Investors AG. Any copying, modifying, distributing or other use of the content for any purpose without the prior written consent of Allianz Global Investors AG is prohibited. The information contained in this publication has been carefully verified by the time of release, however Allianz Global Investors AG does not warrant the accuracy, reliability or completeness of any information contained in this publication. Neither Allianz Global Investors AG nor its employees and deputies will take legal responsibility for any errors or omissions therein.

This publication is intended for general information purposes only. None of the information should be interpreted as a solicitation, offer or recommendation of any kind. Certain of the statements contained herein may be statements of future expectations and involve known and unknown risks and uncertainties which may cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Allianz Global Investors AG
International Pensions
Nymphenburgerstr. 112–116
D-80636 Munich

International.Pensions@allianzgi.com
<http://www.allianzglobalinvestors.com>

Closing Date:
April 2008