

Final Report
for Allianz Global Investors AG

Expert Survey on the Future of DC Pension Plans in Europe

Centre of European Economic Research GmbH (ZEW)

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1 Executive Summary

1.1 Introduction

The majority of European countries face tremendous challenges with respect to their pension systems. Demographic pressure and insufficient funding are being seen as the major problems. The second pillar, namely the occupational pension schemes, plays an increasingly significant role when it comes to solving those issues. European occupational pension markets are being subject to great change. The trend from defined benefit (DB) towards defined contribution (DC) pension schemes puts the focus on regulation, design, product standards etc. of such DC pension plans.

While various survey-based research projects have already been done with regard to the transition from occupational DB to occupational DC pension schemes as well as the resulting challenges, this research project puts focus on the expectation how the market will develop within the next 5 to 10 years. It is based on a survey of European experts working for pension funds, financial institutions, consulting companies, international organizations, and in academies. The central questions cover the experts' expectations of the future development of the occupational DC-markets and pension schemes as well as the future regulatory framework. Furthermore, it deals with incentives for employers to establish an occupational DC plan and the organization of the pay-out phase. The experts' anticipation of the consequences of the recent financial crisis, the role of socially responsible investment (SRI) for pension funds, and eventually, the future of the pan-European pension market are covered as well. Chapter one compares and analyses the results of the six different countries (France, Germany, Italy, the Netherlands, Switzerland, and the United Kingdom) and the pan-European perspective while chapter two covers each country individually. In the third chapter we compare whether the opinions of the pan-European experts differ from those of the average opinion of experts in six surveyed countries.

1.2 Methodology

In our survey we asked pension experts about the future trend in the European occupational pension market. We thereby focused on the most important European markets: France, Germany, Italy, the Netherlands, Switzerland and the United Kingdom. The experts were allowed to choose from which national perspective they want to answer. They could additionally answer from a pan-European perspective. Altogether we asked 2584 experts and got 216 answers. This gives us a response rate of 8.4% (for details see the table below).

Country	Number of asked experts	Number of participants	Response rate
Pan-European	48	31	64.6%
France	254	15	5.9%
Germany	513	47	9.2%
Italy	269	26	9.7%
The Netherlands	527	35	6.6%
Switzerland	461	30	6.5%
The United Kingdom	512	32	6.3%
Total	2584	216	8.4%

As terms defined contribution and defined benefit are differently understood in each country we used the OECD definitions to make these terms clear:

Defined contribution (DC) occupational pension plans are pension plans under which benefits to members are based on the amount contributed to the plan by the sponsor and/or member plus the investment return thereon. In a pure DC plan, the sponsoring company has no legal or constructive obligation to pay further contributions to an ongoing plan in the event of unfavourable plan experience.

Defined benefit (DB) occupational pension plans are pension plans where benefits are linked through a formula to the members' wages or salaries, length of employment or other factors. The financial and longevity risks are borne by the plan sponsor.

As existing DC pension plans in Europe often include elements of DB plans and differ substantially from each other, we have defined which existing plan types we consider to be DC plans in the respective countries:

Country	DC Plan
France	PERCO (plan d'épargne retraite populaire)
Germany	DC plan with minimum benefit guarantee (Beitragszusage mit Mindestleistung)
Italy	Closed and open pension funds (fondi pensione negoziali / fondi pensione aperti)
The Netherlands	Collective defined contribution schemes
Switzerland	DC plans with minimum guarantee (Beitragsprimat)
The United Kingdom	Trust-based and contract-based DC plans

Within April 2009 we began to create the questions for our survey. We focused on seven major topics regarding the occupational defined contribution (DC) markets. First we wanted to find out what the future trends in the several countries are. In addition we were interested in the factors that are responsible for this trend. We also wanted to know what the experts think of an adequate design of the pay-out phase of occupational DC plans. Further we were interested in the regulatory framework which is needed in an efficient system. We also want to find out whether the financial crisis has an impact on the development of the occupational pension market. We asked the experts about socially responsible investments (SRI) and what role this concept plays in the pension systems. In addition we wanted to investigate whether pan-European pension plans can be established within the next ten years.

After we finished the questionnaires we got in telephone contact with some experts in every country to get a feedback about the survey. Subsequently, we did some changes in the survey and invited pension experts from academic organizations, asset management, associations, consulting companies, insurance companies, international organizations, pension funds, regulatory or supervising authorities, banks and pension provider to complete the on-line questionnaire (for details see the table below). They could do it between the 25th of June and the 26th of August 2009.

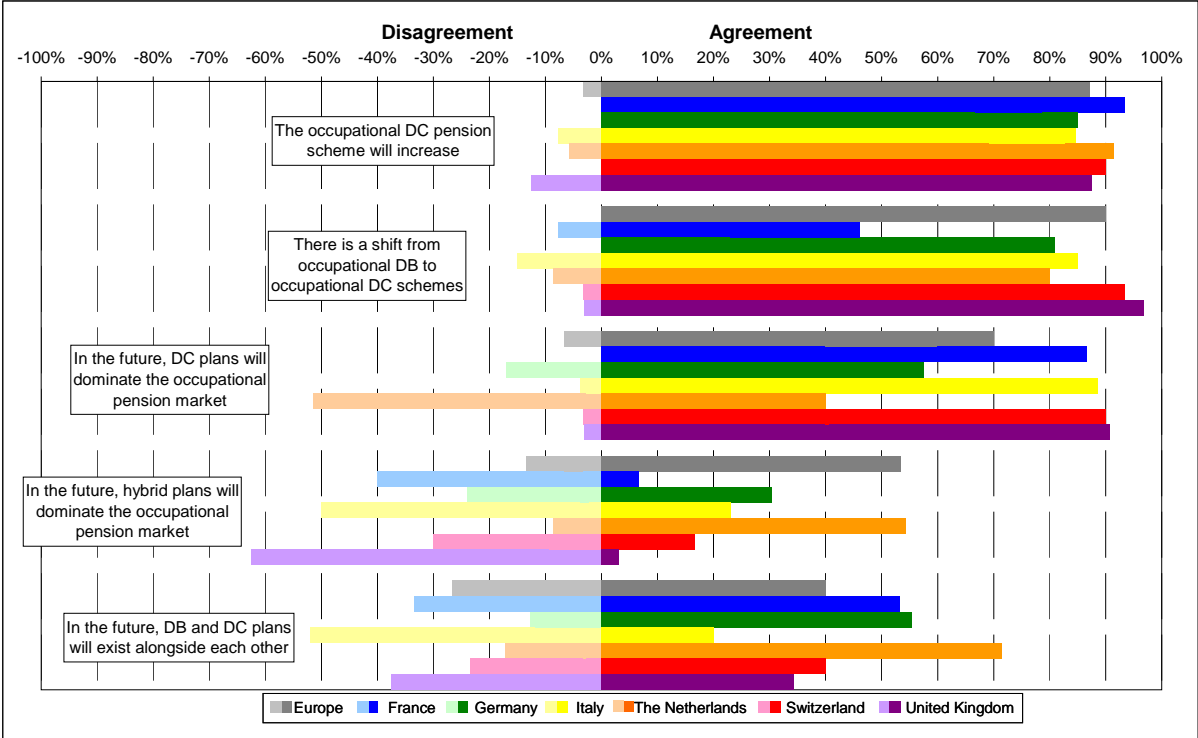
	Pan-European	France	Germany	Italy	Netherlands	Switzerland	United Kingdom	Total
Academic organizations	4	0	17	8	6	2	6	43
Asset management	6	8	8	3	3	7	5	40
Associations	3	0	3	4	1	1	2	14
Consulting companies	5	3	10	5	9	5	3	40
Insurance companies	4	3	3	1	4	0	0	15
International organizations	6	0	3	0	0	0	2	11
Pension funds	0	1	1	3	10	12	12	39
Authorities (regulator, supervisor, etc.)	1	0	1	2	2	1	2	9
Banks	0	0	0	0	0	1	0	1
Corporate	2	0	0	0	0	0	0	2
Others	0	0	1	0	0	1	0	2
Total	31	15	47	26	35	30	32	216

1.3 Overview

1.3.1 Future Trends

The majority, namely more than 80% of the surveyed pension experts observe a growth of the occupational DC market, while more than three-fourths (75%) believe in a shift from occupational DB towards occupational DC plans (see Figure 1). The exception is France where significantly fewer experts (46%) observe a shift towards DC plans. However, only 8% of French experts disagree that a shift is taking place. All pension experts – except the Dutch – predict the dominance of the occupational DC plans in their domestic pension market. Dutch experts rather expect hybrid pensions to dominate. Additionally, they expect DC and DB plans to exist alongside each other. This is consistent with the current situation in the Netherlands which has a large occupational DB pension market. Thus, even though Dutch experts observe a growth of DC pension plans, they do not expect this to be the dominant form of occupational pension provision. Apart from the Dutch specialists, only pan-European experts expect hybrid plans to dominate the occupational pension market. The survey participants expect that DB still will be a large fraction of the German and French market, however, they will not dominate. They will rather coexist alongside with DC schemes. The reason for this is that in these two countries, large occupational DB markets already exist.

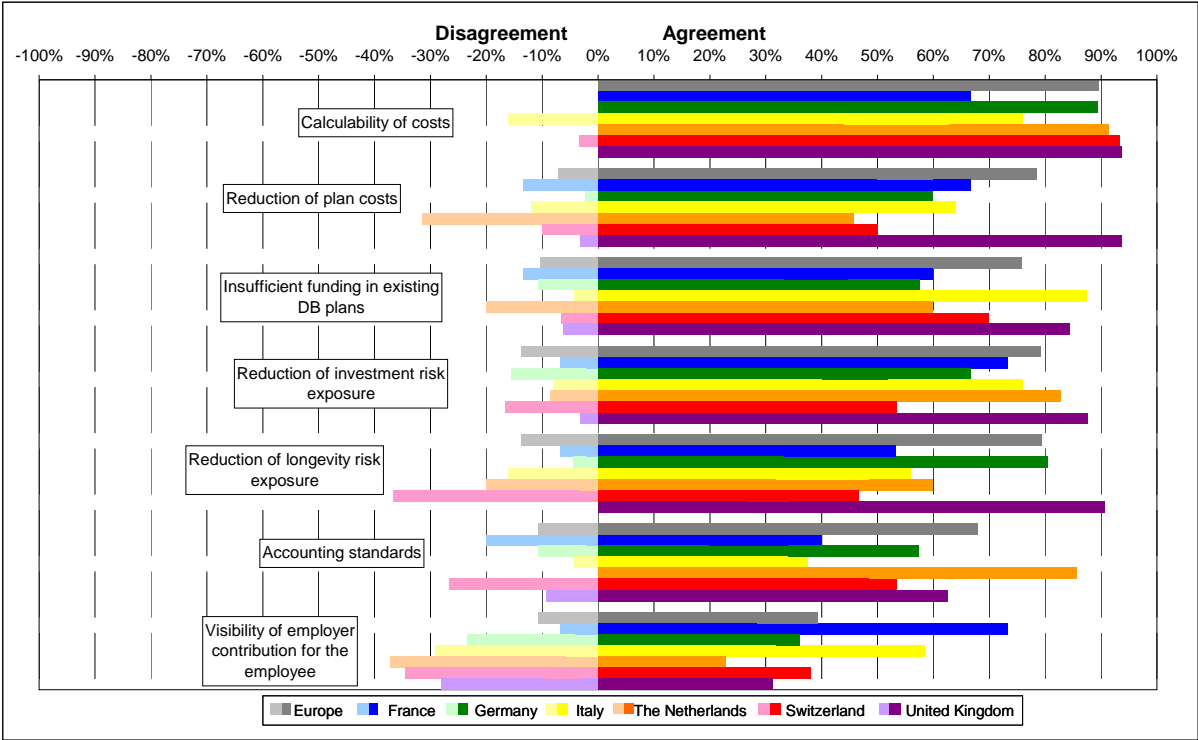
Figure 1: Future trend of the occupational DC market (overview)



1.3.2 Factors of Development

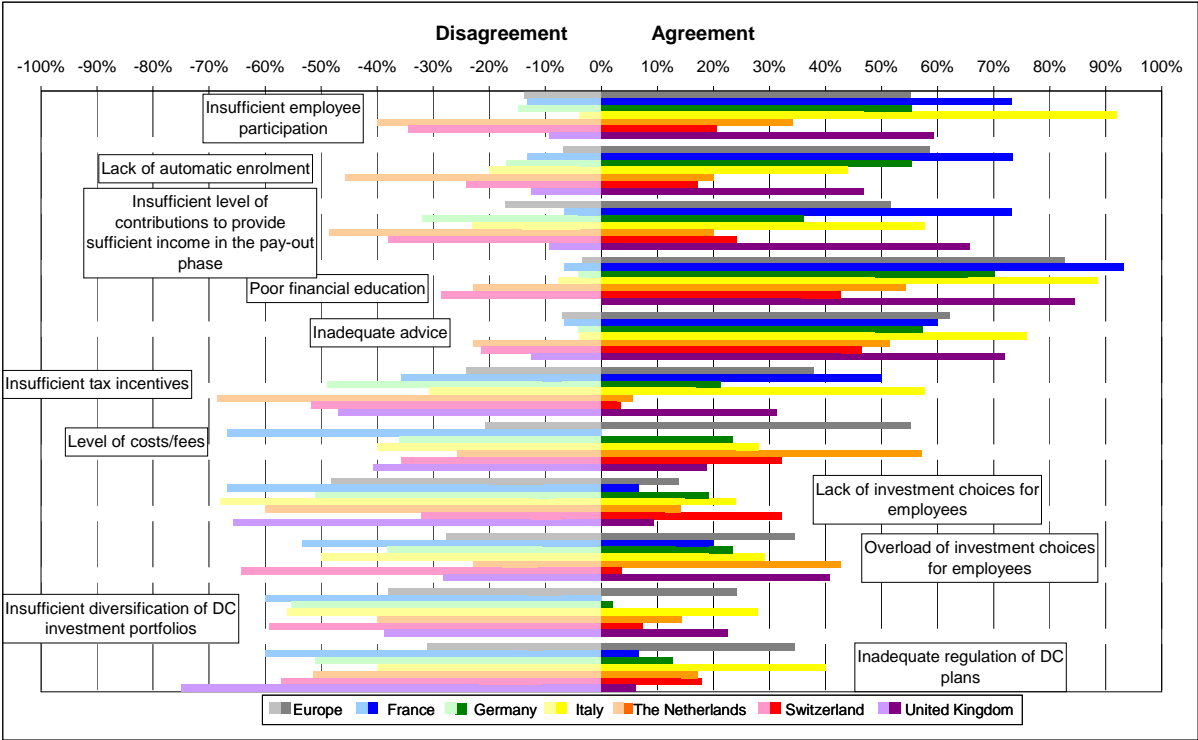
As far as the employers’ incentives and decisive factors to establish an occupational DC plan over an occupational DB plan are concerned, all experts rate the calculability of costs to be the most significant factor (see Figure 2). Also, insufficient funding in existing DB plans and the reduction of investment risk exposure as well as longevity risk exposure are additional factors stimulating establishment of DC plans. Considering the reduction of plan costs, all experts specify them as being a crucial factor, except for the Dutch and the Swiss. Accounting standards are also an important incentive for employers to prefer an occupational DC plan. Only in Italy, and particularly, in France, it seems to be less crucial. The visibility of employer contribution for the employee is rated to be the least important factor when it comes to advantages of a DC plan. Only the French and Italian pension experts state that it is a motivation factor for employers to prefer an occupational DC plan over an occupational DB plan.

Figure 2: Motivation of employers to choose an occupational DC plan (overview)



Considering the obstacles for the establishment of more DC occupational pension schemes, the vast majority of the experts are certain that poor financial education as well as inadequate advice are the most prominent factors (see Figure 3). Moreover, the pan-European, French, German, and British pension experts believe insufficient employer participation to be a crucial hindering factor. The Netherlands and Switzerland have quasi-mandatory and mandatory occupational systems respectively. Insufficient tax incentives are an obstacle in France and Italy. Pan-European experts also mention the high cost as a hindering factor for the occupational DC market to develop. On the national level, only Dutch experts agree. Other factors such as inadequate number of investment choices, insufficient diversification of DC investment portfolios and inadequate regulation do not play a hindering role.

Figure 3: Obstacles for the development of the occupational DC market (overview)

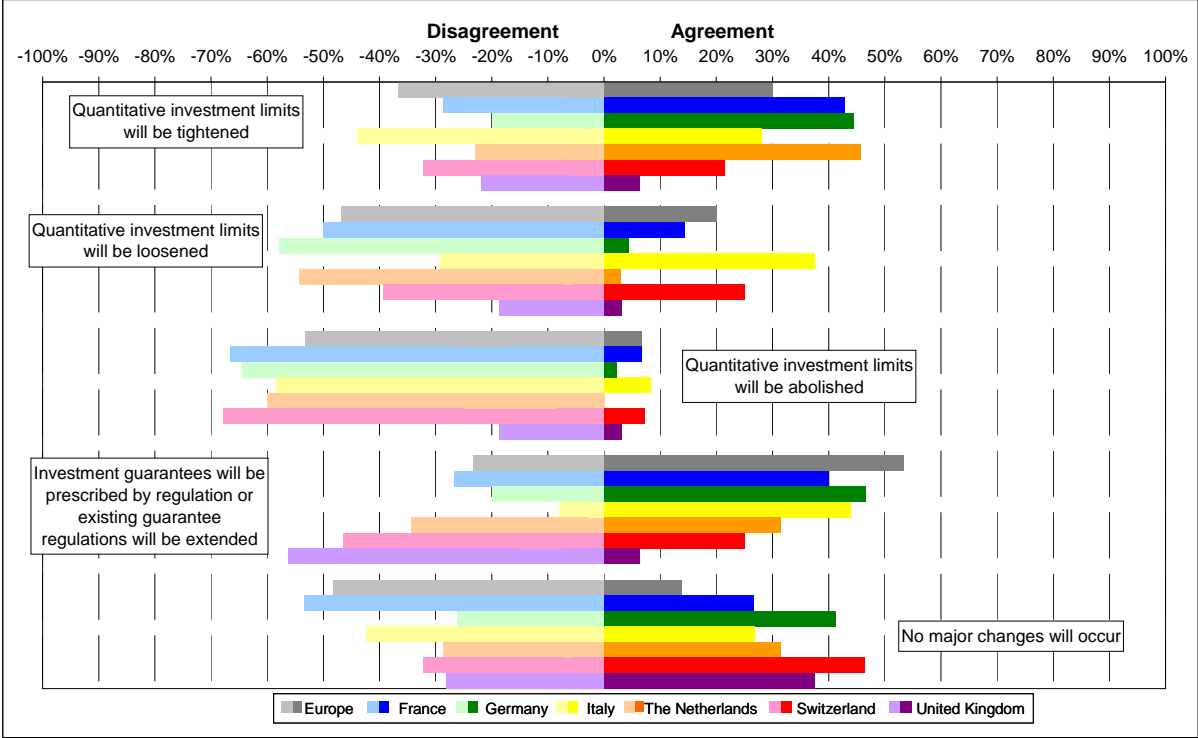


1.3.3 Regulation

As far as the future of national and European regulation is concerned, the vast majority of the surveyed pan-European pension experts predict quantitative investment limits not to be loosened (see Figure 4). In some countries such as Germany, France, and the Netherlands, a significant portion of experts think that they will be rather tightened. A clear majority is certain that quantitative investment limits will not be abolished.¹ Considering the anticipation of a prescription of investment guarantees by regulation or the extension of existing guarantee regulation, the surveyed countries' experts are split into a pro and a counter party: While the pan-European, French, German, and Italian experts are confident, the Dutch, Swiss, and British experts seem to be sceptical of such prescriptions respectively extensions to happen. A large fraction of the pan-European, French, and Italian specialists is certain that no major changes will occur with respect to regulation while many German and Swiss experts anticipate modifications in the regulatory framework. In

the Netherlands and the United Kingdom experts are divided in almost equal pro and contra parties regarding this matter.

Figure 4: Future regulation of the occupational DC market I (overview)

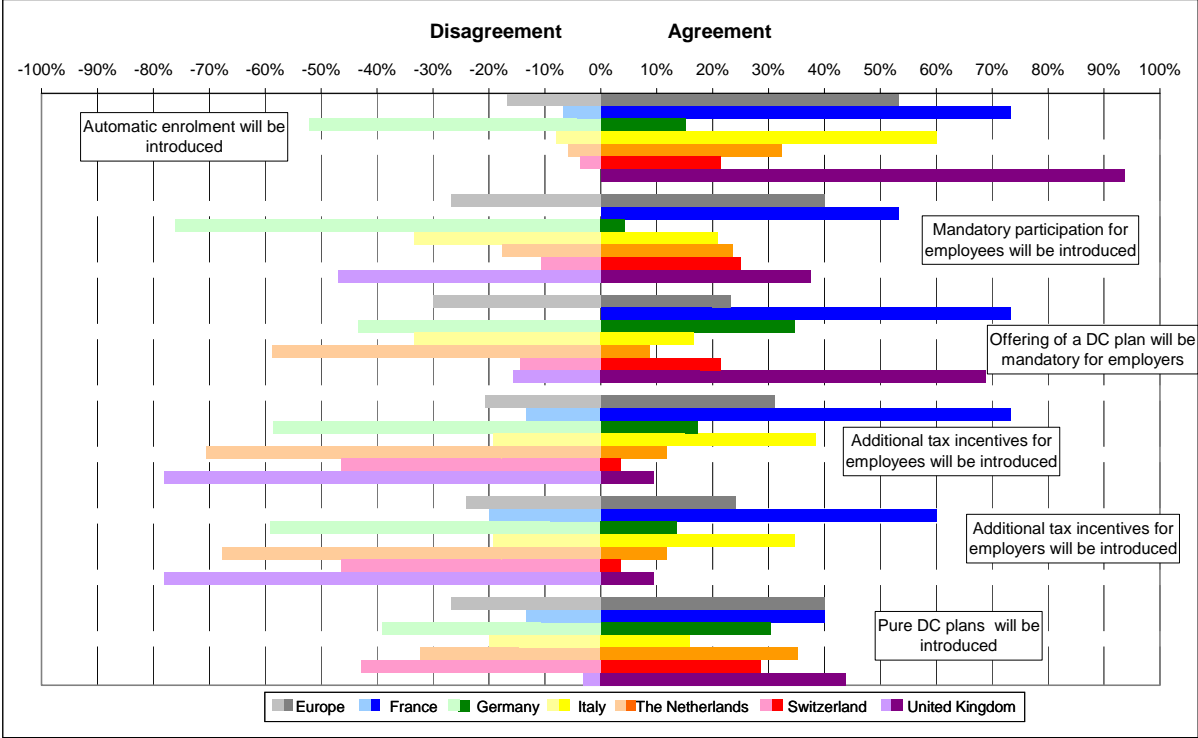


Regarding the future design of the experts' respective domestic occupational DC market, the automatic enrollment seems to be the most likely regulation to be introduced (see Figure 5). The British, French, and Italian experts expect this legislative change very strongly. Recalling the fact that in these countries the experts assess insufficient employee participation to be a significant obstacle for occupational DC plans to be established, automatic enrollment would solve this issue. Furthermore, French experts predict mandatory participation for employees to be introduced. None of these changes is expected in Germany. French and British experts foresee that offering of DC plans will be mandatory for employers. As far as additional tax incentives for employees and employers are concerned, again, the vast majority of French experts believe in an introduction. German, Dutch, and British experts remain rather pessimistic.

¹ Importantly, the above stated issue with respect to quantitative investment limits do not apply to Italy and the United Kingdom since their pension funds act under the Prudent Person Principle.

The general opinion of whether pure DC plans will be introduced is rather divided. Only in the UK, this pension plan design is expected by nearly 45% of the experts.

Figure 5: Future regulation of the occupational DC market II (overview)

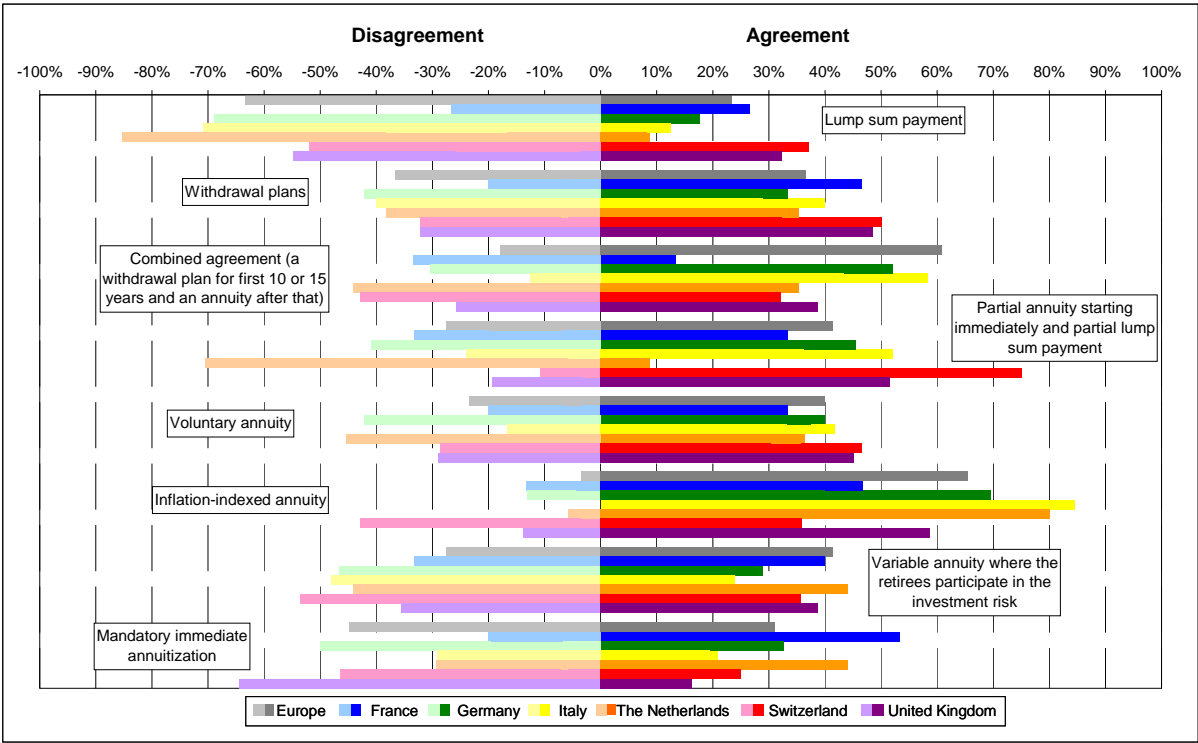


1.3.4 Pay-out Phase

Majority of pension experts reject the lump sum payment as a proper design of occupational DC plans. Only among French survey participants there are no clear consensus. One fourth agrees with this statement while another fourth disagrees (see Figure 6). In contrast, the inflation-indexed annuity is believed to be the optimal pay-out phase design. Therefore, inflation seems to be an important risk from which participants of pension plans should be protected. However, nearly half of the Swiss experts disapprove of the inflation indexed annuity. It is followed by the partial annuity starting immediately combined with partial lump sum payment. Especially, the Swiss experts support this option very strongly as a prudent way to organize a pay-out phase. On the contrary, more than 70% of the Dutch experts are not in favour of this design. The combined agreement which is a withdrawal plan for the first 10 or 15 years and an annuity after that receives the highest support among the pan-European, German, and Italian pension specialists with more than 50% of them

being in favour. The variable annuity where the retirees bear the investment risk is marked by strong pro and counter fractions in each of the surveyed countries. The same is true for withdrawal plans, for which more than 40% of the French, the Swiss, and the British experts prefer this design.

Figure 6: Optimal pay-out phase design of occupational DC products (overview)



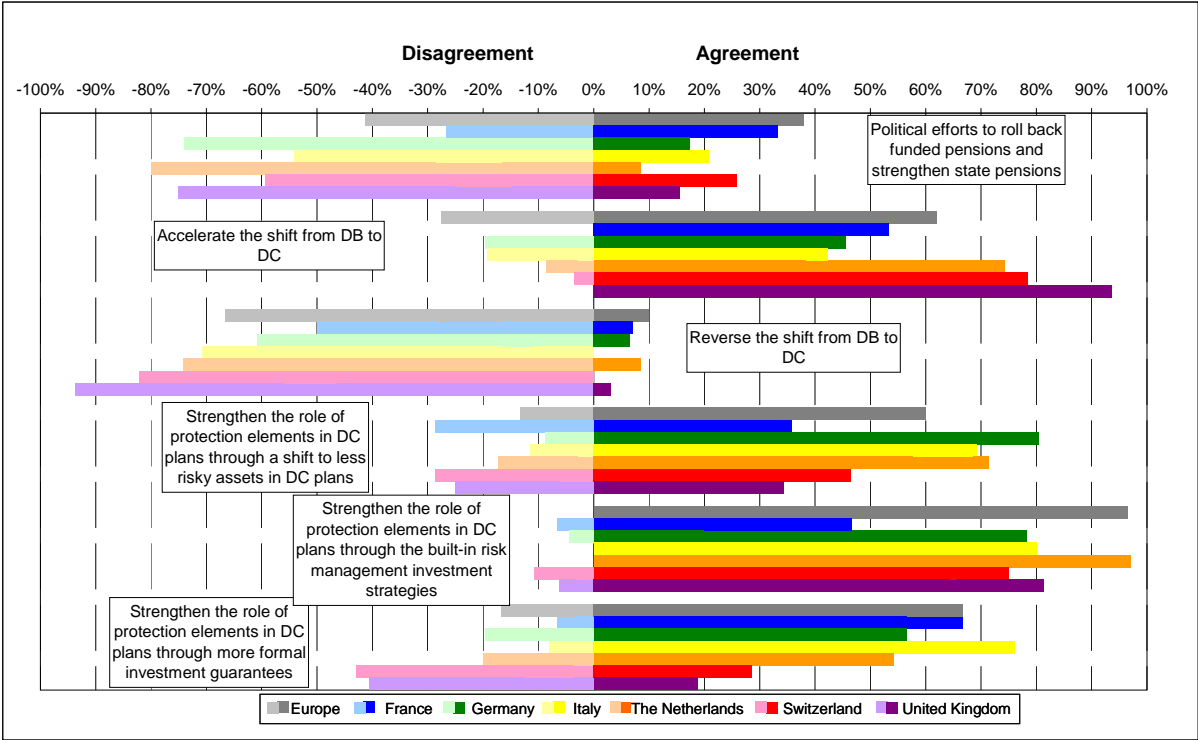
Eventually, we address the question if annuities should be mandatory or voluntary. It seems to be a controversial issue as there are strong pro and counter parties for both, the voluntary and mandatory immediate annuitization. Only German and British specialists disapprove mandatory immediate annuitization by the majority.

1.3.5 Financial Crisis

The vast majority of the surveyed pension experts are certain that a possible consequence of the financial crisis over the next five years is a strengthening role of protection elements in DC plans (see Figure 7). There is a broad consent that this will occur through the built-in risk management investment strategies in DC plans. Such strategies may include life-cycle, outcome-orientation as well as inflation-protected

strategies. Furthermore, most countries, with the exception of the UK and Switzerland, anticipate an establishment of more formal investment guarantees. The British became reluctant towards investment guarantees since the 1990s when some insurers had solvency problems with guaranteed annuities rates embedded in with-profit insurance contracts. These problems even forced the House of Lords to close the world's oldest mutual insurer Equitable Life to new business and to reduce its benefits. Additionally, pan-European, German, Italian, and Dutch experts believe that the financial crisis will cause a shift towards less risky assets in DC plans. In Figure 2, we can see that, according to experts' opinion, the avoidance of investment risk is one of the key factors motivating employers to choose the DC pension schemes. Thus, experts believe that the financial crisis will accelerate the shift from occupational DB towards occupational DC plans. Moreover, they doubt that politics will roll back funded pensions and strengthen state pension systems. An exception is France, where more experts believe than disbelieve that this scenario is realistic.

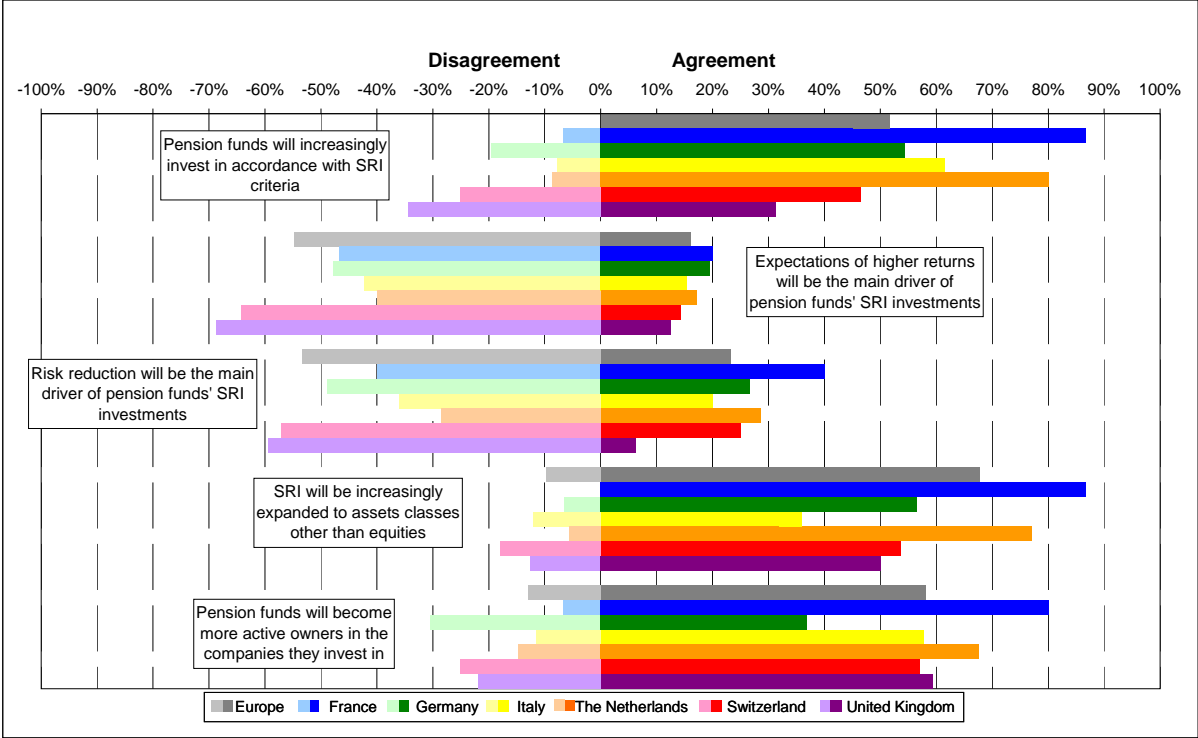
Figure 7: Impact of the financial crisis on the pension market (overview)



1.3.6 Socially Responsible Investment

The majority of the surveyed pension experts are certain that pension funds will increasingly invest in accordance with socially responsible investment (SRI) criteria (see Figure 8). Particularly, Dutch and French experts have the greatest confidence that this will occur. The tremendous enthusiasm of the French experts may be explained by the current governmental support of SRI. The Social Security Financing Act from 1999 established the “Fonds de Réserve pour les Retraites” (FRR) which aims at securing the sustainability of public finances. About one third of the Swiss and British experts remain, however, sceptical as to whether an expansion of SRI will occur. Furthermore, there prevails broad consent that SRI will be increasingly expanded to asset classes other than equities. A similar picture may be obtained regarding the issue of whether pension funds will become more active owners in the companies they invest in (e.g. exercising voting rights, dialogue with the management etc.). Except for Germany, all surveyed experts attribute a high likelihood to this trend.

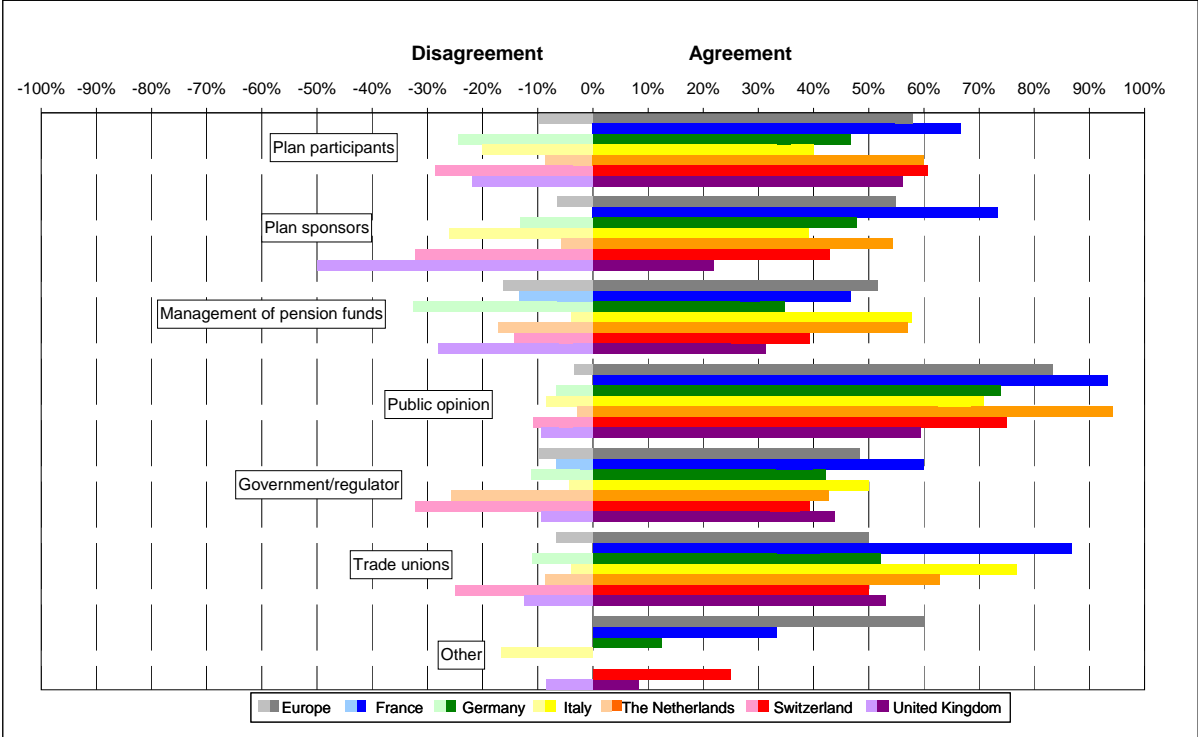
Figure 8: Socially Responsible Investment (SRI) (overview)



Clearly, the main drivers of the demand for SRI are neither the expectation of higher returns nor the reduction of risk. Quite to the contrary, the public opinion plays an

outstandingly significant role (see Figure 9). The vast majority of experts in every surveyed country believe this to be the main driver for the SRI demand. It is followed by the trade unions with the French experts attributing the highest support rate. This result corresponds with the traditionally strong position of trade unions in France. Furthermore, plan participants as main drivers for SRI receive a high approval rate by about the half of the respondents.

Figure 9: Stakeholders affecting demand for SRI (overview)

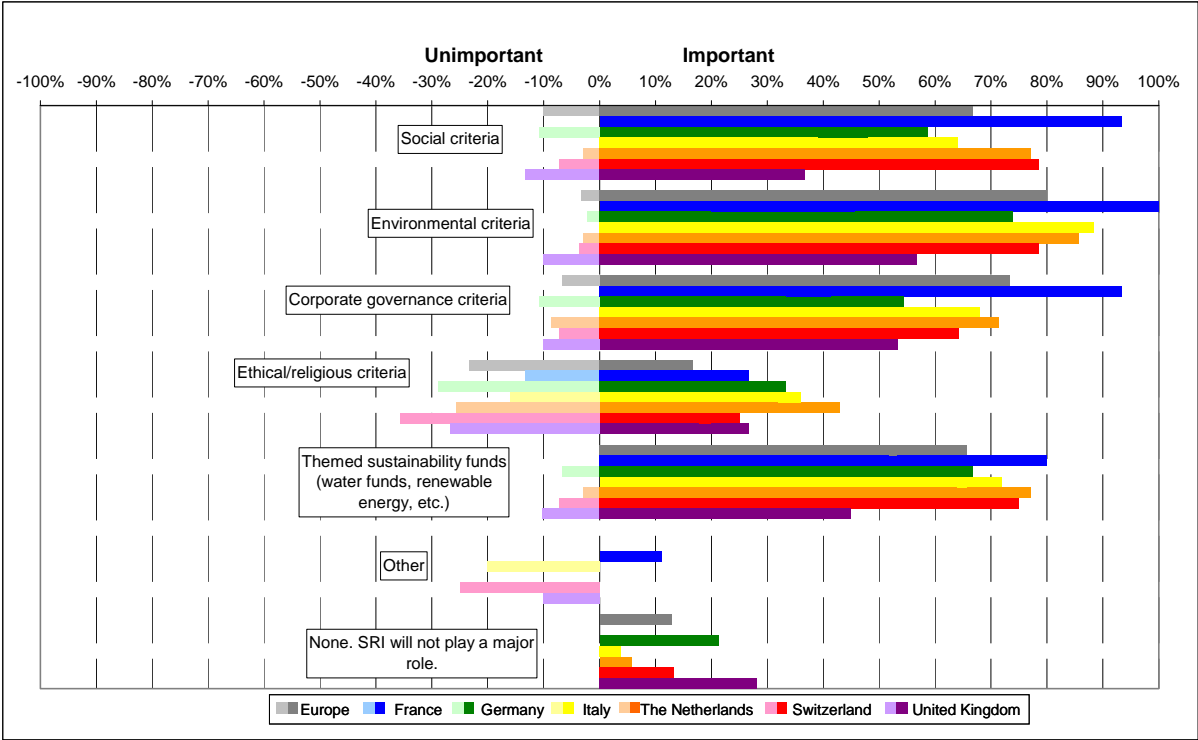


The plan sponsors seem to play a secondary role with an average agreement rate of about 50%. Interestingly, the French experts consider them to be one important driver with more than 70% support. On the contrary, British experts do not believe that plan sponsors will demand for SRI in their pension plans. The management of pension funds as well as the government and regulator seem to play a less important role. The high approval rate of the French experts for the government and regulators are in correspondence with the recent governmental efforts to foster SRI.

As far as the criteria for SRI investment decisions are concerned, the environmental, corporate governance, and social criteria as well as themed sustainability funds such as water and renewable energy funds are considered to be significant by the majority

of the experts (see Figure 10). Only among the British experts, no majority may be obtained for the social criteria as well as the themed sustainability funds as crucial criteria for investment decisions in the segment of SRI. On the contrary, the experts specified ethical and religious criteria to play a minor role.

Figure 10: SRI criteria (overview)



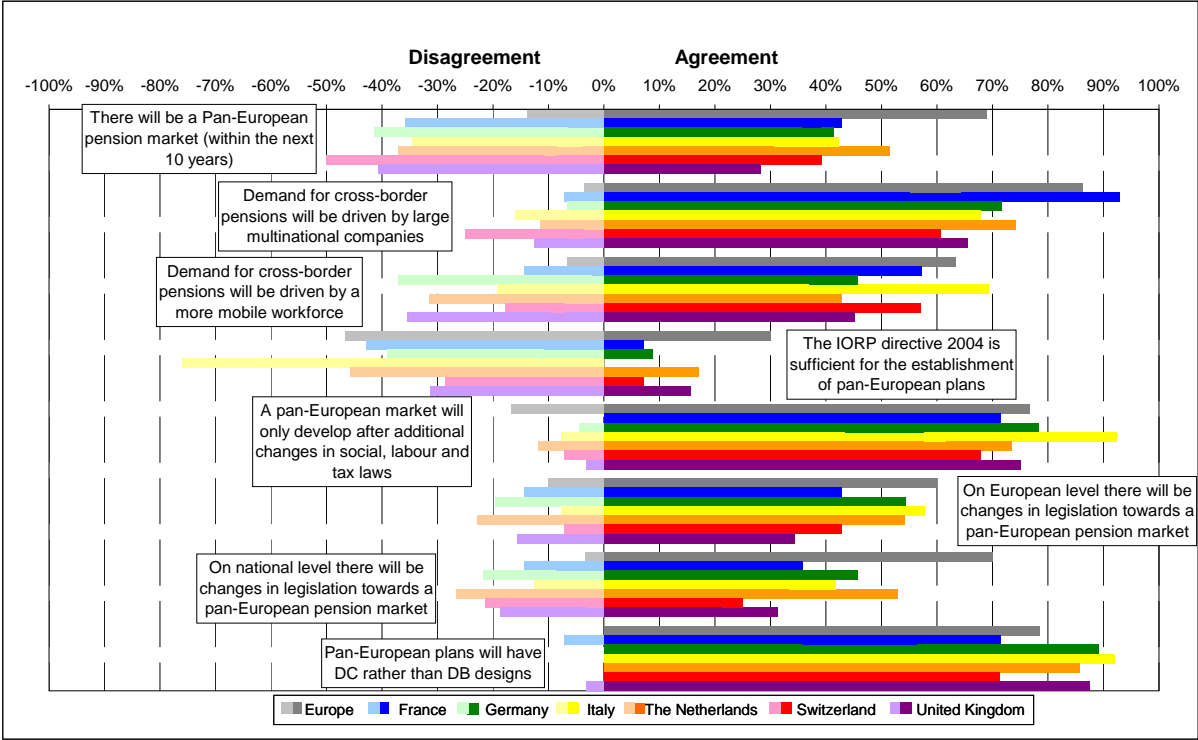
1.3.7 Pan-European Pension Plans

According to 40-50% of the surveyed pension experts, there will be a pan-European pension market within the next 10 years (see Figure 11). More optimistic as the average are only pan-European experts with 69% approval. The Swiss and the British experts are less optimistic than their pan-European peers. The result is in correspondence with the fact that Switzerland is not an EU member state and the traditional British scepticism towards the European Union. Additionally, the experts have no doubt that pan-European plans will have DC rather than DB design. Furthermore, the vast majority of all experts believe that a pan-European pension market will only develop after additional changes in social, labor, and tax laws have been made. Accordingly, many experts believe that the current legislative framework, the IORP (Institutions for Occupational Retirement Provisions) directive, is not

sufficient for a pan-European pension market to be established. In particular, more than four fifths of the Italian experts judge the current framework as inadequate. Moreover, the experts foresee that such additional changes will occur on both European and national level within the next 10 years, although change of European legislation is more likely.

According to the experts' opinion, cross-border pension demands will be driven by large multinational firms rather than by the more mobile workforce. In particular, a fraction of nearly 40% of the German and British experts remains pessimistic that the more mobile workforce will drive the demand for cross-border pensions.

Figure 11: Pan-European pension market (overview)



2 Results

2.1 *Pan-European Perspective*

2.1.1 Future Trends

The vast majority of pan-European pension experts predict a shift on the European pension market from DB to DC schemes as well as an increase in voluntary individual pension savings. According to the pension experts, DC plans are very likely to dominate the occupational pension market in the future. Whether DB and DC plans will exist side by side remains an unsettled issue. Furthermore, the majority of pan-European experts expect hybrid plans to dominate in the future.

More than four-fifths (84%) of the pan-European pension experts forecast that the number of participants in DB pension scheme will decline, while 87% believe that the number of participants in DC pension scheme will grow. Accordingly, the vast majority of 90% predicts a shift from occupational DB to occupational DC schemes. 70% of the specialists believe the DC pension market will dominate in the future. Opinions are divided as to whether DB and DC plans will exist alongside each other: While 40% agree, 26% object, and 33% remain neutral. The majority of 53% presumes that hybrid plans will dominate the European occupational pension market, while 13% do not believe this will be the case. Moreover, 80% of the respondents assume voluntary individual pension savings (3rd pillar) to increase in the future (see Figure 12 and Figure 13).

Figure 12: Future trend of the occupational DC market I (pan-European)

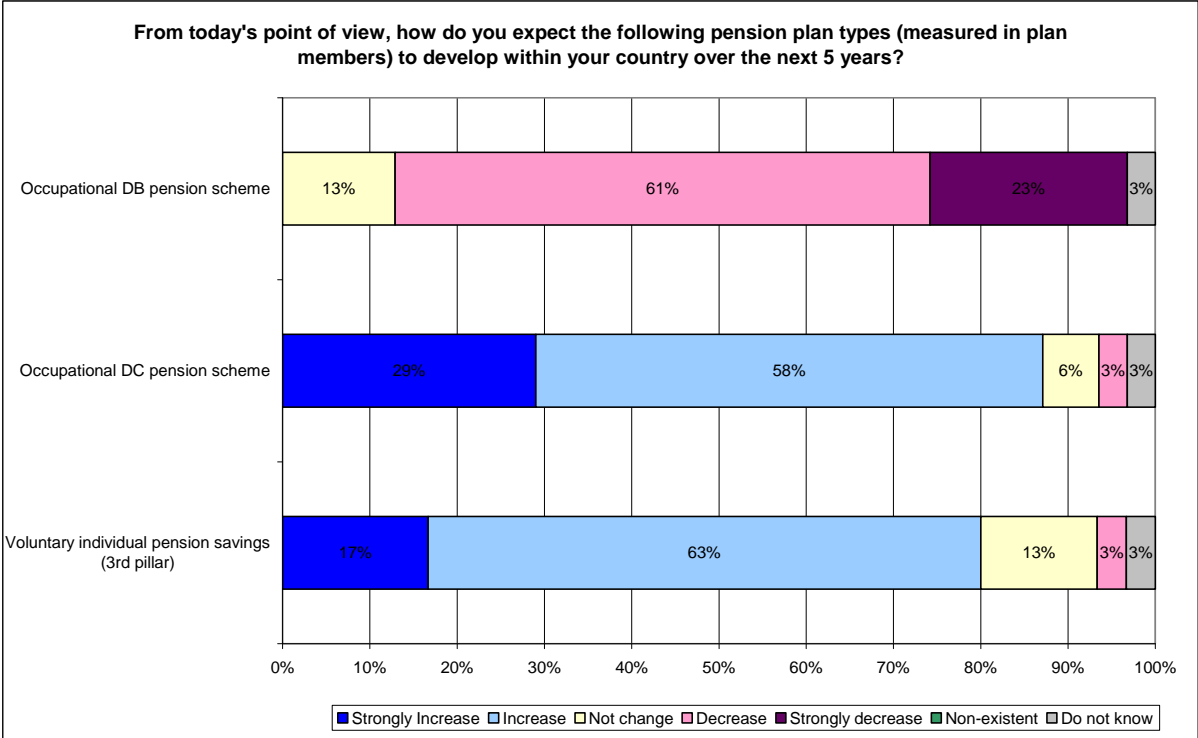
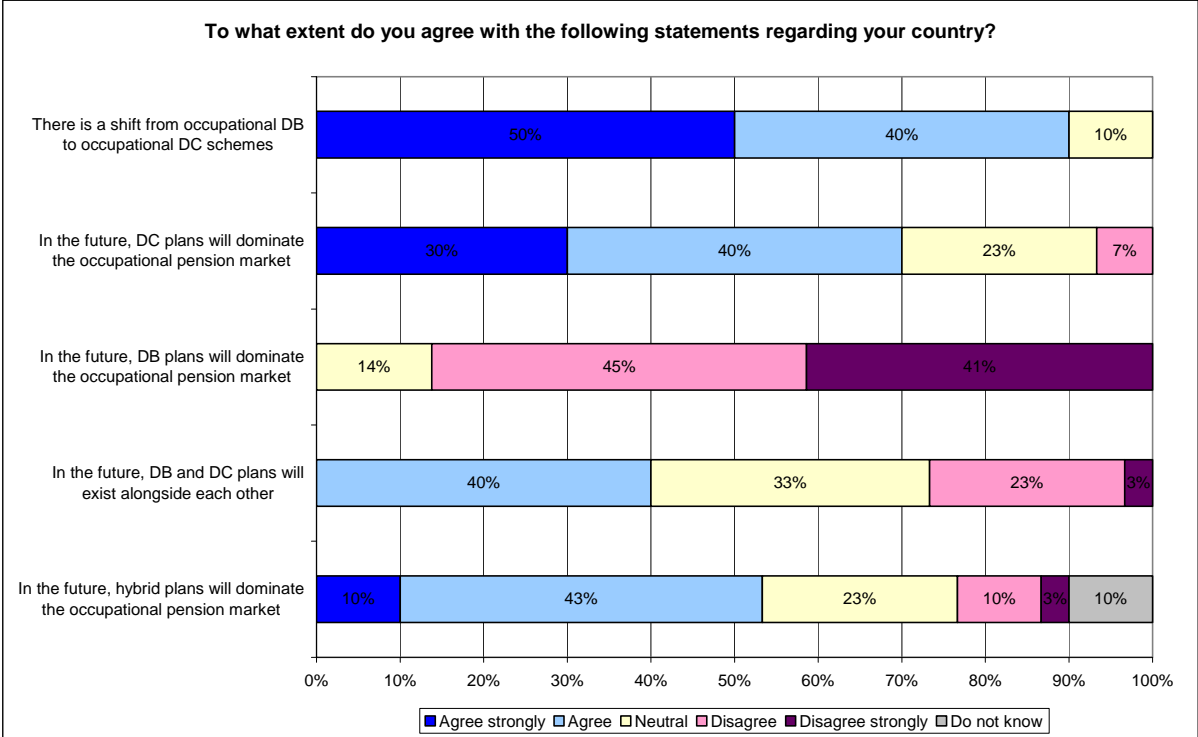


Figure 13: Future trend of the occupational DC market II (pan-European)

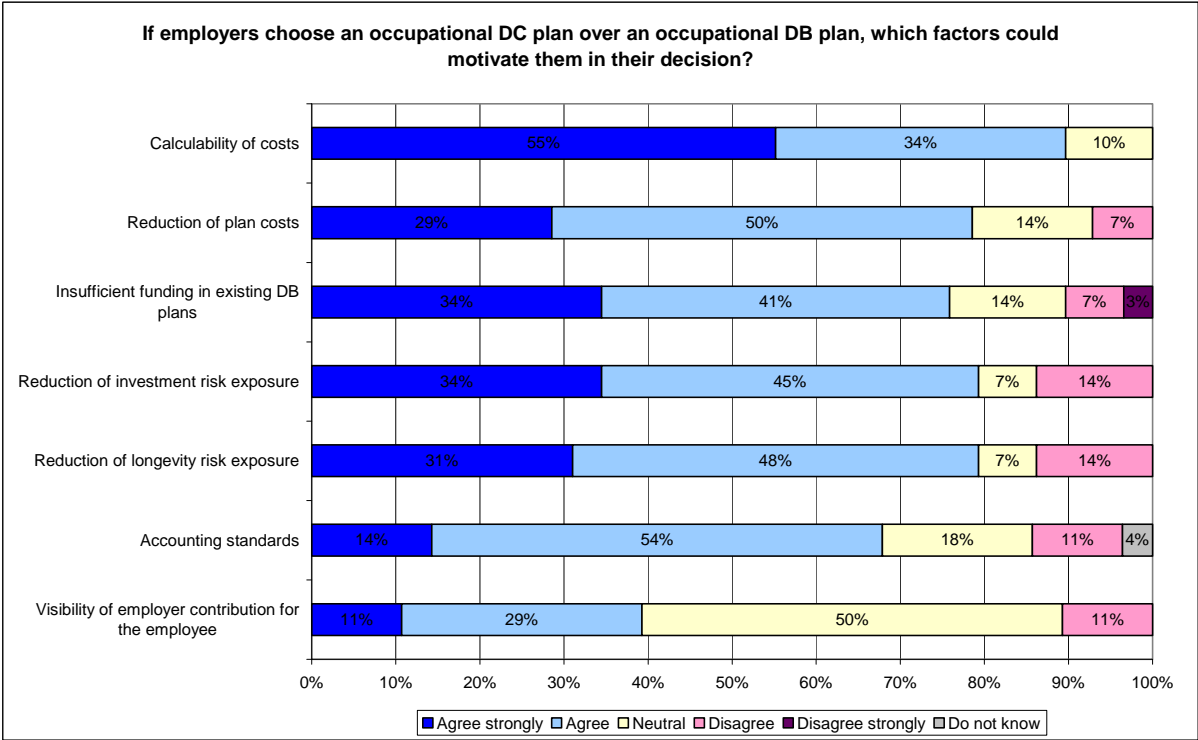


2.1.2 Factors of Development

The focus of this section lies on the employers' incentives and crucial drivers to establish an occupational DC plan over an occupational DB plan. The four most significant factors on the European pension market are the calculability of costs, the reduction of longevity and investment risk exposure as well as the reduction of plan costs. Furthermore, we wish to scrutinize the main factors responsible for hindering greater dominance of occupational DC plans. Poor financial education, inadequate advice, and a lack of automatic enrollment were stated to be the most significant obstacles.

According to the pension experts' assessment, the calculability of costs plays an outstanding role in the employers' decision-making process, obtaining an agreement of 89%. Almost four-fifths of the respondents (79%) specify the reduction of longevity risk exposure and the reduction of plan costs as an important reason for the employer. Insufficient funding in existing DB plans obtains an approval of 75% and the reduction of investment risk exposure 74%. Accounting standards are indicated as a motivating factor by 68% of the respondents. Merely the visibility of employer contribution for the employee does not seem to be a motivating factor in the employers' decision: 40% are in favour while 50% remain neutral and 11% even object (see Figure 14).

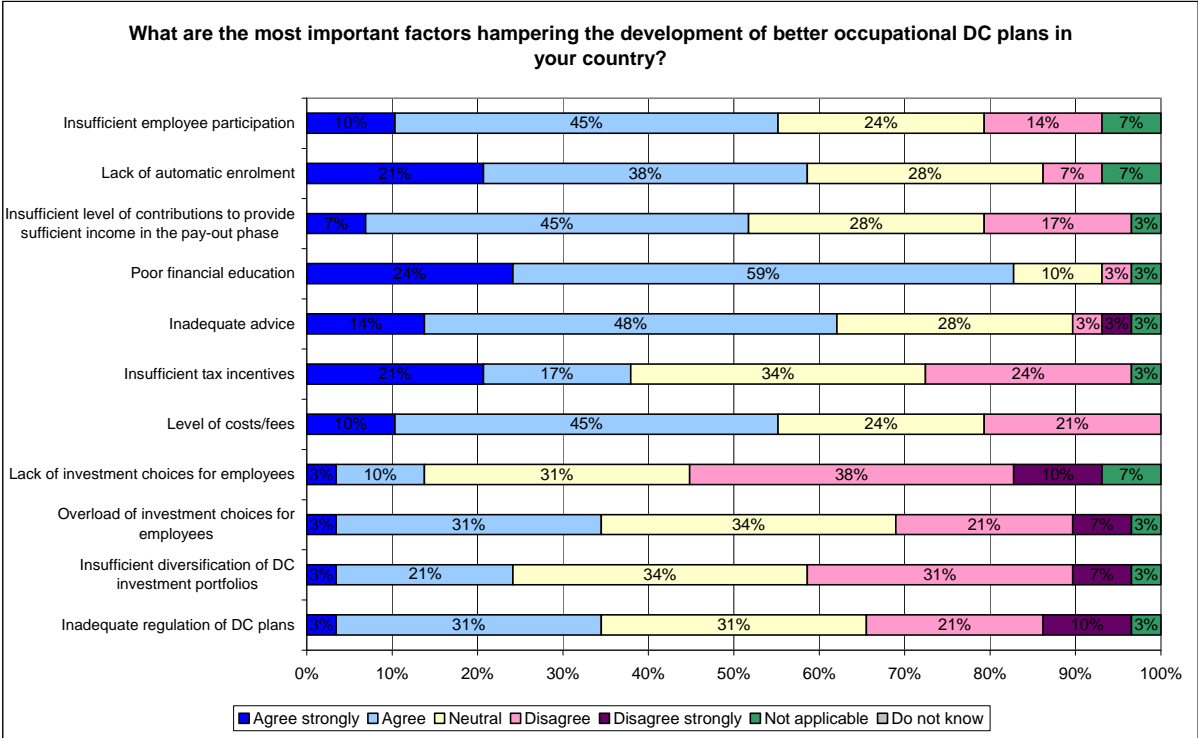
Figure 14: Motivation of employers to choose an occupational DC plan (pan-European)



Furthermore, the experts were requested to rate obstacles in the establishment of occupational DC pension schemes. A poor financial education receives the highest score with 83%. Also, inadequate advice (62%), closely followed by a lack of automatic enrollment (59%), are considered to be crucial hindering factors. Moreover, 55% of the experts cite insufficient employee participation and the level of costs and fees as further factors slowing down the development of DC pension plans. More than half (52%) criticize an insufficient level of contributions to provide sufficient income in the pay-out phase to be prejudicial to the development of the occupational DC market (see Figure 15).

Insufficient tax incentives seem to represent less important hampering factors with 38%, closely followed by the overload of investment choices for employees, with a consent rate of 34%. One third of the pan-European pension experts (34%) believe that inadequate regulation of DC plans represents an obstacle whereas 24% specify insufficient diversification of DC investment portfolios. Only a lack of investment choices for employees with 13% agreement does not seem to play a crucial role in preventing the implementation of DC plans (see Figure 15).

Figure 15: Obstacles for the development of the occupational DC market (pan-European)



2.1.3 Regulation

The following section is dedicated to the experts’ anticipation of the regulatory framework of the European occupational DC market. The analysis of experts’ opinions leads to the conclusion that quantitative investment limits will in fact not be changed in the near future. More than half of the experts believe that investment guarantees or even an extension of existing ones may be introduced. With respect to the design of the DC occupational pension market, more than half of the specialists anticipate the introduction of automatic enrollment. Two-fifths (40%) believe that pure DC plans and mandatory participation for employees will be introduced. Additional tax incentives for employers and a mandatory offering of a DC plan for the employer are predicted to be less likely.

Almost the half (47%) of the specialists do not believe quantitative investment limits will be loosened, while only 20% hold that it will be the case. However, the issue of whether quantitative investment limits will be tightened remains unsettled: Nearly one third (30%) agree, 37% disagree and even 30% remain neutral. Furthermore, more

than half (54%) of all those questioned do not believe quantitative investment limits will be abolished while only 7% object. Thus, we can conclude that changes regarding quantitative investment limits are unlikely. The prescription of investment guarantees or an extension of existing ones is supported by 53% of the experts while only 23% are opposed to this idea. Almost half of all experts (48%) predict that major changes will occur while 14% object and a total of 34% remain neutral (see Figure 16).

According to the rating of specialists, the future European occupational DC market will include an automatic enrollment. The greater half (54%) anticipate this regulation. It is followed by a mandatory participation for employees as well as pure DC plans with individual accounts and individual investment choices, which both receive an approval rate of 40%. Almost a third (31%) of the pan-European pension experts support the notion of a supplementary tax incentives for employees. Additional tax incentives for employers as well as mandatory DC plans for employers are less likely to be introduced as they received only 24% respectively 23% of the experts' support (see Figure 17).

Figure 16: Future regulation of the occupational DC market I (pan-European)

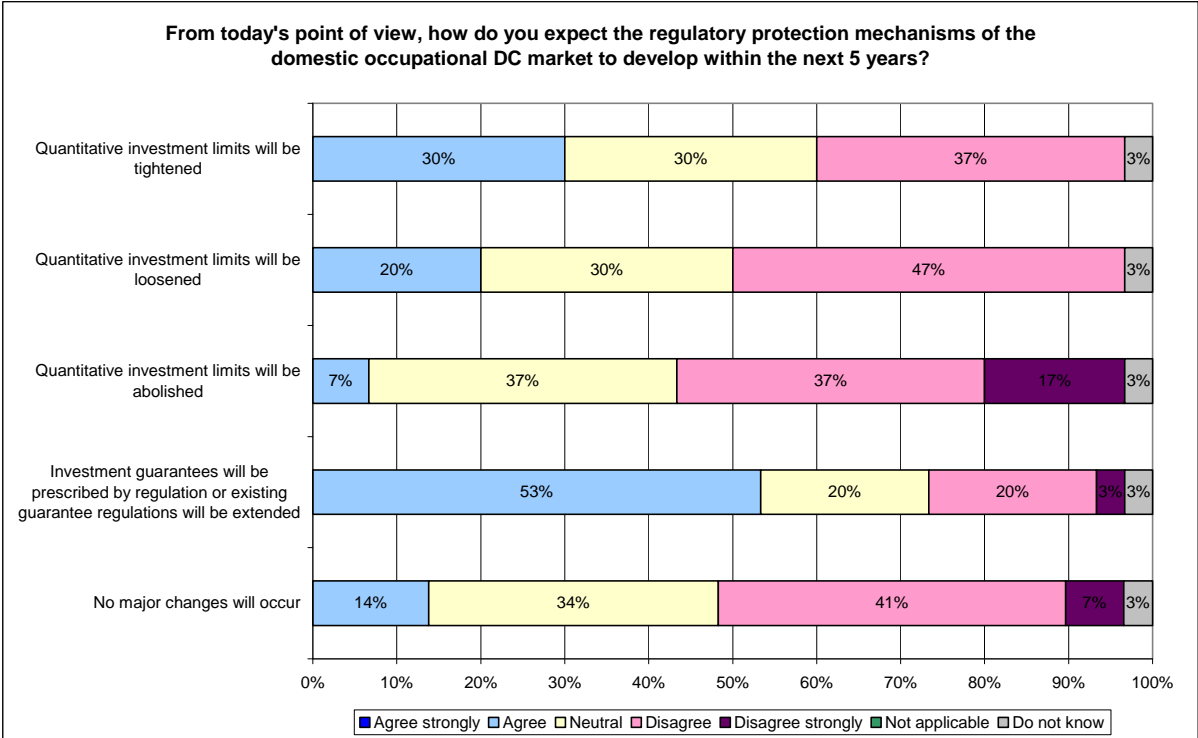
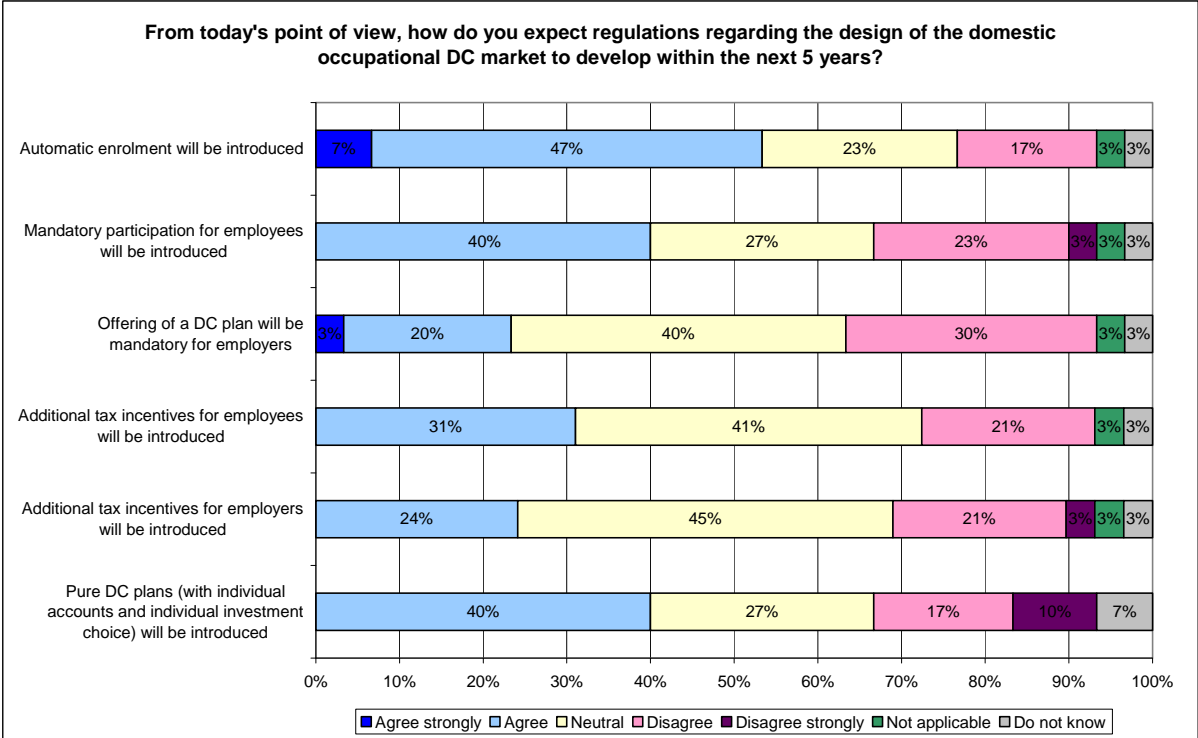


Figure 17: Future regulation of the occupational DC market II (pan-European)



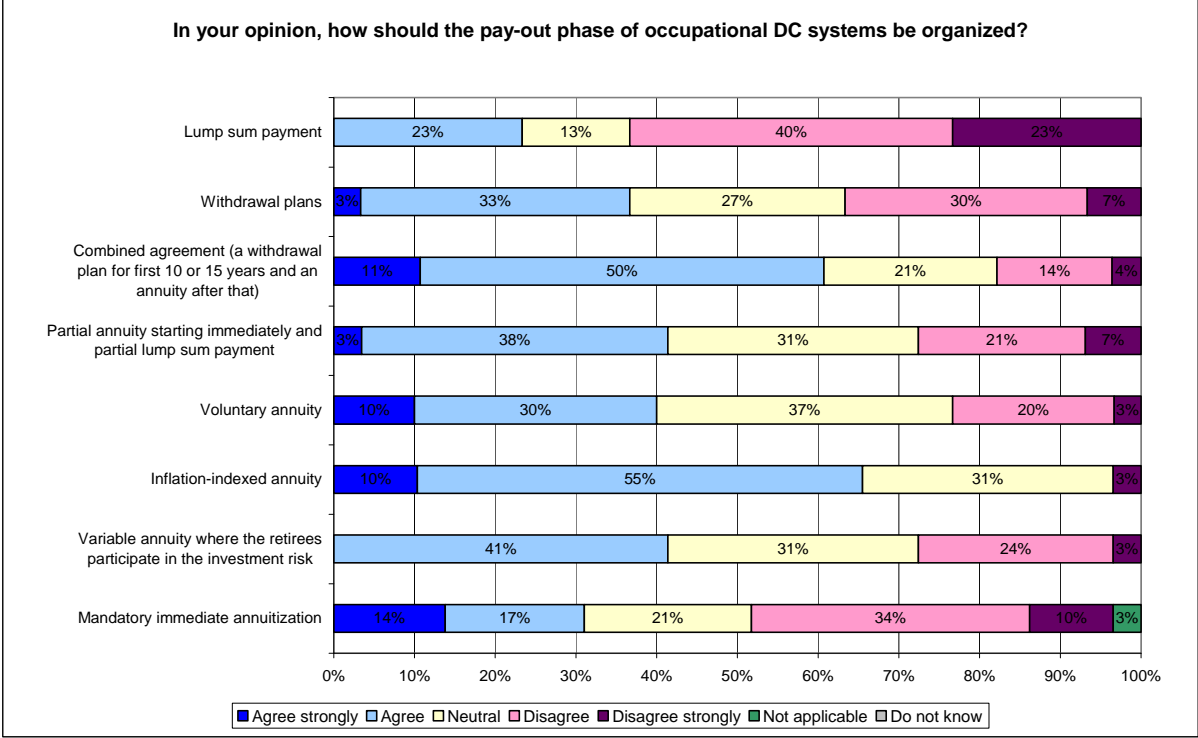
2.1.4 Pay-out Phase

The following section will deal with the pan-European pension specialists' assessment of the organization of the pay-out phase. The inflation-indexed annuity as well as the combined agreement gains the highest popularity among experts. In contrast, lump sum payment is clearly not seen as an efficient way to design the pay-out phase.

The idea of an inflation-indexed annuity as a possible contract design receives the highest approval rate of the experts with 65%. It is closely followed by a support rate of 61% for the combined agreement, which is a withdrawal plan for the first 10 or 15 years and a subsequent annuity. 41% of the pension specialists believe in the benefits of a future contract design containing an immediate partial annuity combined with a partial lump sum payment, and a variable annuity where the retirees participate in the investment risk. Additionally, 40% of the experts state that the annuity should be voluntary. Around one third maintain that withdrawal plans (36%) and an immediate mandatory annuitization (31%) constitute an intelligent way of structuring a pay-out phase of occupational DC plans. The least favoured option is

the lump sum payment, obtaining only 23% of the experts' support and 63% of their disapproval (see Figure 18).

Figure 18: Optimal pay-out phase design of occupational DC products (pan-European)



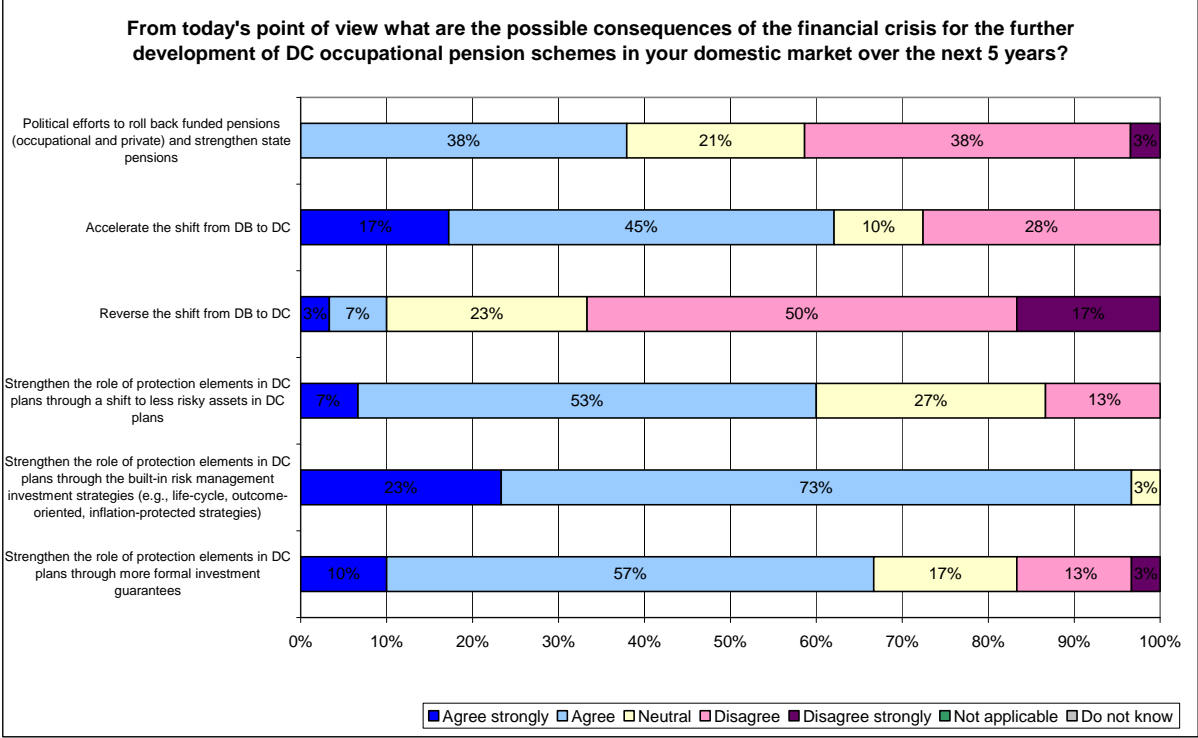
2.1.5 Financial Crisis

In the following, we will focus on how the pan-European pension specialists judge the impact and the consequences of the financial crisis. The experts firmly believe that the financial crisis will entail a more restrictive regulation. They predict a strengthening of the role of protection elements in DC plans through more built-in risk management business strategies, increased formal investment guarantees, and a shift to less risky assets. The financial crisis is believed to accelerate the shift from DB to DC.

Almost all pan-European experts (96%) forecast that, due to the financial crisis, protection elements in DC plans will increase as far as built-in risk management strategies are concerned. Such strategies may concern life-cycle, outcome-orientation, and inflation-protection. More than two-thirds (67%) believe that more

formal investment guarantees will be introduced while 16% object to this outlook. 60% of the experts predict a shift to less risky assets in DC plans, while only 13% of the participants do not think it will be the case (see Figure 19).

Figure 19: Impact of the financial crisis on the pension market (pan-European)



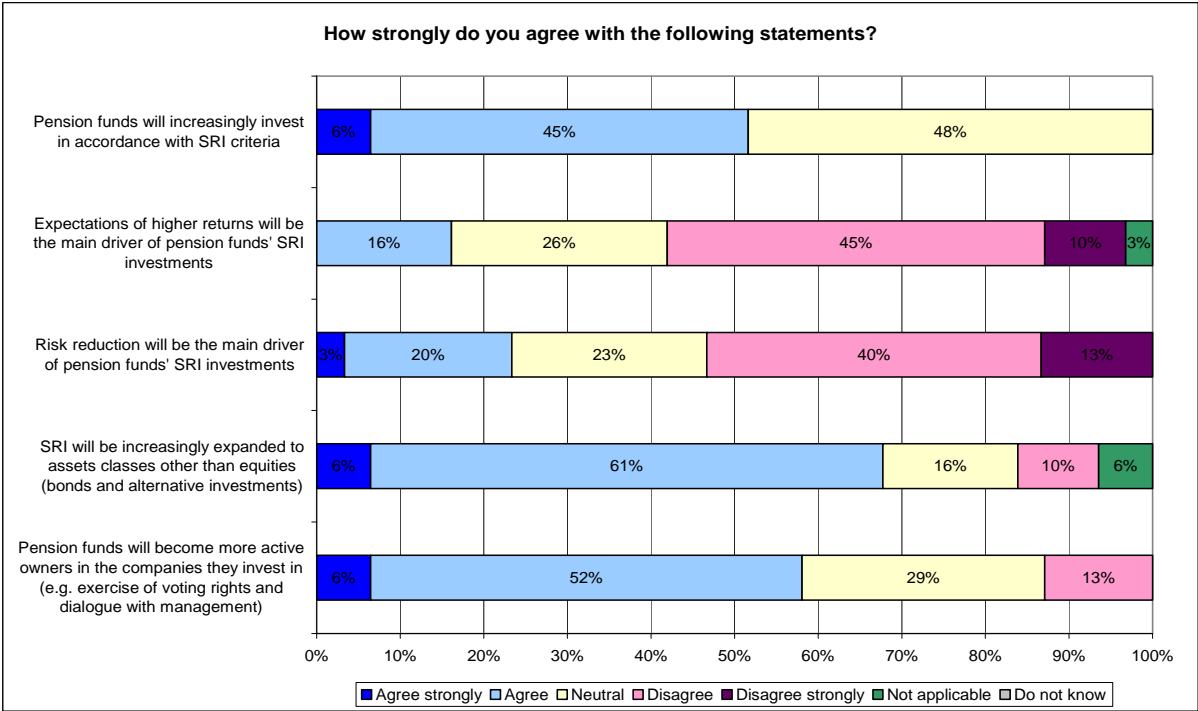
The majority of the pan-European experts (67%) do not believe in a reverse shift from DB to DC while only 10% predict this to be possible. A significant finding is that 62% of the specialists predict that the financial crisis will lead to an acceleration of the shift from DB to DC. However, less than one third of the experts (28%) disagree with this idea. Interestingly, the opinions on whether there will be political efforts to roll back funded pensions (occupational and private) turn out to be divided: 38% believe that an effort will be made, 38% maintain that this will not be the case, and 21% remain neutral. In that sense the initiatives towards privately financed pensions are likely to progress and the return to PAYG schemes over the next 5 years is not plausible, at least according to the majority of EU experts (see Figure 19).

2.1.6 Socially Responsible Investment

This section will analyse the role of socially responsible investment (SRI) for pan-European pension funds and its future outlook. Most of the experts believe that pension funds will be invested in accordance with SRI criteria. As far as asset allocation in SRI is concerned, the experts predict an expansion to asset classes other than equities such as bonds and alternative investments. The public opinion, plan participants, and plan sponsors are believed to be the main drivers of demand for SRI in DC plans. In contrast, the expectation of higher returns and the reduction of investment risk seem to play a minor role when investing in SRI. Moreover, environmental criteria as well as corporate governance criteria are the main influential factors for investment decisions of pan-European pension funds in SRI.

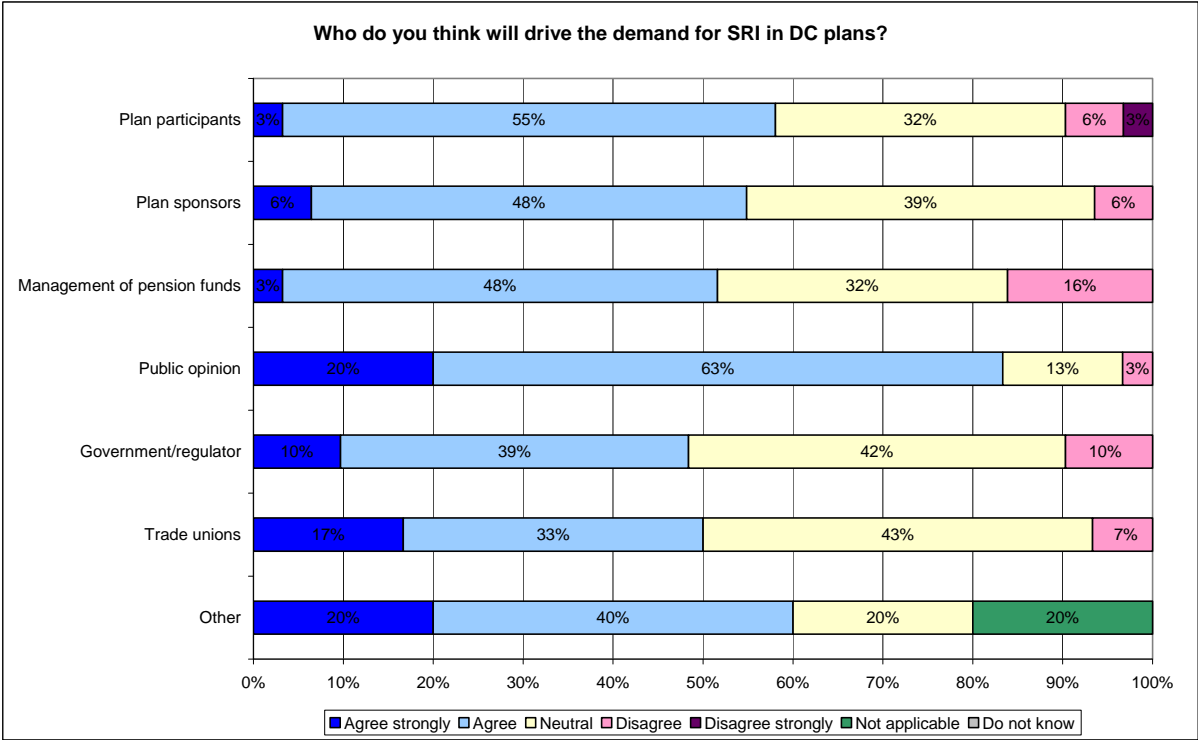
There is no objection among the pan-European pension experts that SRI criteria will be increasingly an issue for pension funds' investment decisions. More than half of the participants (51%) think that this will occur while 48% remain neutral. Furthermore, two third (67%) believe in an expansion of SRI to other asset classes. Additionally, 58% of the experts expect pension funds to become more active owners in the companies they invest in. This may occur in the form of voting right exercise or by means of a dialogue with the management (see Figure 20).

Figure 20: Socially Responsible Investment (SRI) (pan-European)



The main future driver for the demand for SRI in DC pension plans will be the public opinion, according to the experts. The vast majority of 83% believes in this trend while only 3% of the experts state any objections. Two further demanders for SRI are plan participants (with support of 58% of respondents) and plan sponsors (54%). More than one half (51%) predict that the management of pension funds will influence the demand for SRI, just followed by trade unions (50%). Even so, 49% of the pension specialists believe the government and regulators have an effect on SRI (see Figure 21).

Figure 21: Stakeholders affecting demand for SRI (pan-European)

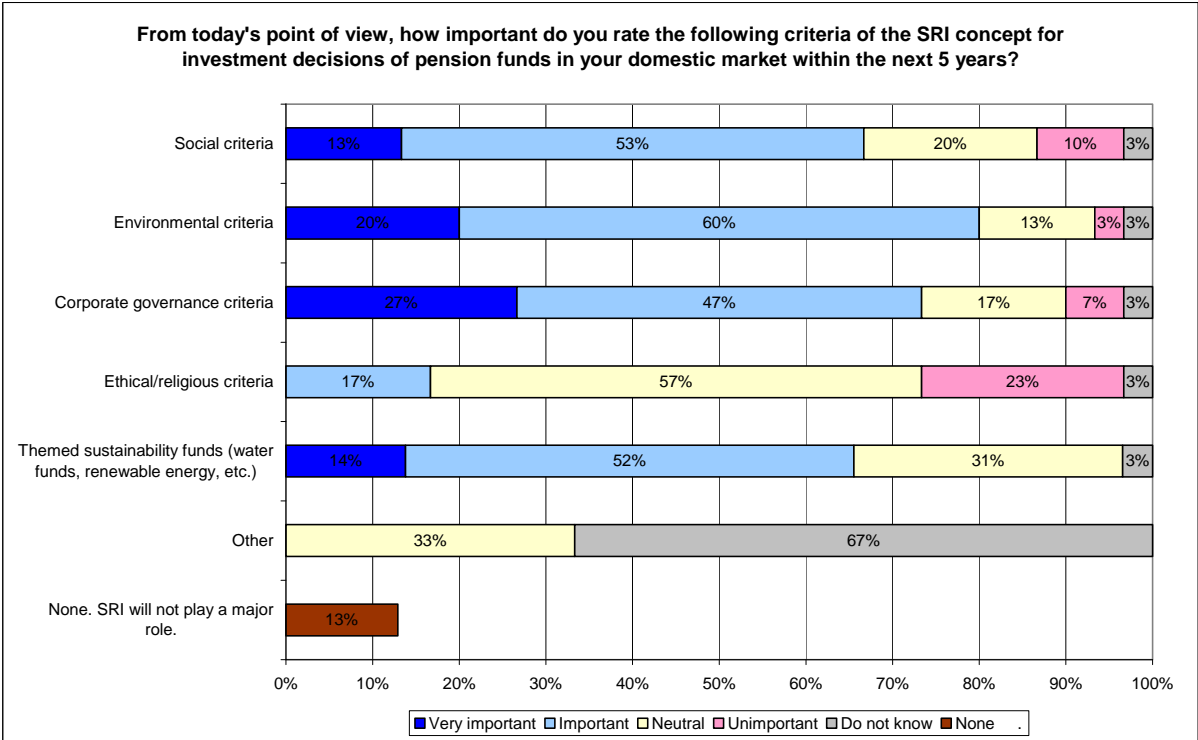


By contrast, the expectation of higher returns does not seem to positively influence the demand for SRI. Half of the survey participants (55%) state that it is not a main driver. Similarly, risk reduction is also not viewed as an influencing factor: 53% do not believe it to be the main driver of SRI (see Figure 20).

Since SRI of pension funds may be dependent on many different factors, we aimed at identifying the most significant of them. Based on the survey results, it appears that the investment decisions of pension funds are mostly driven by environmental

considerations. 80% of the experts are in favour of this idea. It is closely followed by the corporate governance criteria, rated as being important by 74% of respondents. Social criteria receive 66% support, while themed sustainability funds, such as water and renewable energy funds, also obtain an agreement rate of 66%. Only ethical as well as religious criteria do not seem to play an important role in investment decisions for pension funds: only 17% regard to them as significant while almost a quarter (23%) does not believe they play a role (see Figure 22).

Figure 22: SRI criteria (pan-European)

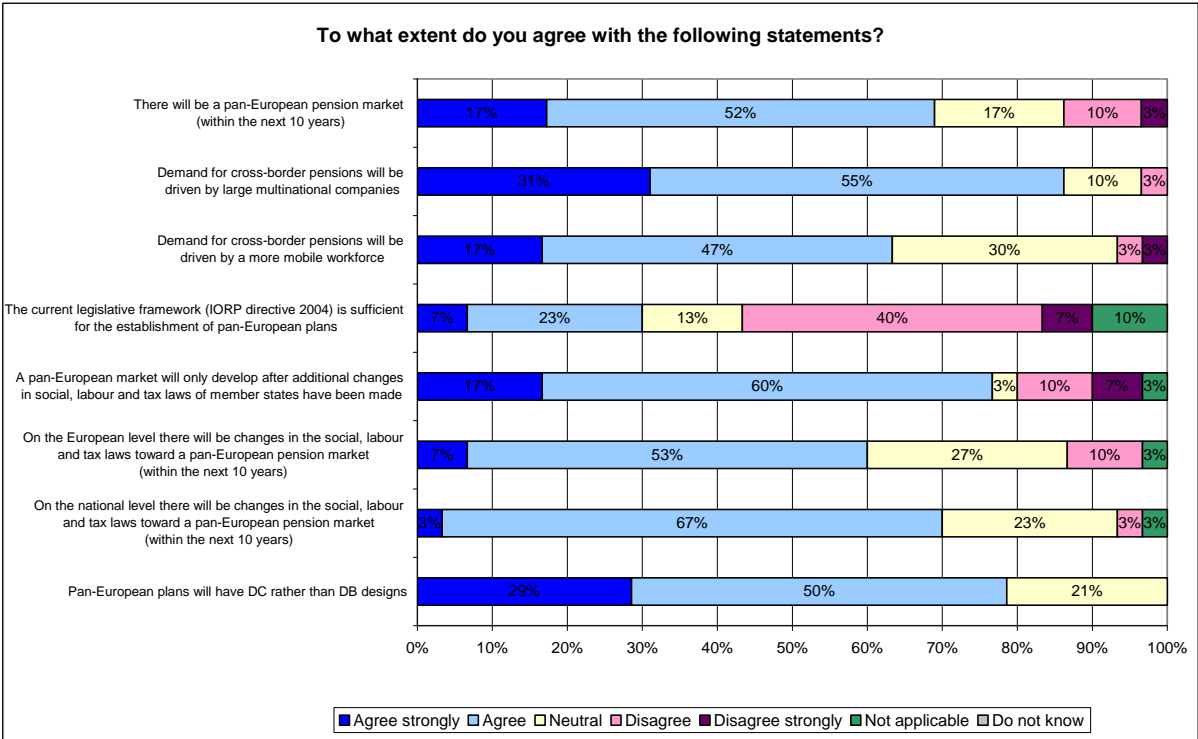


2.1.7 Pan-European Pension Plans

The final section focuses on the pan-European pension experts' prediction of the future pan-European and cross-border pension markets. The majority of the respondents believe that the multinational companies' demand for cross-boarder pension plans will result in a pan-European pension market within the next 10 years, which will have a DC character. However, the experts state that the current legislative framework is not sufficient for such a market to develop. The specialists claim that legislative changes towards a pan-European pension market will be made on both the national and European level.

Experts believe that multinational companies and the mobile workforce exhibit a demand for cross-border plans. However, this demand is believed to be driven by multinational companies (86%) than on that of the mobile employees (64%). More than two-thirds of the pan-European pension specialists (69%) forecast of the emergence of a pan-European market within the next ten years while 13% object to this idea. The experts (47%) do not believe that the current legislative framework, the IORP (Institutions for Occupational Retirement Provisions) directive, is adequate for a pan-European pension market to be established. 30% object while 13% remain neutral. Almost four-fifths of the participants (77%) believe that before a pan-European market will emerge, certain supplementary changes in social, labor, and tax laws are necessary. More experts predict legal modifications on the national level (70%) than on the European level (60%). Almost four-fifths of the pension experts (79%) are certain that pan-European pension plans are more likely to have a DC than a DB design (see Figure 23).

Figure 23: Pan-European pension market (pan-European)



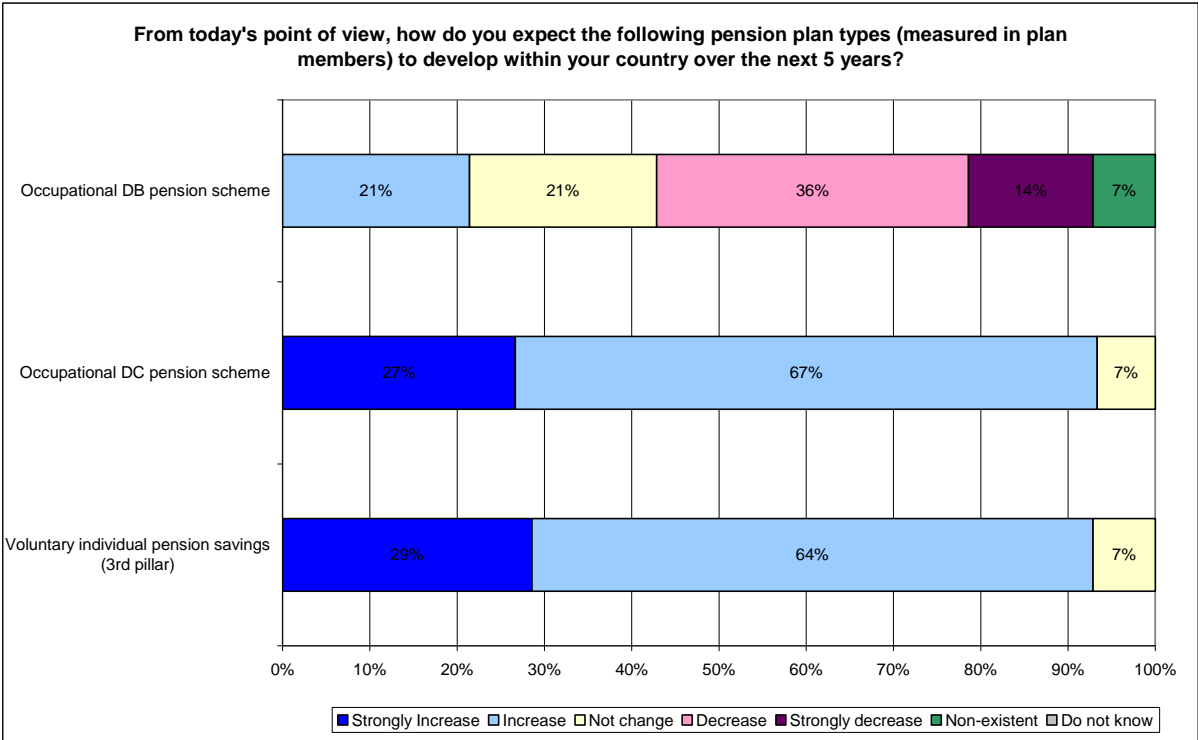
2.2 France

2.2.1 Future Trends

Almost all experts in France are sure that occupational DC pensions and voluntary private pensions (third pillar) will gain in importance within the next five years. Although, significantly fewer experts observe a shift towards DC plans than in other European countries, nobody doubts that DC plans will dominate the occupational pension market. However, the survey participants expect that DB will still be a large fraction of the French pension market.

Almost all participating experts believe that the occupational DC plans (94%) and individual plans in the third pillar (93%) will become strong factors in the French pension market. As a consequence, one half of the experts (50%) believe that occupational DB pensions are on the decline (see Figure 24).

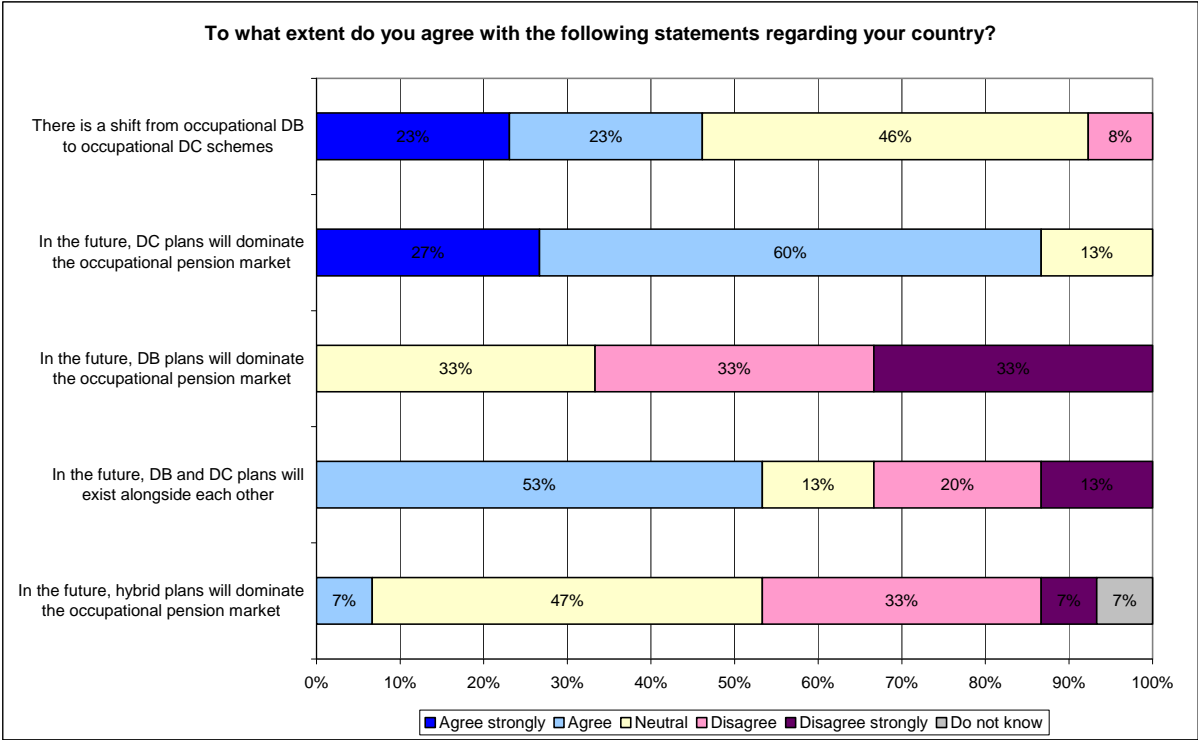
Figure 24: Future trend of the occupational DC market I (in France)



Thus, in future the occupational pension market will be dominated by DC plans. This is the opinion of 87% of the experts, while 66% confirm that DB plans will not play a

dominant role. Consequently, 46% verify a shift from occupational DB towards DC schemes. However, more than half of the experts (53%) believe that DB plans will coexist with DC plans, while 33% disagree. In addition, 40% do not believe in a future domination of hybrid plans, which is advocated only by a mere 7% (see Figure 25).

Figure 25: Future trend of the occupational DC market II (in France)

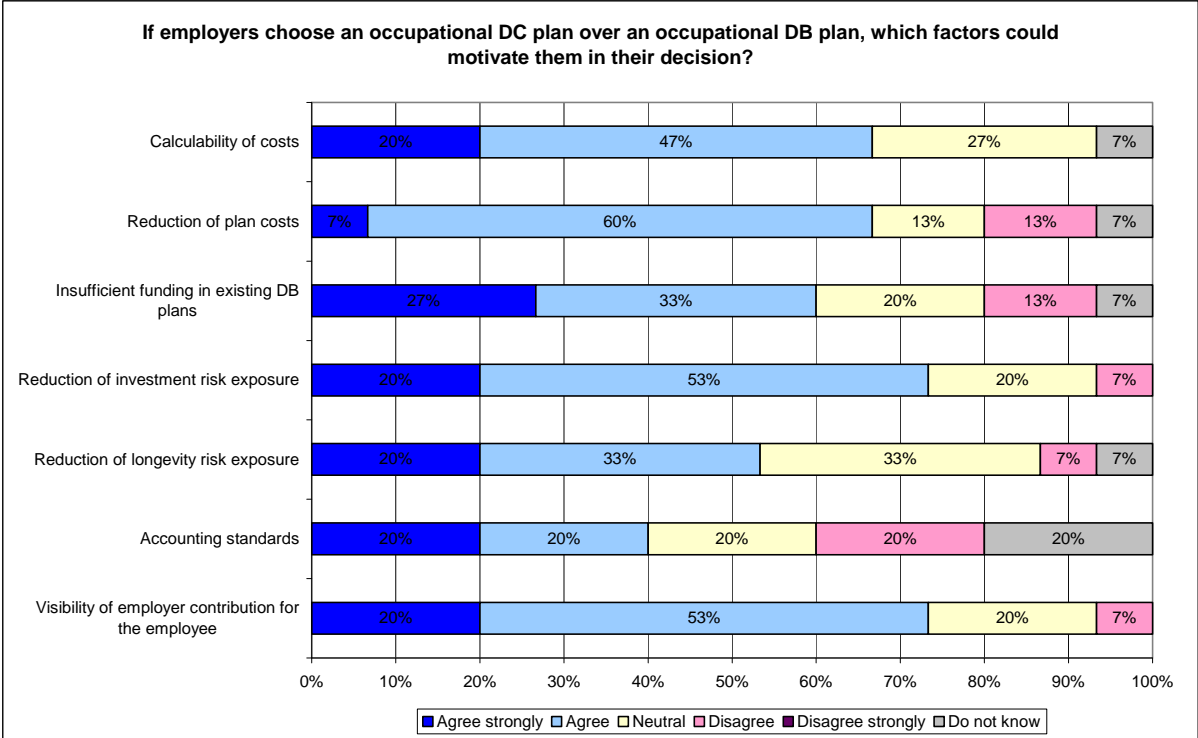


2.2.2 Factors of Development

The French experts believe that several factors are of importance for the employers’ decision to offer DC plans. However, it is only the French and Italian experts, who state that the visibility of employer contribution is a motivational factor for employers to choose an occupational DC plan over an occupational DB plan. They are only undecided in the question of whether or not accounting standards are a motivating issue. However, the pension specialists complain about some burdens in the development of the occupational pension market. The most significant problem is the citizens’ lack of knowledge concerning the French occupational pension system. In both France and in Italy, insufficient tax incentives are also seen as an obstacle.

To almost all reasons why the employers should prefer DC to DB plans agree the majority of the experts. Thus, 73% confirm that the visibility of the employees' contribution is an important incentive. Most of the experts (67%) believe that the employers can reduce their plan costs with DC. Accordingly, 67% state that the calculability of costs is a motivational factor for the offer of DC plans. Another reason is the insufficient funding level in DB plans. 60% of all experts hold this opinion. Almost three fourth (73%) believe that the investment risk exposure can be reduced with DC plans. Moreover, more than half of the participants (53%) state that the longevity risk exposure, too, can be reduced. The valuations are not clear-cut in only one point. While 40% of the experts believe that accounting standards are an incentive to offer occupational DC plans, 20% are not in favour of this idea (see Figure 26).

Figure 26: Motivation of employers to choose an occupational DC plan (in France)

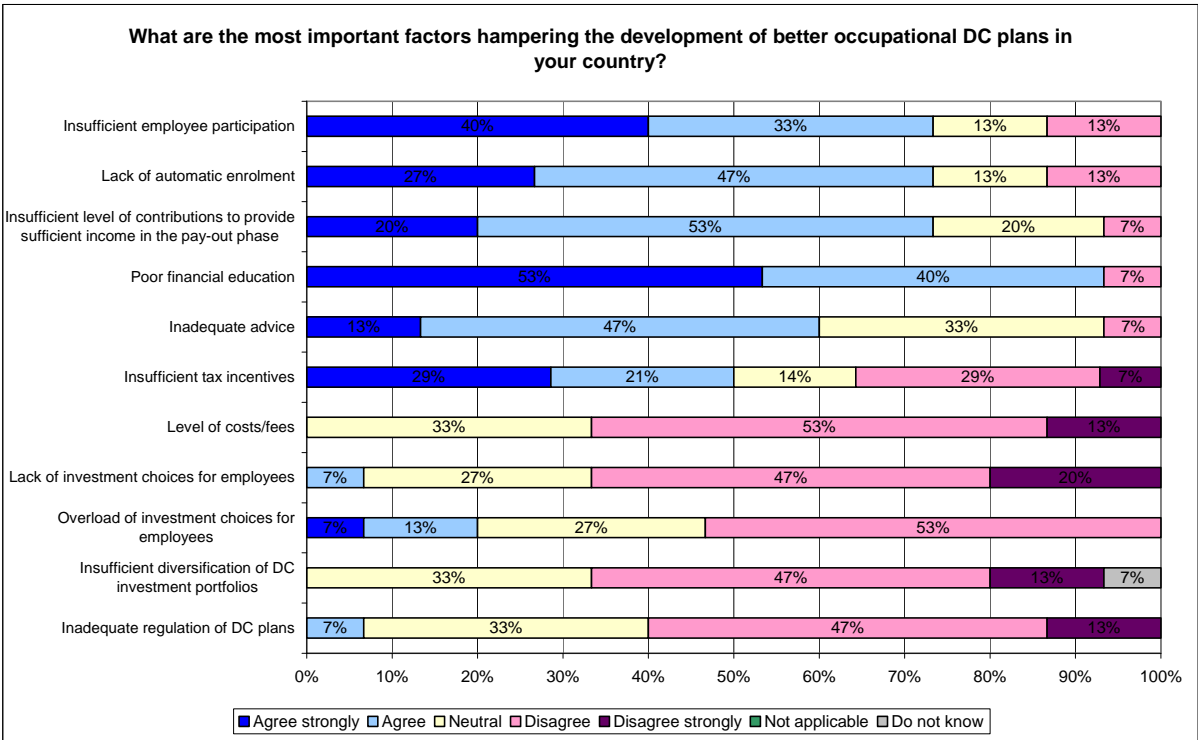


Further, we wish to analyse the burdens of the development of occupational DC plans. The most important issue is the insufficient knowledge of the French population regarding their retirement arrangement. This idea is supported by almost all of the experts (93%). Accordingly, 73% of the respondents complain about the

insufficient participation rate in occupational DC plans and that the contribution rates are too low to generate a sufficient income at retirement. However, 74% believe that many problems could be abolished by an automatic enrollment of the employees in DC plans. Moreover, three fifth (60%) criticize the unsatisfactory advice given to the working population. The half (50%) approve of an increase in tax incentives in the occupational DC system (see Figure 27).

Several other points were rejected by the experts as being rather unimportant in the development of the French occupational DC market. Thus, 66% claim that the costs and fees are on an adequate level in DC plans and that the level of diversification is fully satisfying. Another 60% state that the regulation within DC plans is adequate. Most experts also claim that the number of investment decisions for the employers is on a satisfactory level. Thus 67% of the respondents do not believe in a lack investment possibilities and more than half of the participants (53%) do not believe in a surplus of investment possibilities (see Figure 27).

Figure 27: Obstacles for the development of the occupational DC market (in France)

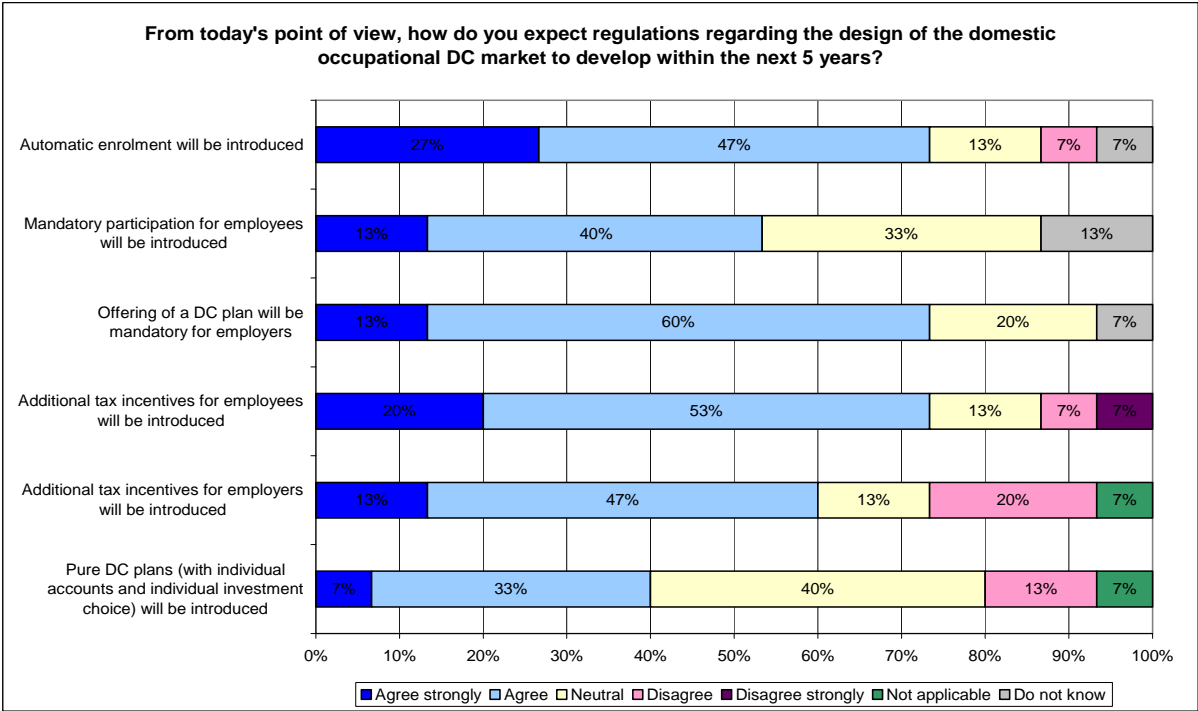


2.2.3 Regulation

Regarding the regulation of the occupational pension system, the majority of experts believe in many imminent changes within the next five years. Experts claim that quantitative investment limits will be tightened. They also predict the emergence of additional tax incentives for both employers and employees to be introduced. Furthermore, they expect that offering pension plans will become mandatory for employers. Automatic enrollment or even mandatory participation in an occupational pension plan is believed to be introduced in the future, as well.

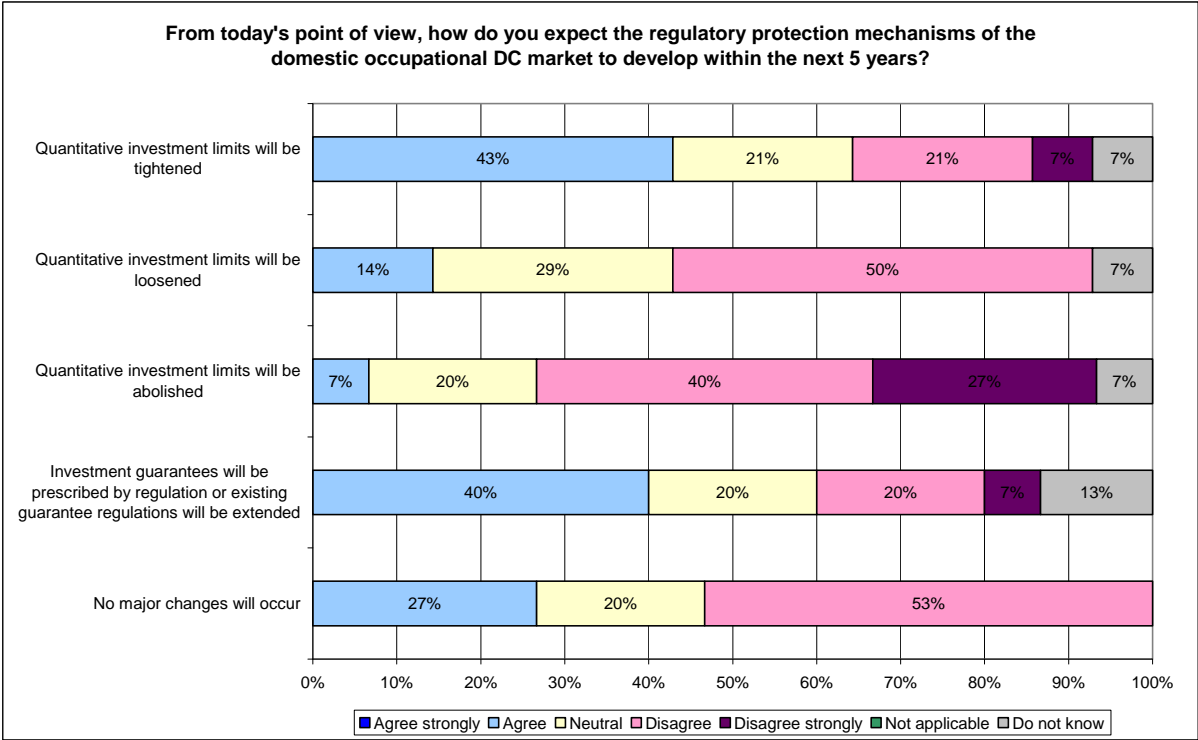
As we have seen above a lot of experts complain about the low participation rates and a lack of automatic enrollment in the occupational DC system. But the vast majority of survey participants (74%) believe that not only will an automatic enrollment be introduced but further tax incentives for the employees will also be given, what 73% claim. In addition, 73% state that the offer of DC plans will be mandatory for the employers. More than half of the experts (53%) believe that the participation will also be mandatory for the employees; this belief is not contradicted by anyone. Three fifth of the participants (60%) also expect that additional tax incentives for the employers will be given. Two fifth (40%) represent the view that pure DC plans will be introduced (see Figure 28).

Figure 28: Future regulation of the occupational DC market I (in France)



As already mentioned, most of the experts (53%) believe that major changes will be implemented in the occupational DC market. More than seven out of ten experts (67%) hold the opinion that certain quantitative investment limits will be implemented in the occupational DC plans. The half (50%) of the respondents do not believe that these limits will be loosened, while 43% claim that they will be tightened. There is no definite opinion on whether the minimum guarantees within DC plans are to be widespread. While 40% of the experts believe that guarantees will be introduced or extended, 27% have a different opinion (see Figure 29).

Figure 29: Future regulation of the occupational DC market II (in France)

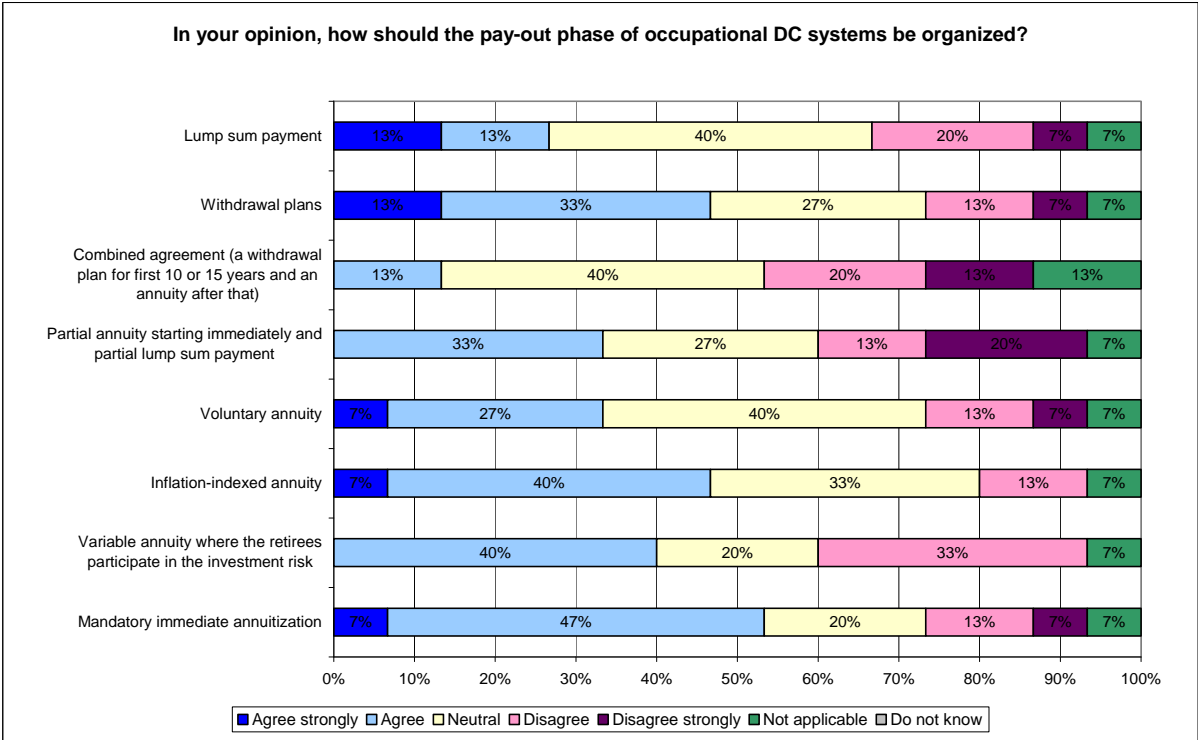


2.2.4 Pay-out Phase

It is furthermore not possible to form a univocal position of the French experts towards the question of how to best organize the pay-out phase of the occupational DC plans. However, many participants prefer immediate mandatory annuities which are indexed to inflation. Additionally, withdrawal plans are relatively strongly approved. French experts are divided as to whether lump sum payments should be rejected as a proper design of occupational DC plans.

The majority of experts (54%) state that the immediate annuity payments should be mandatory, and almost half of the participants (47%) claim that these annuities should be indexed to inflation. More than two fifth (46%) approve of withdrawal plans. The opinions concerning voluntary annuities are ambiguous. While 34% believe this to be a good plan design, 20% do not approve of this (see Figure 30).

Figure 30: Optimal pay-out phase design of occupational DC products (in France)



There are three other forms of the pay-out phase that have strong pro and strong contra parties. Thus, more than one third (40%) are of the opinion that the retirees should bear the investment risk within their variable annuities, while 33% do not approve of this pay-out regime. Another 33% regard partial lump sum payments with subsequent annuities as a proper pay-out design, while 33% disapprove. More than one fourth (27%) reject lump sum payments at retirement. However, 26% agree to this pay-out form (see Figure 30).

What experts are univocally opposed to are combined agreements. One third (33%) rejected a solution with withdrawal plans, for example, for the first 10 years and

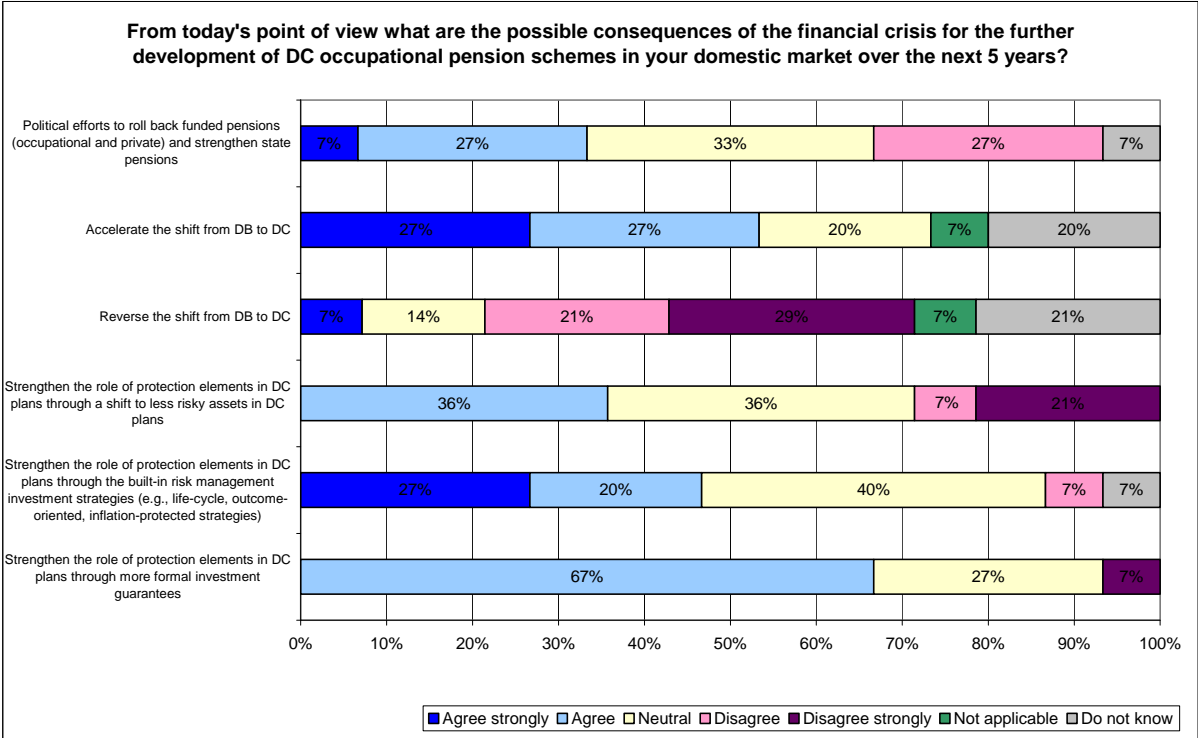
subsequent annuity payments. Merely 13% consider this to be an appropriate form of organization (see Figure 30).

2.2.5 Financial Crisis

In consequence of the financial crisis, French experts believe that the shift towards DC plans will be accelerated. Additionally, they expect protection elements in DC plans to be strengthened. Particularly, more investment guarantees will be offered and more build-in risk management strategies will be used.

The general trend from occupational DB towards DC plans will not change. A total amount of 54% even believes that this shift will be spurred by the financial crisis. Moreover, half of the participants (50%) profess that this trend is irreversible. More than one third (34%) of the French respondents believe that the politics will strengthen the role of state pensions. Except for the pan-European experts, only 27% do not believe that funded pensions will decline in importance (see Figure 31).

Figure 31: Impact of the financial crisis on the pension market (in France)



The participating experts expect more protection elements to be introduced. A vast majority of 67% claim that the DC plans will offer minimum guarantees. Also, almost half of the experts (47%) believe that DC plans will operate in a more outcome orientated way with life cycle and inflation protected strategies. The opinions on whether the DC plans will invest in more low-risk assets can be divided into three major positions. More than one third (36%) claims that this will be the case, another 28% does not think so and the rest does not know (see Figure 31).

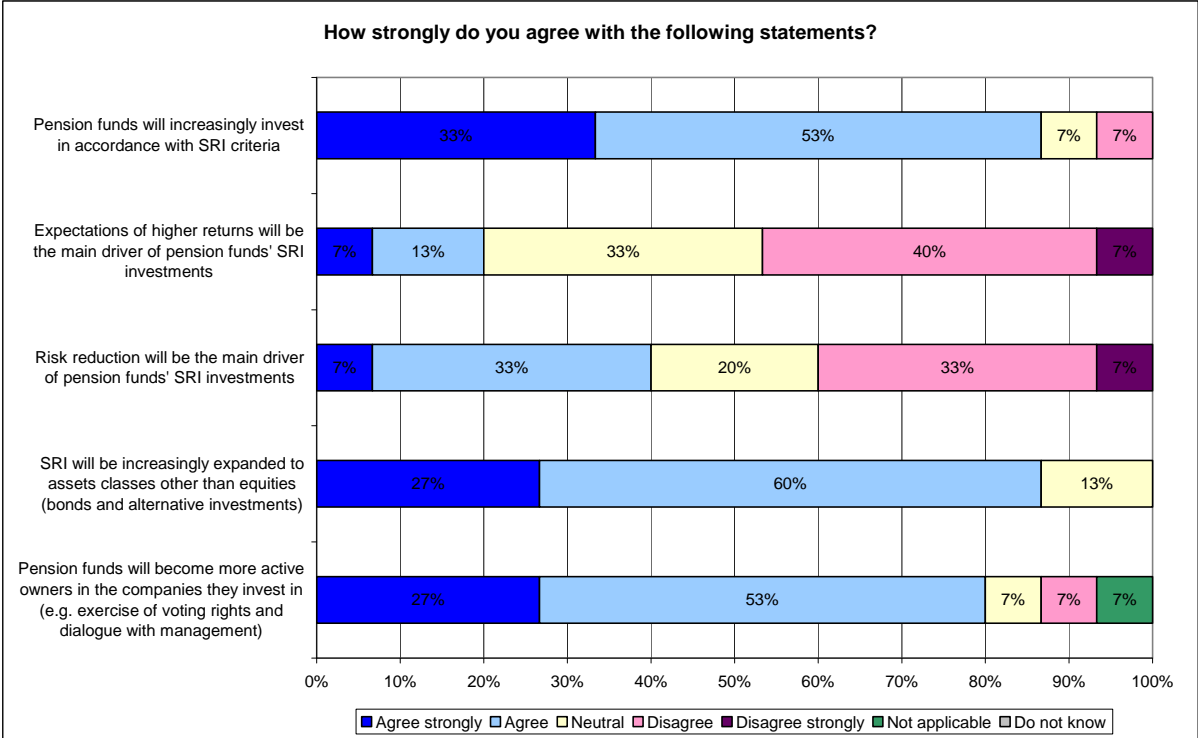
2.2.6 Socially Responsible Investment

The experts are sure that the boom of socially responsible investments (SRI) will occur in the pension market within the next five years. This demand is driven by the interest of the public and the trade unions in investments that are in accordance with SRI. The high approval rate for the government and regulators may be linked to the recent governmental efforts to foster SRI. They are especially interested in investments with environmental and social concern.

The lion' share of pension experts (86%) in France claim that pension funds will become a large issue in this investment field of SRI. Moreover, 87% believe that SRI will also invest in other asset classes than equities. Nearly the same amount of participants (80%) state that the influence of pension funds will increase within the invested companies (see Figure 32). This is due to the current governmental support for SRI. The Social Security Financing Act from 1999 has established the "Fonds des Réserve pour les Retraits", which should secure the sustainability of public finances by precaution of the high deficit, which is expected in the 2020s and 2030s. This fund already applies SRI criteria in its capital allocation.

Almost half of the participants (47%) do not believe that higher returns are to be expected with SRI. Even less clear is the view on whether the risk can be reduced with SRI concepts. While 40% claim that this is not the case, another two-fifths (40%) accept this as true (see Figure 32).

Figure 32: Socially Responsible Investment (SRI) (in France)



The driver of the growing demand stems from almost every party involved. Almost every expert is of the opinion that it is predominantly the publicity (94%) and the trade unions (86%) that require SRI in DC plans. This result corresponds to the traditionally strong position of trade unions in France. Interestingly, outstanding 73% also advocate that plan sponsors drive the demand. However, 67% state that plan participants are responsible for it. Three-fifths (60%) claim that it is the regulation that increases the demand for SRI. 47% of all experts believe that the management has an interest in investing in accordance with SRI criteria (see Figure 33).

Almost all concepts in SRI are important for the pension funds. Every expert (100%) confirms that SRI will play a major role in the pension market and that ecological issues are the most important criteria. In addition, 93% claim that social and corporate governance criteria are essential as well. The huge majority of 80% also state that themed sustainable funds are a significant concept for SRI. There is only one issue that experts regard as rather unimportant: not even one third (27%) count ethical and religious criteria as demand factors for SRI (see Figure 34).

Figure 33: Stakeholders affecting demand for SRI (in France)

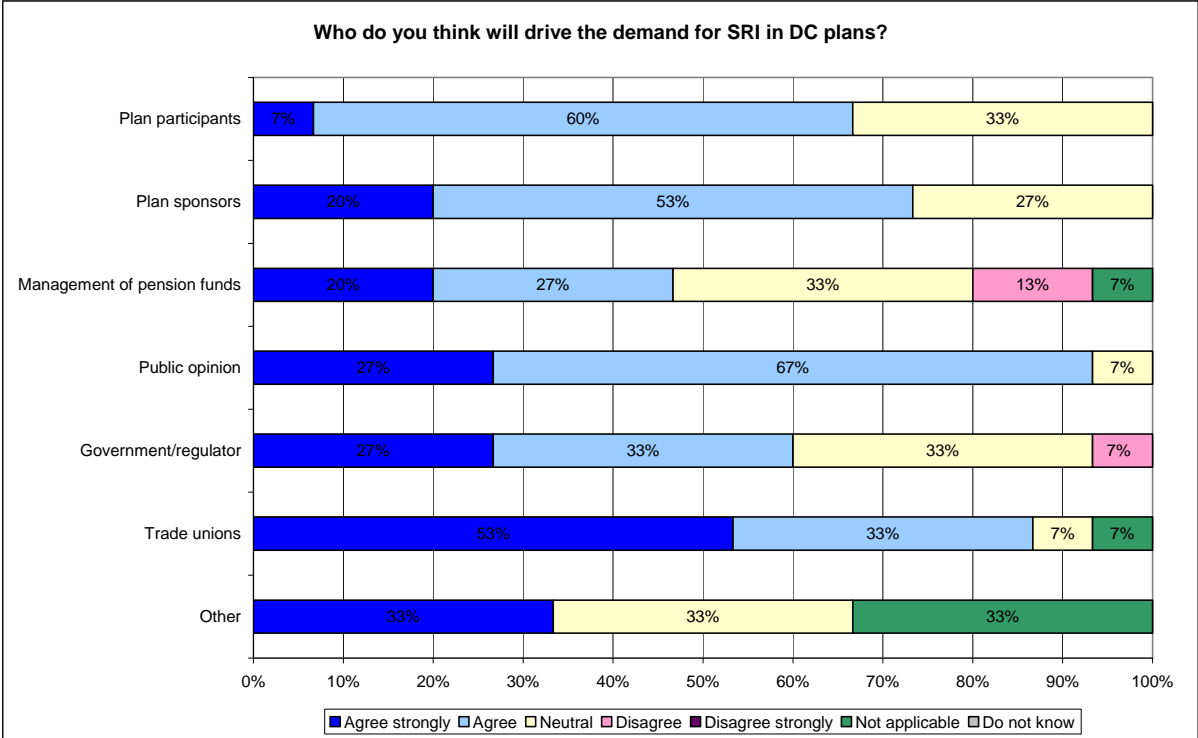
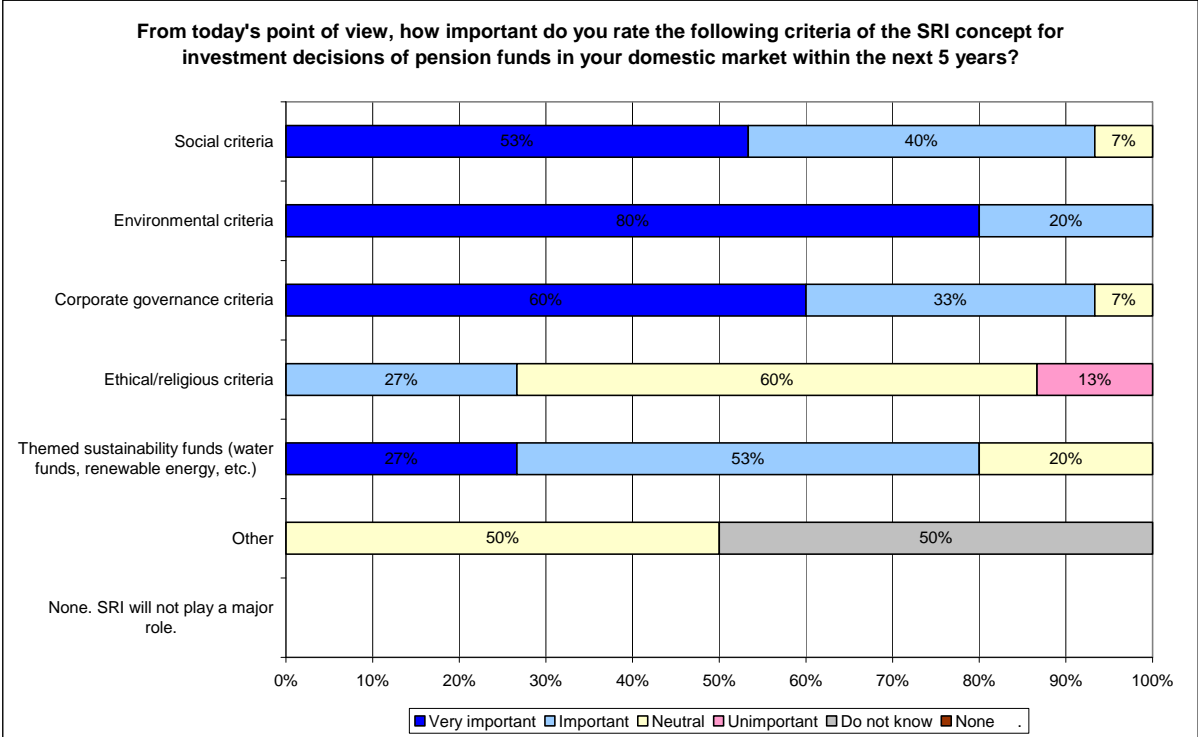


Figure 34: SRI criteria (in France)

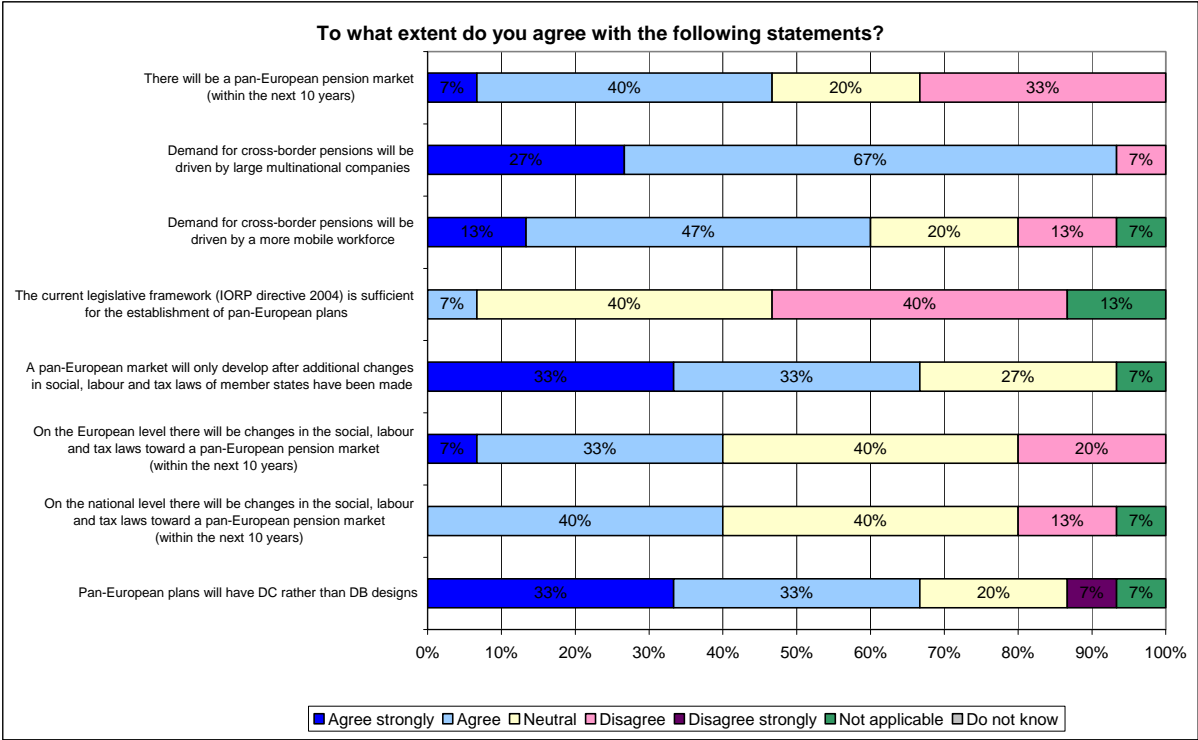


2.2.7 Pan-European Pension Plans

Although large international companies have a demand for cross-boarder pension plans, the pension experts are not sure if a pan-European pension market is a realistic scenario within the next ten years. Potential obstacles are the inharmonious tax, labor, and social legislation.

Almost all participating experts (94%) claim that international companies require cross-boarder pension plans. Two fifth (60%) also consider that this demand is driven by a mobile workforce. However, the experts are undecided if this is a possible scenario. While 47% claim that a pan-European pension market will exist in 10 years time, 33% do not believe that it will emerge. However, if a pan-European pension market will be established, it will have a DC design, as stated by 66% of the experts (see Figure 35).

Figure 35: Pan-European pension market (in France)



The pension experts view the different legislation frameworks within the EU countries as burdens for a pan-European pension market. This point of view is endorsed by 66% of the experts, while an additional 40% do not believe that the IORP (Institutions for Occupational Retirement Provisions) directive 2004 is sufficient for the

establishment of such plans. Accordingly, 40% state that there will be some legislation changes on the European level, including in France, in order to establish a pan-European market (see Figure 35).

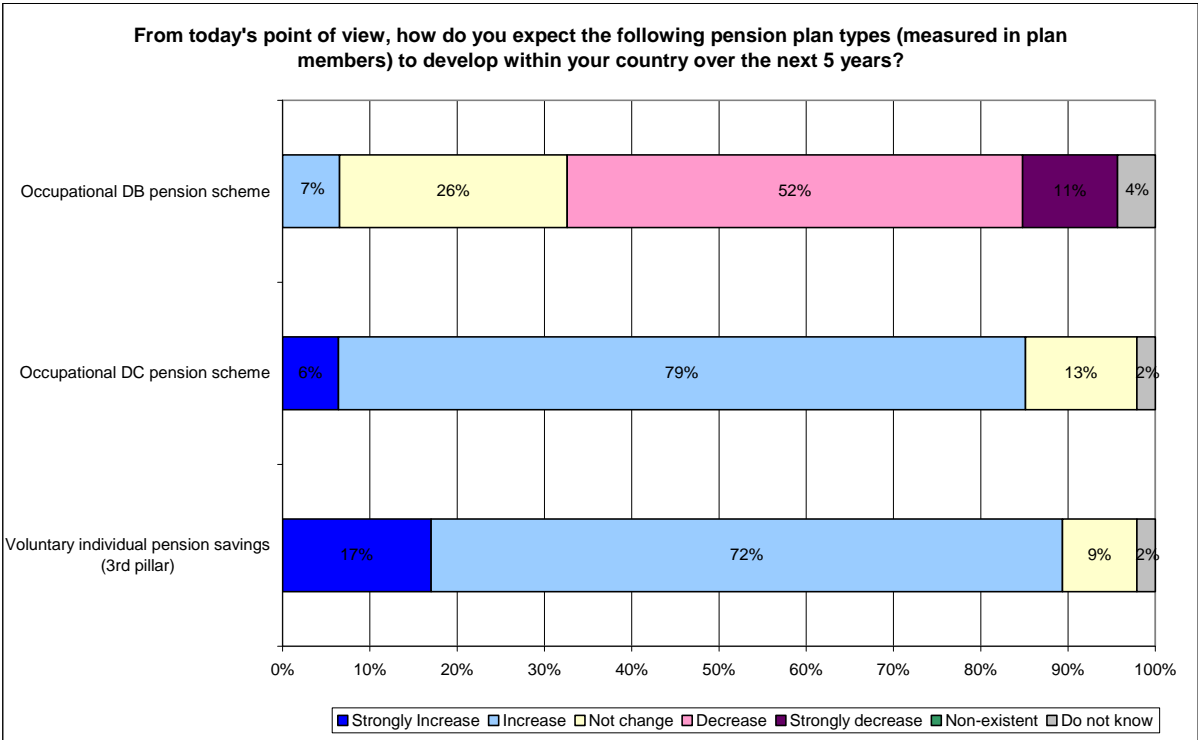
2.3 Germany

2.3.1 Future Trends

Most of the German pension experts observe a shift in the occupational pension market from defined benefit (DB) towards defined contribution (DC) schemes. They believe that although the DC pension type will dominate the market in the future, both DC and DB plans will still be offered.

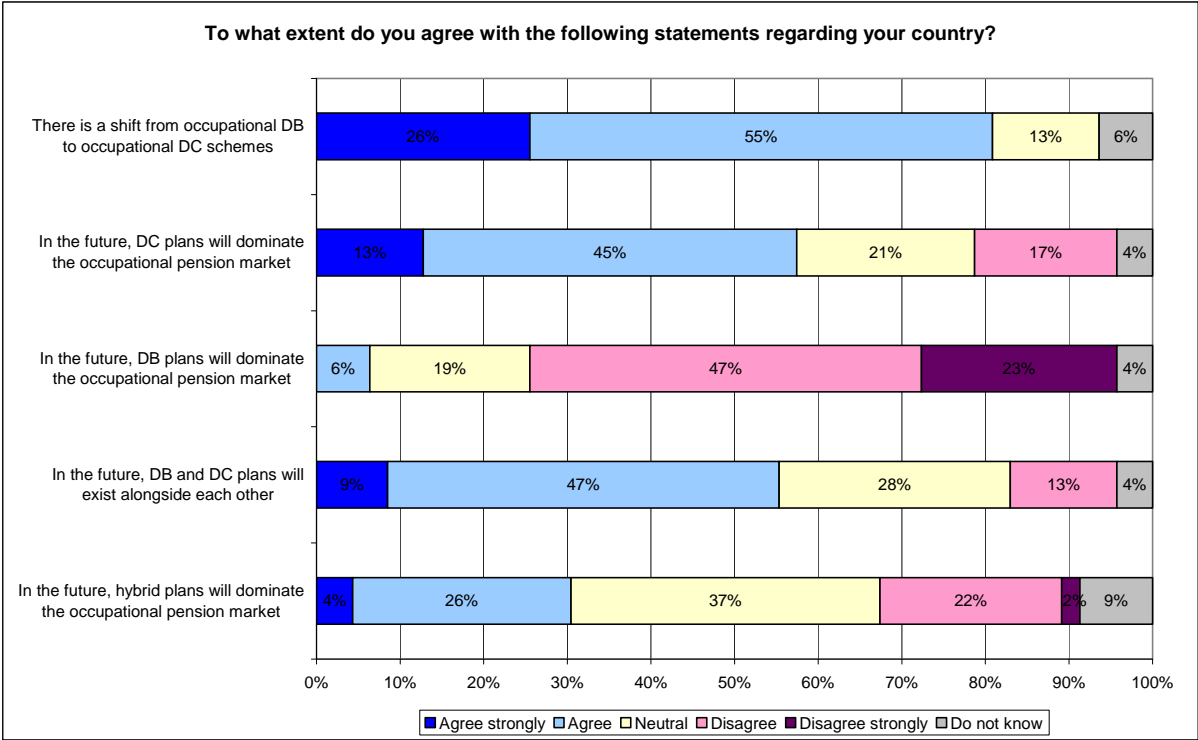
The vast majority of the survey participants claim that the number of DC plan members will increase within the next five years, regardless of whether they are occupational (85%) or voluntary individual pension plans in the 3rd pillar (89%). Only 13% and 9%, respectively, state that the number of members in these markets will remain on the current level. No one argues that the DC market will decline. On the contrary, 63% believe that the number of members in the occupational DB plans will decline. One fourth (26%) claims that the number of occupational DB plan members will not change and only 7% state that it will increase (see Figure 36).

Figure 36: Future trend of the occupational DC market I (in Germany)



Furthermore, the lion's share of the survey's participants (81%) observes a shift from the occupational DB toward DC schemes. Almost three of five experts (58%) believe that the DC pension type will dominate the German occupational pension market. However, both types of occupational pension plans, the DB and the DC schemes, will coexist on the market. This point of view is represented by 56% of the respondents. Unfortunately, there is no clear opinion on whether the hybrid pension plans will play an important role in Germany. Nearly one third of the experts (30%) claim that hybrid plans will dominate the market, while 24% disagree and 37% does not have a clear position regarding this matter (see Figure 37).

Figure 37: Future trend of the occupational DC market II (in Germany)



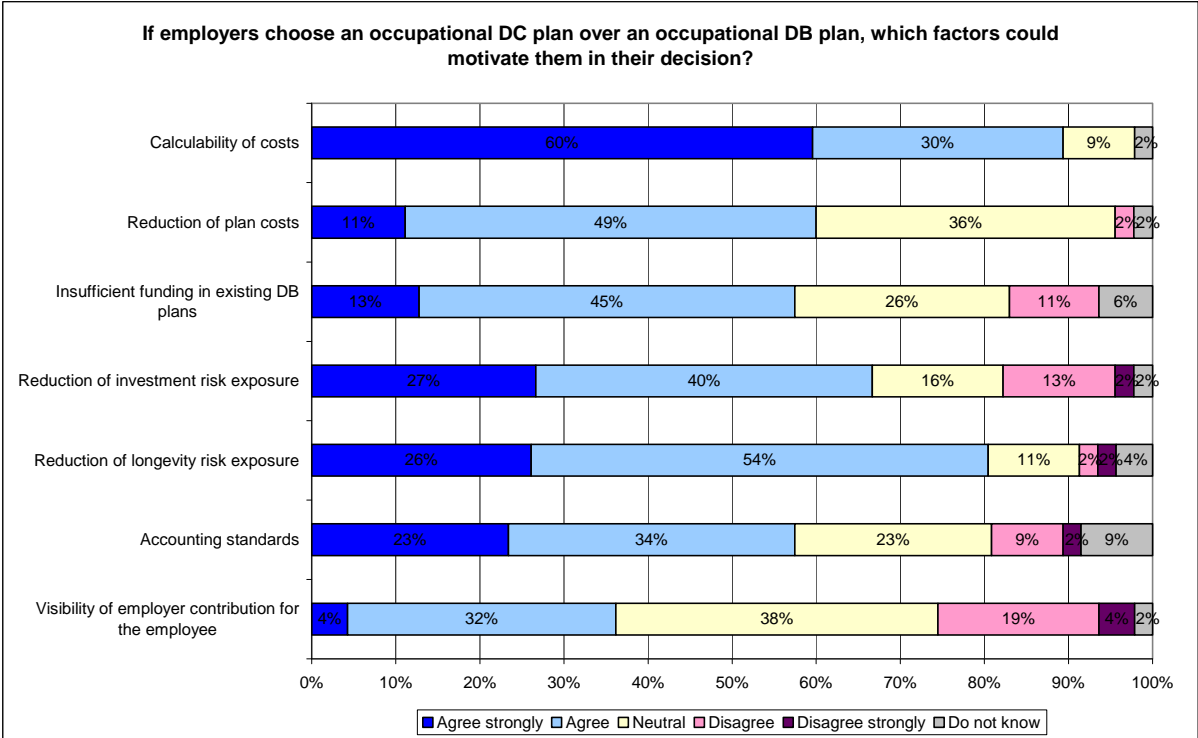
2.3.2 Factors of Development

The German pension experts claim that the most important factor an employer considers when choosing an occupational DC over a DB plan is the calculability of costs. A further central point is the reduction of longevity risk exposure. Additionally, this section studies the obstacles for the development of the DC pension market. The most important points seem to be a poor financial education and inadequate advice. They are followed by insufficient employee participation. Therefore, possible

solutions lie in introducing automatic enrollment and improving the financial education and advisory service.

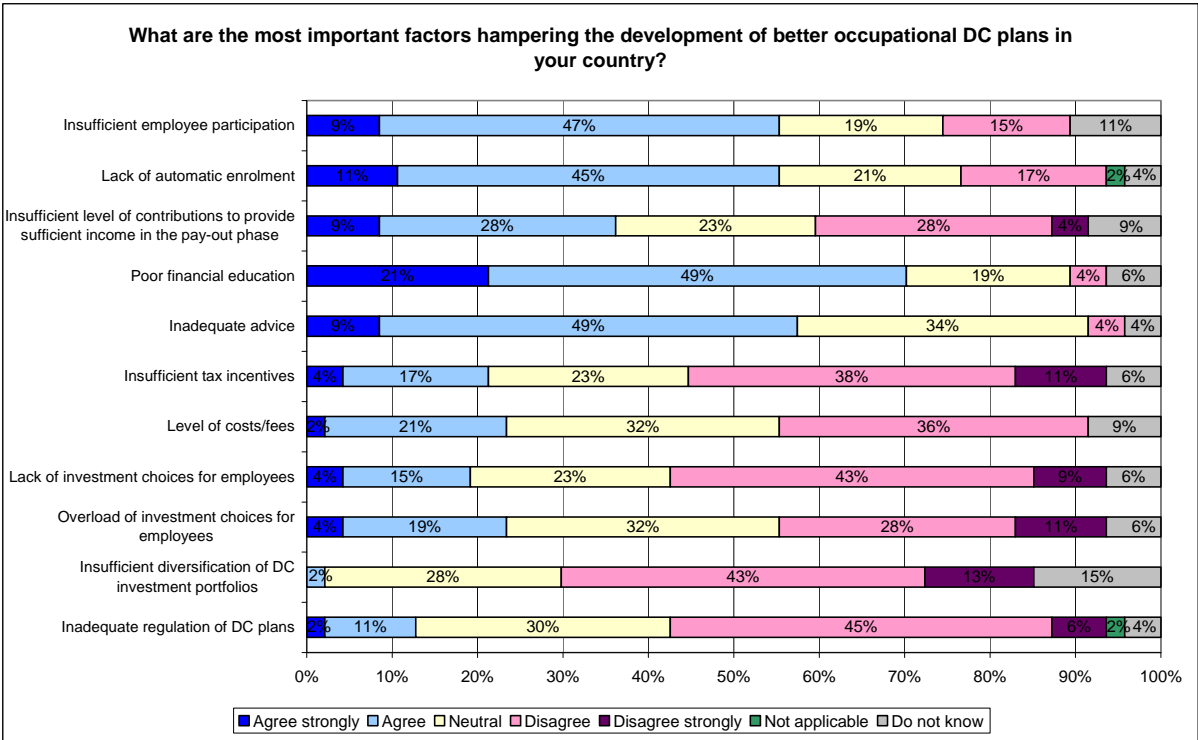
The vast majority of the respondent experts maintain that the calculability of costs (90%) and the reduction of longevity risk exposure (80%) motivate employers to choose an occupational DC plan. Also strongly pronounced is the opinion that the reduction of investment risk exposure is primarily accountable for an employer’s decision. Two-thirds (67%) agree with this statement. Additionally, 60% of the participants believe that the reduction of plan costs can motivate employers to choose a DC over a DB plan. The opinion that insufficient funding in existing DB plans motivates employers to choose an occupational DC plan is shared by 58% of the respondents. Moreover, more than one half (57%) believe that accounting standards pose a significant motivation in preferring a DC plan. In contrast, it seems that the visibility of the employer contribution for the employee is less important. It is considered to be a driving factor by 36% of the survey participants, while almost one fourth (23%) do not consider it as important (see Figure 38).

Figure 38: Motivation of employers to choose an occupational DC plan (in Germany)



There are several strains on the development of the occupational DC system in Germany. More than two-thirds (70%) share the opinion that a poor financial education represents a problem for DC plans. Additionally, 58% of the experts claim that inadequate advice hampers the improvement of occupational DC plans. More than half of the experts (56%) state that a lack of automatic enrollment is an important issue and that the participation in occupational DC schemes is unsatisfactory (see Figure 39).

Figure 39: Obstacles for the development of the occupational DC market (in Germany)



The other remaining factors are rejected as being realistic strains on the development of the occupational DC market. More than the half (56%) do not believe in an insufficient diversification in DC investment portfolios. The majority (51%) also claim that there is an adequate regulation within DC plans. Nearly half of the polled experts (49%) are not convinced that insufficient tax incentives hinder the progress of occupational DC plans. Furthermore, 36% claim that costs and fees are on an adequate level, while 23% participants do believe that they are too high. The majority of 52% states that the number of investment choices for employees is not too low

and a significant number of experts (39%) do not believe in an overload of investment choices for employees (see Figure 39).

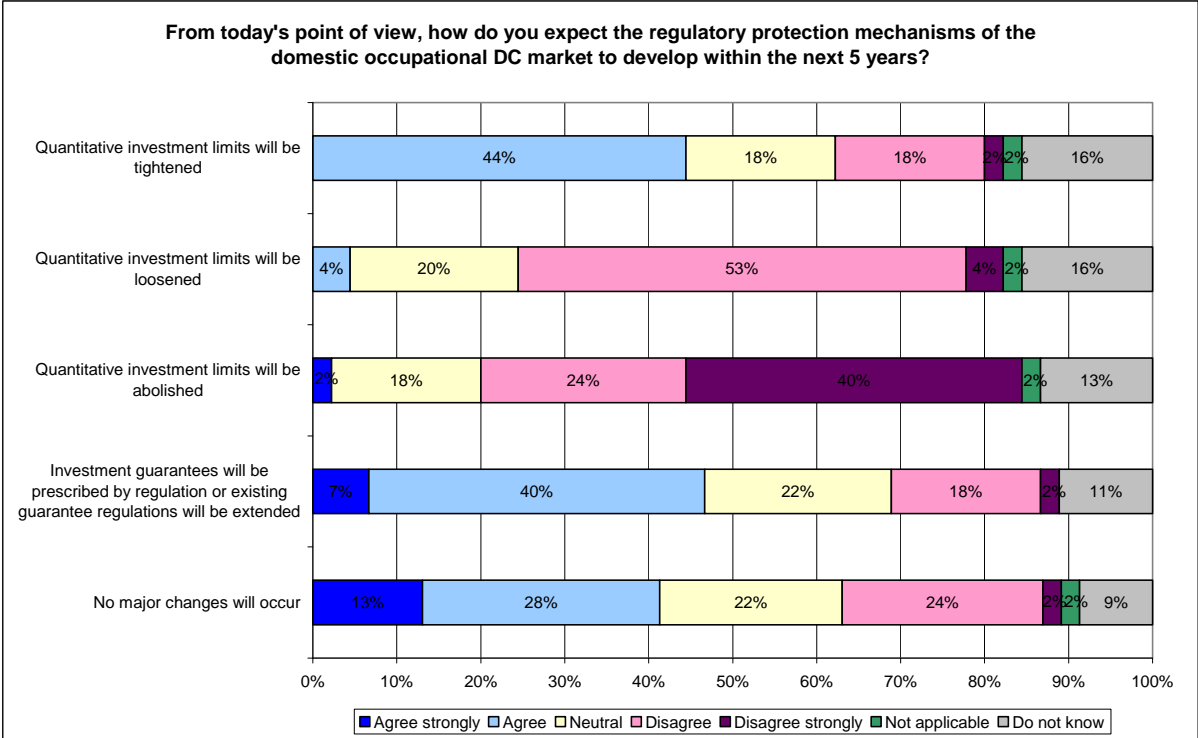
The experts are only discordant on one issue: over one third (37%) criticize the level of contributions as being insufficient to provide enough income at retirement- a view that is contradicted by one third (32%) of the participants (see Figure 39).

2.3.3 Regulation

This section discusses the experts' belief regarding how the regulation of the occupational DC market will develop within the next five years. The respondents think that it is highly unlikely that the German regulation will loosen its quantitative investment limits. Rather, they expect them to be tightened. Furthermore, the experts do not expect any significant changes in the design of the German occupational DC scheme. In particular, neither the participation for employees will be mandatory, nor will the automatic enrollment be introduced.

Regarding the change in the current protection mechanism, more than half of the respondents (57%) do not believe that the quantitative investment limits will be loosened. On the contrary, they expect (44%) a tightening of investment limits. Accordingly, 64% state that these limits will not be fully abolished. Almost half of the respondents (47%) think that the existing investment guarantees will be expanded or even that new guarantees will be introduced. More than two fifth of the experts (41%) believe that there will be no major changes in the occupational DC market, whereas 26% do not think so (see Figure 40).

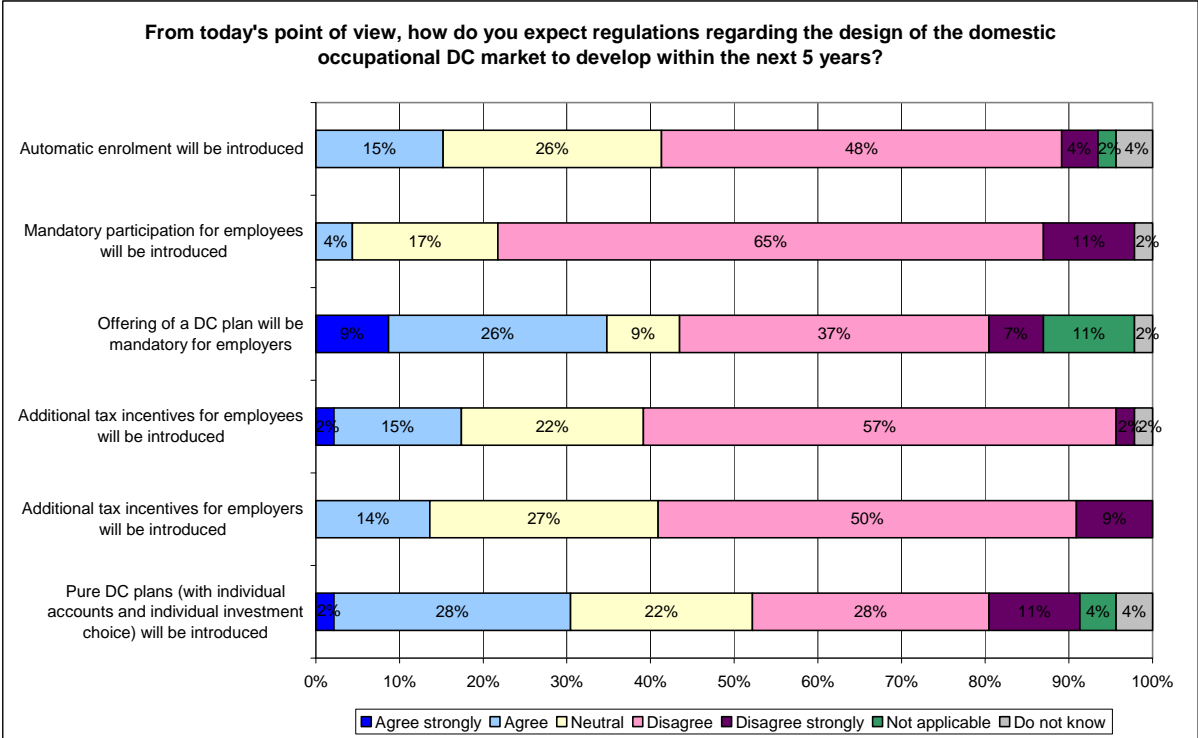
Figure 40: Future regulation of the occupational DC market I (in Germany)



Furthermore, we wanted to know how pension experts expect regulations regarding the design of the domestic occupational DC market to change. Interestingly enough, the vast majority of experts do not expect that following changes will be introduced. To be precise, the 76% are certain that no mandatory participation for employees will be introduced. Furthermore, 59% claim that no additional tax for incentives for the employees as well as for the employers will be introduced. As to the issue whether automatic enrollment in DC pension plans will be introduced, 52% of the experts are opposed to this idea, while only 15% agree (see Figure 41).

The experts' opinions are more divided in the last two questions. More than two fifth (44%) do not believe that offering a DC plan will be mandatory for employers, which is only expected by one third (35%) of the experts. Almost two-fifths of the experts (39%) estimate that no pure DC plans with individual accounts and investment choice will be introduced, whereas 30% predict that this will be the case (see Figure 41).

Figure 41: Future regulation of the occupational DC market II (in Germany)



2.3.4 Pay-out Phase

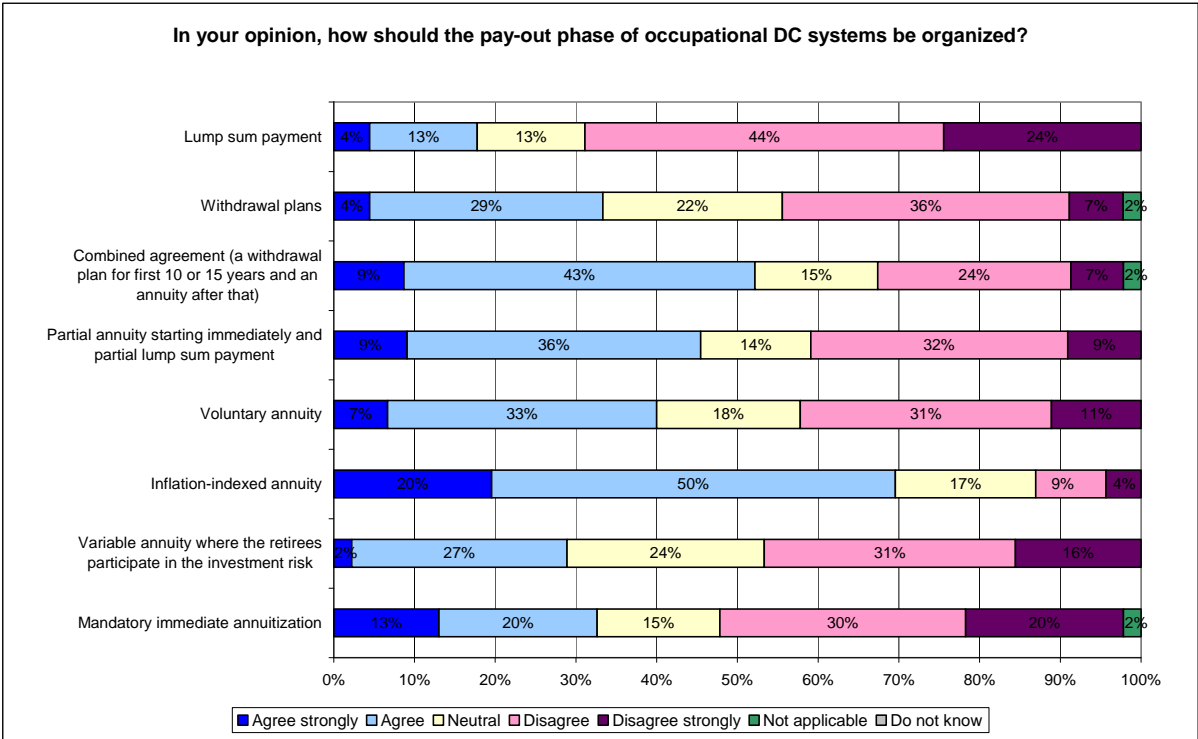
Most pension experts in Germany advocate inflation indexed annuities. They also approve of a combined agreement with a withdrawal plan for several years and a subsequent annuity. Lump sum payments, on the contrary, are not believed to be a prudent way to organize an occupational DC system. Half of the respondents are opposed to mandatory annuitization. Nearly half neither approves of withdrawal plans nor of annuities where retirees can participate in the investment risk themselves.

There are two contract designs which are clearly approved by the participants. More than two-thirds of the respondents (70%) support annuities with inflation protection, while only 13% are against this solution. Moreover, a combined agreement with a withdrawal plan in the first say ten to fifteen years and an annuity after that are considered a prudent way to organize the pay-out phase of occupational DC systems. The majority of 52% advocates this contract design while 31% do not endorse it (see Figure 42).

More than two-thirds of the respondents (68%) claim that a lump sum payment should be prohibited. However, half of the experts (50%) are opposed to an immediate mandatory annuitization. In contrast, 33% of the respondents think that an annuitization should be mandatory. Moreover, 43% do not think that withdrawal plans are a good way to organize the pay-out phase of pension plans. One third (33%) would support such plans for the retirees. Almost half of the participants (47%) do not think that variable annuity where the retiree participates in the investment risk is a proper pay-out design. In contrast, 29% approve of such products (see Figure 42).

There is a strong pro and a strong contra party for two cases. On the one hand, 42% are against voluntary annuities; however, 40% approve of this solution. On the other hand, 45% support agreements where some part of the capital is paid out as lump sum and the remaining part is annuitized. However, 41% do not approve of this pay-out regime (see Figure 42).

Figure 42: Optimal pay-out phase design of occupational DC products (in Germany)



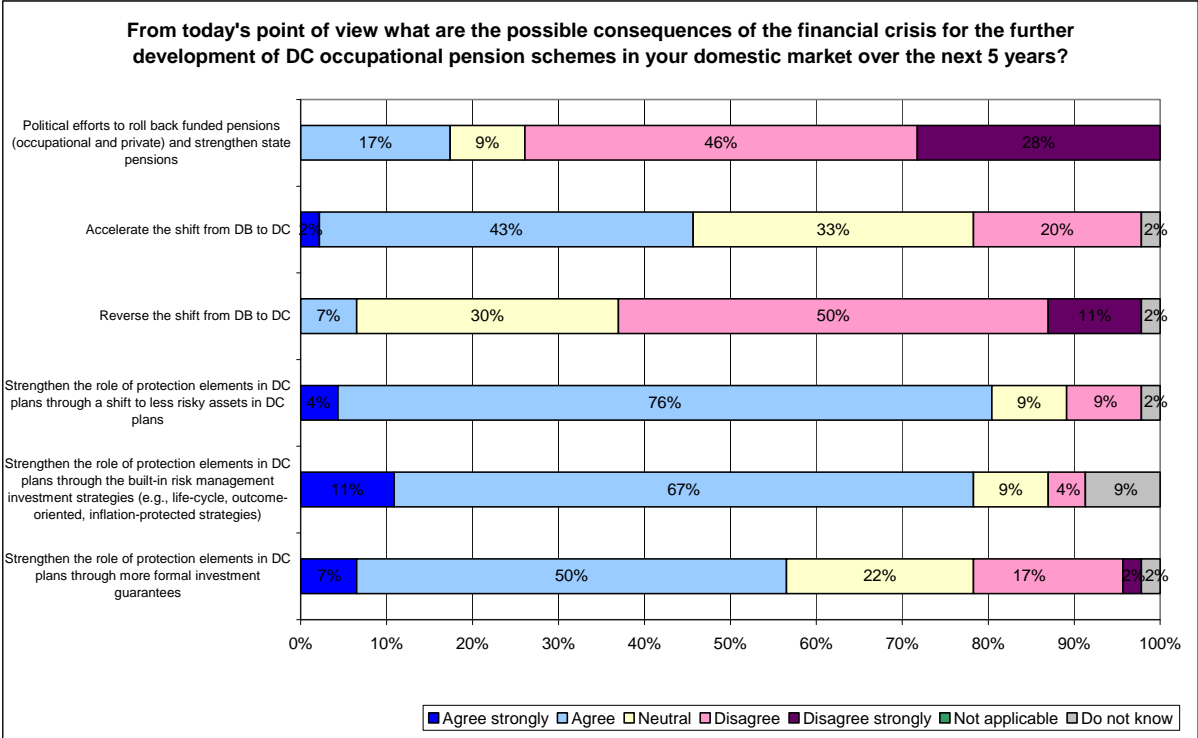
2.3.5 Financial Crisis

In consideration of the current financial crisis, we wanted to examine the possible consequences for the development of occupational DC pension schemes within the next five years. According to our results, the financial crisis does not delay the shift from DB or state pension to more occupational DC investments. On the contrary, many experts state that the drift will be spurred by the financial crisis. The majority of experts predict a future strengthening in the role of protection elements in DC plans and the introduction of more formal investment guarantees in DC plans. This corresponds with the suggestion above that investment guarantees will be prescribed and extended by regulation.

The German experts believe that the financial crisis will strengthen the protection elements in DC plans. Four fifths of the experts (80%) believe that there will be a shift to less risky assets in DC plans. A similar result is obtained for the question whether built-in risk management investment strategies, such as the life cycle and outcome orientated and inflation-protected strategies will gain in importance. While 78% share this opinion, only 4% disagree. More than half of the experts (57%) believe that in consequence of the crisis more formal investment guarantees will be given (see Figure 43).

Although there will be some changes in the German occupational DC market, the general trend towards more funding is not affected. Almost three quarters (74%) of the experts do not believe that political efforts will roll back funded occupational and private pensions in order to strengthen the state pensions. Additionally, the majority of experts (61%) do not think that the financial crisis could reverse the shift from DB to DC pension schemes. Rather, more than two fifth (45%) believe in an acceleration in the shift from DB to DC pension schemes (see Figure 43).

Figure 43: Impact of the financial crisis on the pension market (in Germany)



2.3.6 Socially Responsible Investment

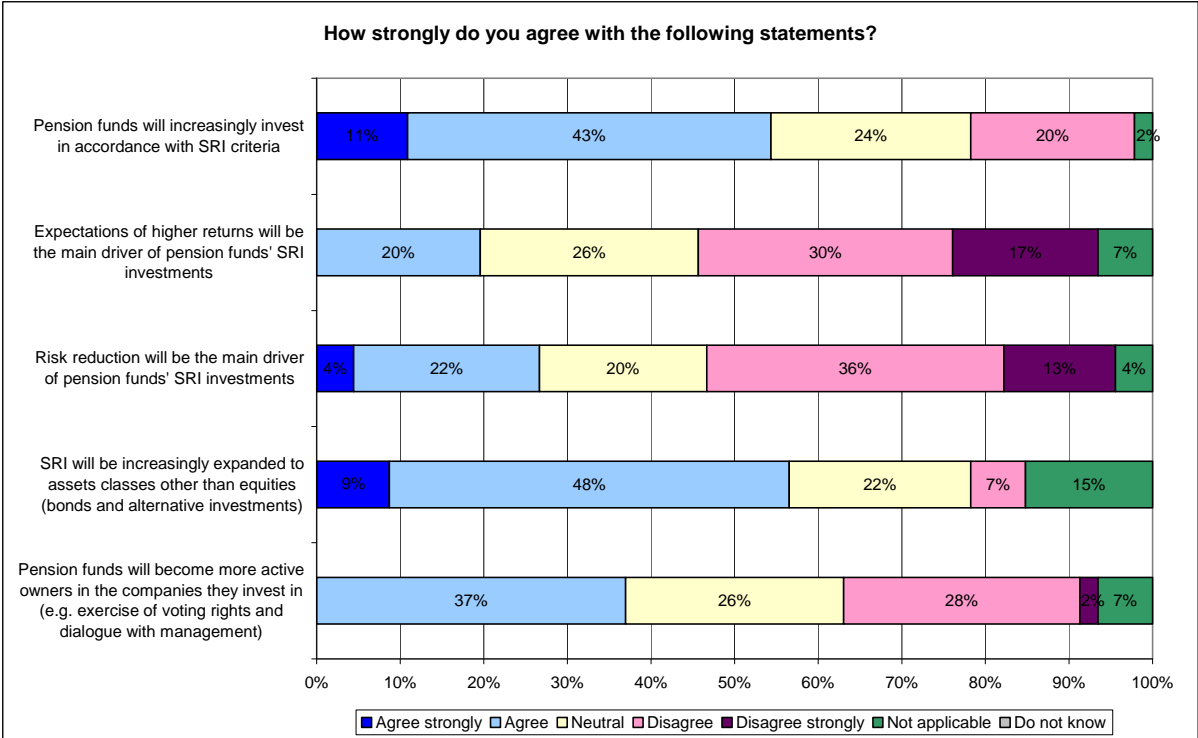
This section investigates the significance of socially responsible investments (SRI) on the pension market and its future trends. The majority of experts predict an increasing interest in SRI for pension funds in the future. However, they do not believe that it is due to higher expected returns or a reduction of risk. Rather, the reason lies in the public opinion and trade unions who request such products. Especially environmental criteria as well as themed sustainable funds appear to be the driving forces in SRI investment decisions. The German pension experts are the only ones who do not deem it likely that pension funds will become more active owners in the companies they invest in.

More than half of the respondents (54%) believe that pension funds will increasingly invest in accordance with SRI criteria, which only 20% do not believe. More than half of the experts (57%) assume a future expansion to assets other than equities, such as bonds and alternative investments. However, 15% state that this is not applicable. Furthermore, more than a third (37%) think that pension funds will become more

active owners in the companies they invest in (e.g. exercise of voting rights, dialogue with management). This is not the opinion of 30% (see Figure 44).

Almost half of the experts (49%) do not think that risk reduction will be the main driver of pension funds' SRI decision, while 26% state that it does, in fact, matter. Similarly, pension specialists (47%) do not think that the expectation of higher returns will be the main driver for pension funds' SRI. This is the belief of 20%, while a relatively large group of 26% remains neutral (see Figure 44).

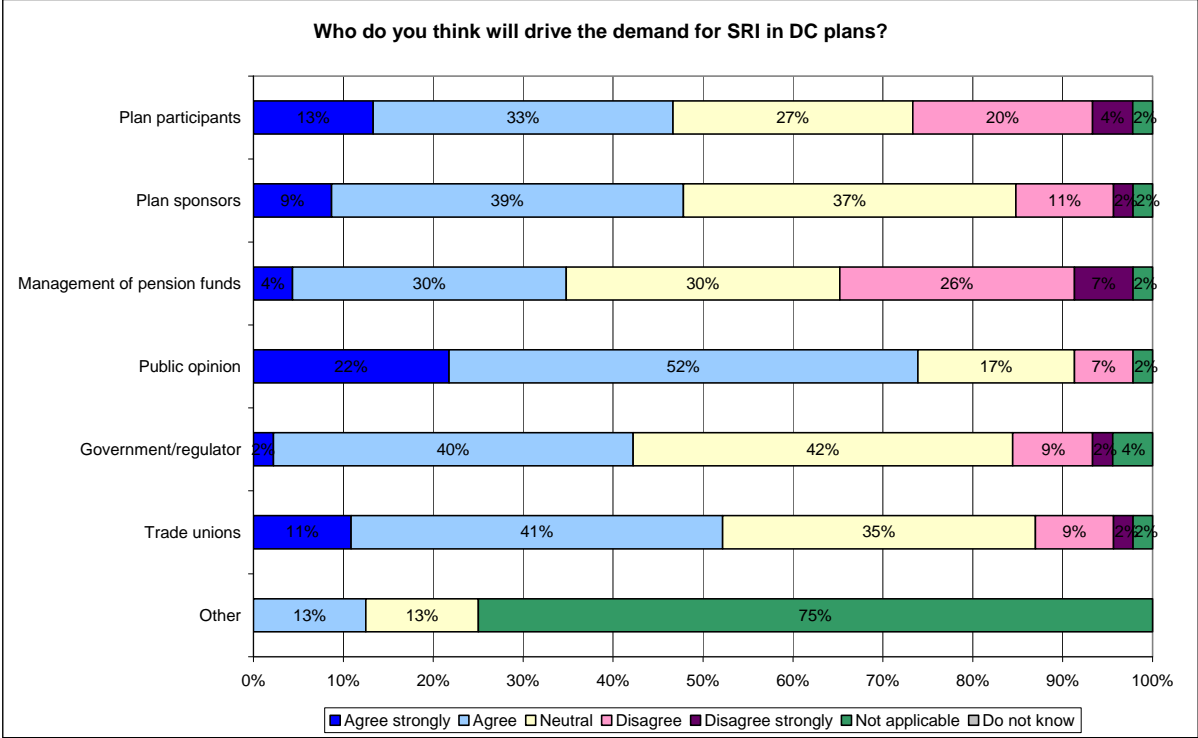
Figure 44: Socially Responsible Investment (SRI) (in Germany)



Another aspect of our analysis is the question of who will drive the demand for SRI in DC plans. According to the respondents, public opinion will be the most influencing driving factor for SRI demand. The lion's share of 74% supports this idea while only 7% do not think so. 52% of the participants also claim that the trade unions are a crucial factor. However, 35% remain indifferent. Other determining drivers for SRI demand are the plan sponsors (48%) and the plan participants themselves (46%). These factors are followed by the government and regulators. Thus 42% are positive about this while a large fraction of 42% remains neutral. The management of pension

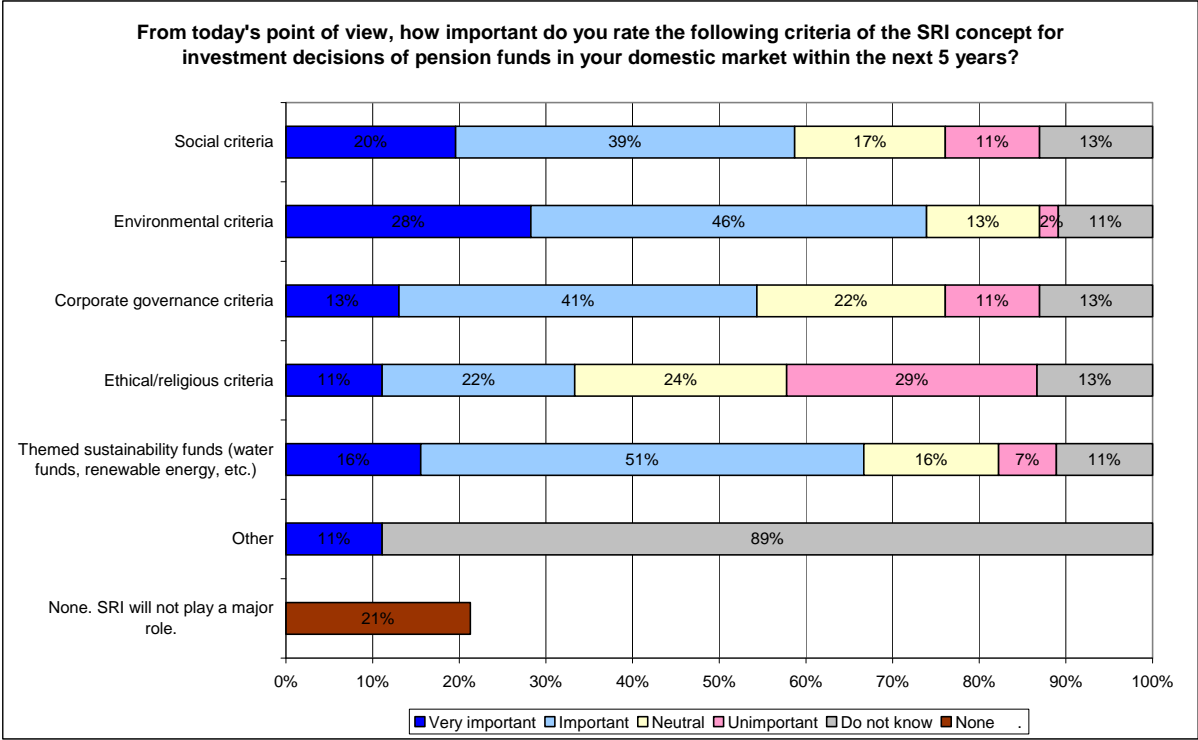
funds as a driving factor only obtains the smallest approval rate. Only 34% are in favor, whereas 34% are of different opinion (see Figure 45).

Figure 45: Stakeholders affecting demand for SRI (in Germany)



The following part deals with the experts' rating of different criteria with respect to investment decision of SRI. Almost three-fourths (74%) of the experts believe that the environmental criteria will be the most significant criteria for SRI. It is followed by themed sustainability funds, such as water or renewable energy funds (67%). Social criteria seem to be an important issue for 59%, while 54% rate corporate governance as being significant. They are only divided on one issue. One-third (33%) share the view that ethical and religious criteria play a role while 29% are opposed to this. Only one-fifth (21%) believe that SRI will not play an important role in the occupational DC market (see Figure 46).

Figure 46: SRI criteria (in Germany)



2.3.7 Pan-European Pension Plans

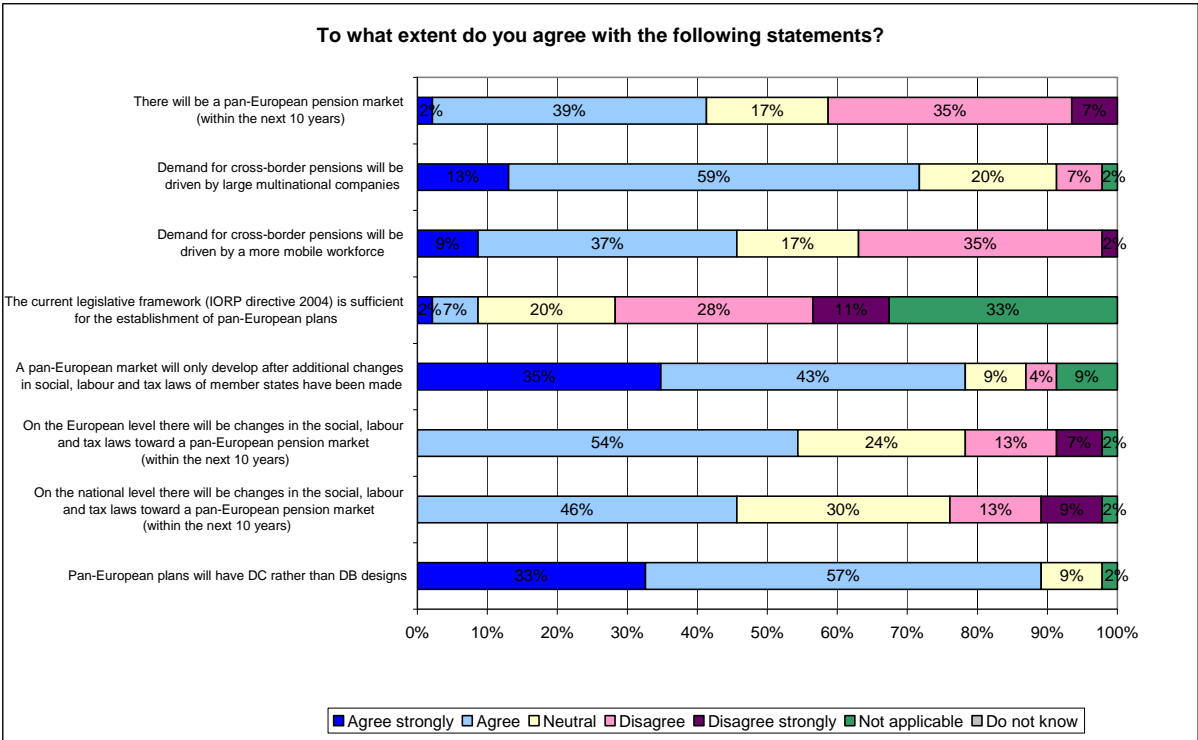
The respondents’ opinions about the future existence of a pan-European pension market are divided. They believe that an insufficient common legislative framework makes it difficult to develop a pan-European pension scheme. Thus, a further harmonization and standardized occupational pension provision between the EU member states is necessary. Almost all participants believe that the future pan-European pension market, provided that it will exist as such, will have a DC rather than DB design.

More than two-fifths of the participants (41%) believe in the emergence of a pan-European pension market within the next 10 years, while 42% object. 39% claim that the current legislative framework, the IORP (Institutions for Occupational Retirement Provisions) directive 2004, is insufficient for the establishment of pan-European pension plans and one-third (33%) do not deem it applicable. Only a tiny fraction of 9% is of different opinion. The majority of the experts (78%) agree that additional changes in social, labor, and tax laws in the EU-member states are necessary in order for the pan-European market to develop. 54% believe that these changes will

occur on the European level. Almost half of the respondents (46%) assume that this will happen in Germany within the next ten years (see Figure 47).

Provided that there will be a pan-European pension market, nine out of ten experts (90%) believe it will have a DC design. The main force of the demand for cross-border pensions will be rather determined by large multinational firms (72%) than by the mobile workforce (46%). On the contrary, 37% even disagree with the idea that the mobile workforce will drive the demand (see Figure 47).

Figure 47: Pan-European pension market (in Germany)



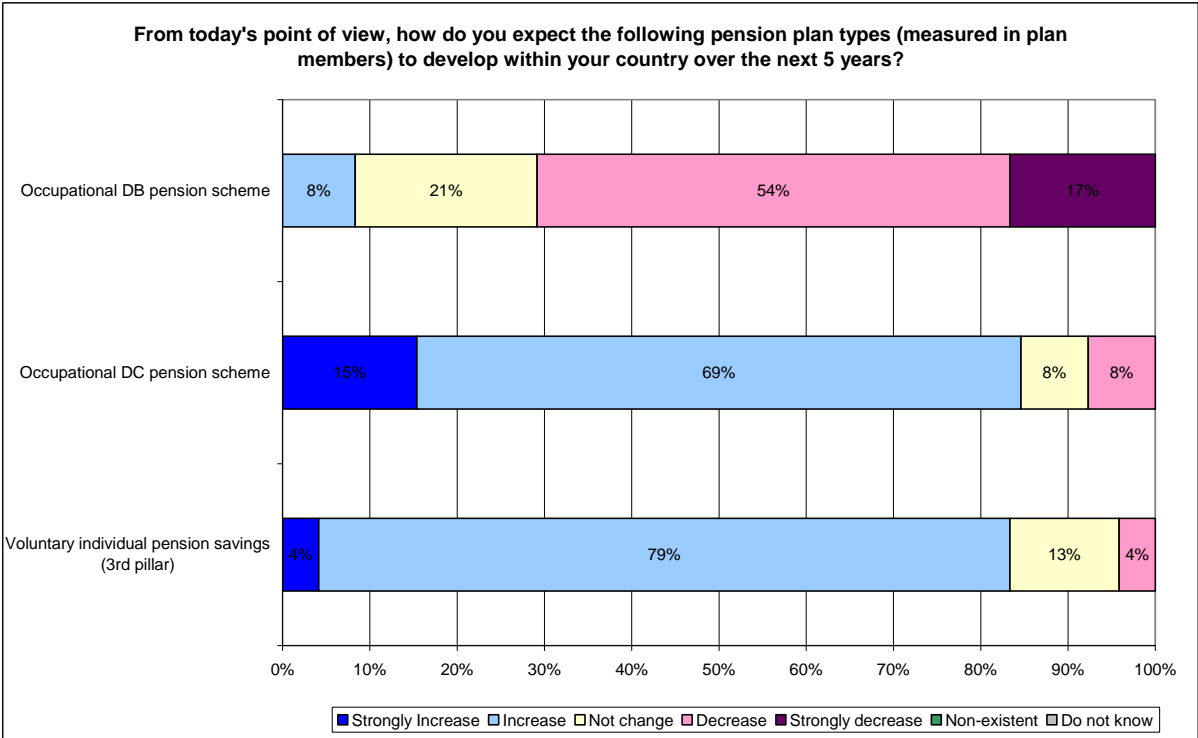
2.4 Italy

2.4.1 Future Trends

Almost all experts in Italy observe a shift away from occupational defined benefit (DB) towards defined contribution (DC) pension schemes. They predict that within the next five years the occupational pension market in Italy will mainly consist of plans with DC design while only a few hybrid and DB plans will be offered.

For the vast majority of pension experts (84%) it is clear that the occupational DC schemes will become increasingly important. Additionally, 83% advocate that the individual pension schemes (third pillar) will also gain in importance. In contrast, almost three-thirds (71%) reply that the amount of occupational pensions with DB designs will decline (see Figure 48).

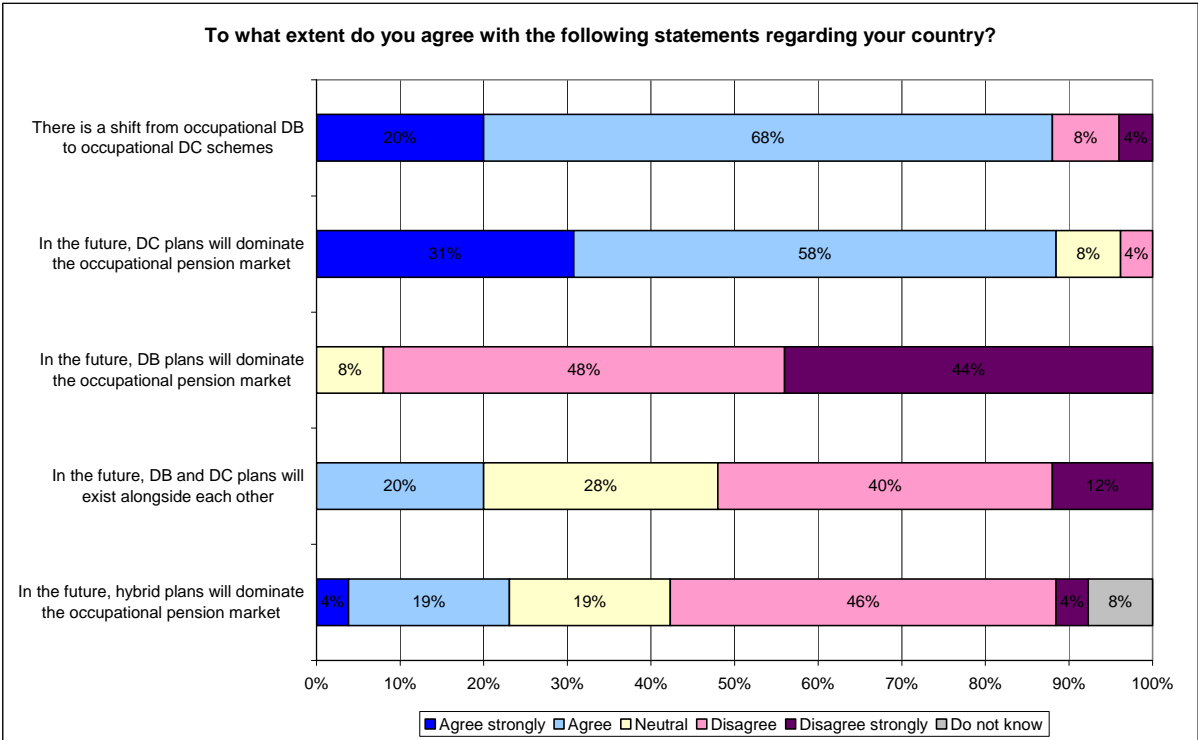
Figure 48: Future trend of the occupational DC market I (in Italy)



In accordance with that, almost all of the respondents (88%) confirm that the occupational pension market will shift to more DC design and the vast majority of 89% claim that the DC occupational plans will dominate the pension market. In

consequence of the DC domination, most experts do not believe that other structures in the occupational pension market are of importance. Almost all experts (92%) state that a domination of DB plans is not possible. Furthermore, 50% do not expect hybrid plans to dominate the market while 23% state that it is in fact possible. In addition more than half of the participants (52%) do not believe the DB and DC plans will exist alongside each other, which is expected by merely 20% (see Figure 49).

Figure 49: Future trend of the occupational DC market II (in Italy)



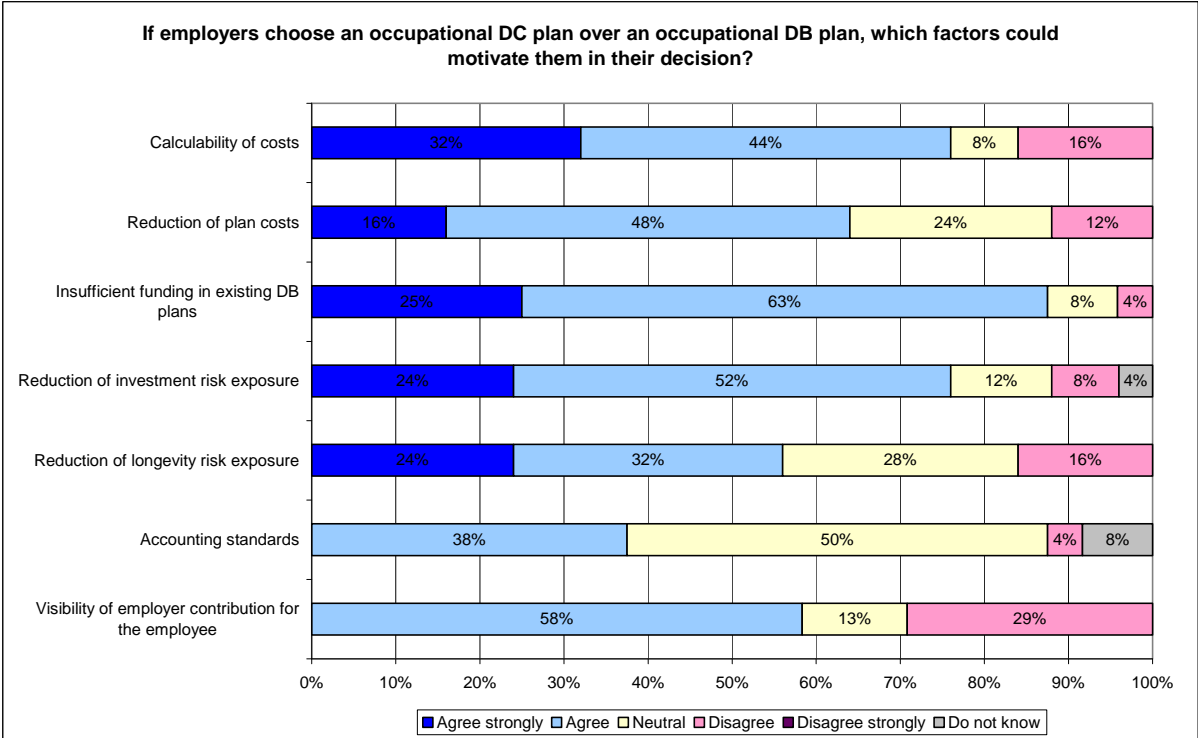
2.4.2 Factors of Development

This section discusses the factors which make DC plans attractive from an employer’s perspective. The experts strongly believe that most employers offer DC plans because the funding level within DB plans is too low. Additionally, DC plans enable the employers to transfer the risk of poor investment performance to their employees. Another incentive is the higher predictability of costs. Furthermore, this section discusses obstacles for the development of the occupational DC market. The main concern about the Italian occupational DC market is the still relatively low participation rate which goes along with the poor financial education and insufficient

advisory service. As mentioned in Section 2.2.2, insufficient tax incentives are an obstacle in Italy and France.

As mentioned above, almost all participants (88%) claim that employers prefer DC over DB schemes because of the insufficient funding of DB plans. Almost the same amount of participants (76%) state that they do so because of a lower investment risk for the provider of DC plans. The longevity risk seems to be less important, however still more than half of the experts (56%) claim that it is a significant factor. Three out of four experts (76%) claim that it is easier to determine the exact pension costs within DC plans. In consequence, almost two thirds (64%) of the respondents believe that the emerged cost can be reduced. More than half of the experts (58%) argue that employers want to know the exact contributions for their employees. In contrast, 29% do not believe that this cost transparency is important. Furthermore, accounting standards are less important in Italian (and French) experts' view. Only two-fifths (38%) think that the accounting standards in Italy entail certain advantages for DC plans. A large proportion of 50% does not have a clear opinion on this issue (see Figure 50).

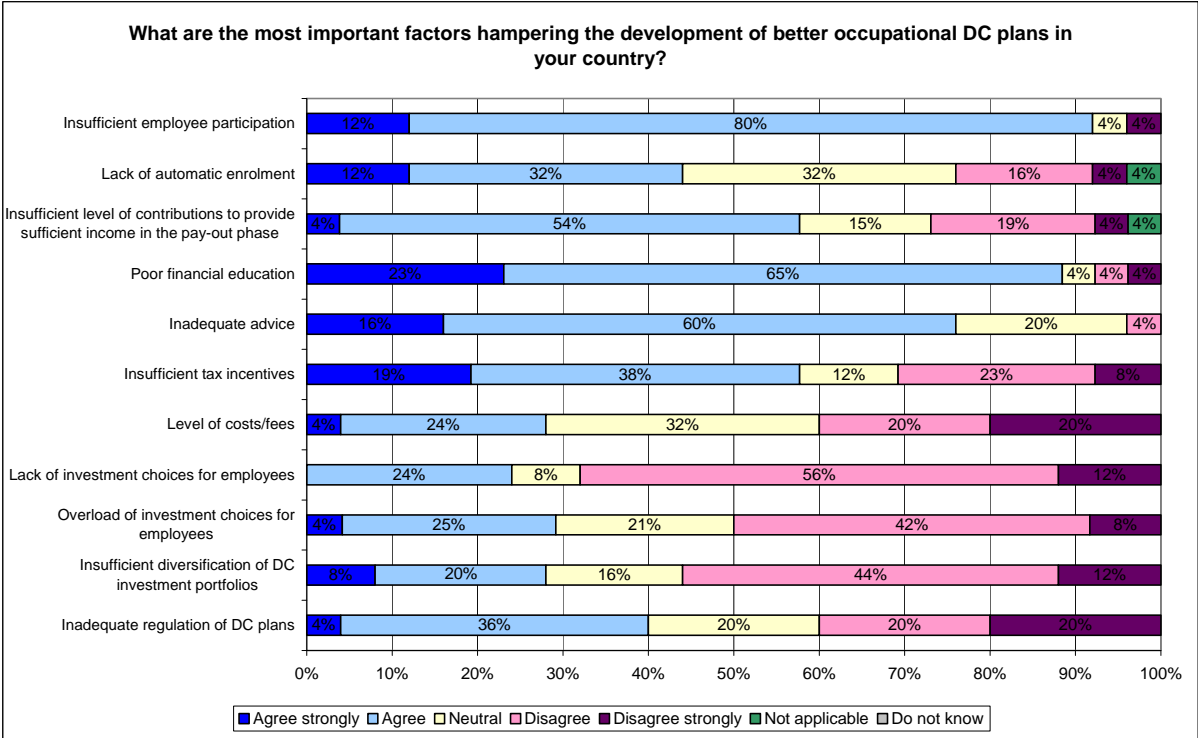
Figure 50: Motivation of employers to choose an occupational DC plan (in Italy)



However, the experts allude to several problems within the occupational DC plans in Italy. First of all, almost all participants (92%) deplore the lack of employees' participation in occupational DC plans. Another very important problem is a lack of knowledge within the population concerning the occupational retirement arrangements, which is criticized by 88% of the experts. Correspondingly, three-fourths (76%) claim that better advisory services should be offered to Italian employees. Moreover, 58% criticize the level of contributions and 57% find that there are insufficient tax incentives. Additionally, 44% believe that some problems could be abolished by automatic enrollment of employees in DC plans (see Figure 51).

There are several other points which the experts do not consider to be significant problems for DC plans. They are undecided whether there is an insufficient regulation of DC plans. This opinion is shared by 40% of the respondents, while another 40% disagree. Furthermore, two-fifths (40%) of the experts think that costs within DC plans are at an acceptable level, while 28% claim that they are too high (see Figure 51).

Figure 51: Obstacles for the development of the occupational DC market (in Italy)



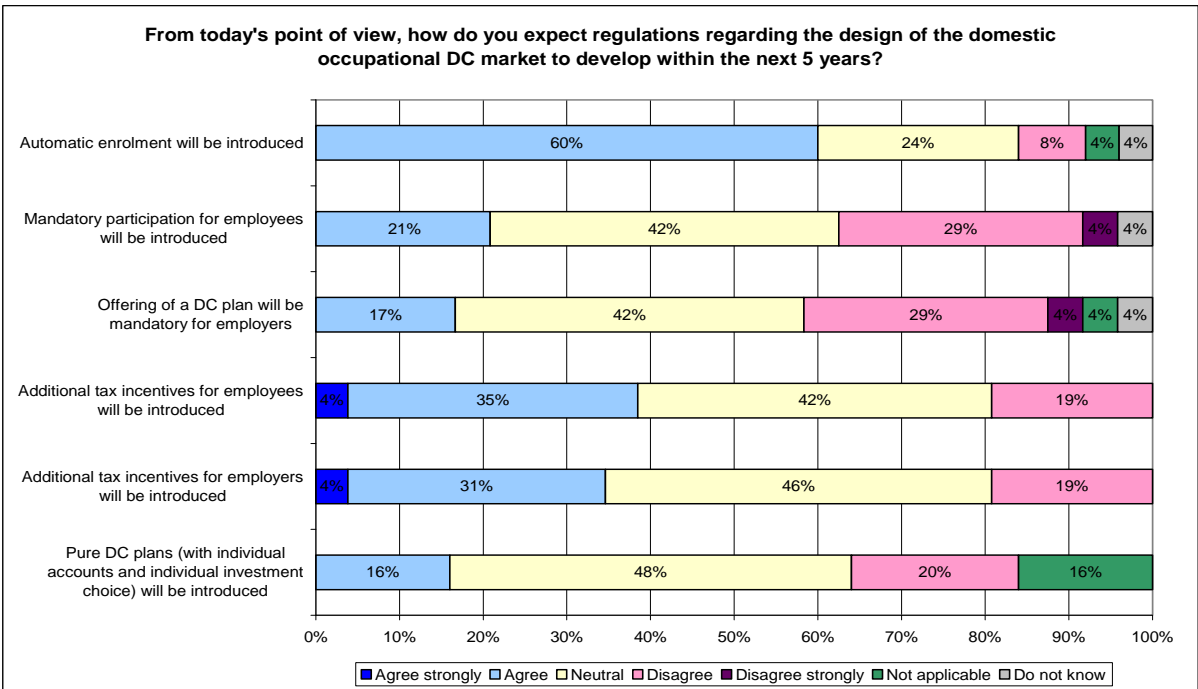
The majority of experts believe that the number of investment decisions for the employer is satisfying. Two-thirds (68%) claim that employees do not suffer from a lack of investment options while 50% disagree that they are overloaded with investment options. According to the pension experts, the assets of DC pension funds are well diversified, which is confirmed by 56% of survey participants (see Figure 51).

2.4.3 Regulation

Italian experts do not foresee any urgent future changes in pension regulation - with two exceptions. Many Italian pension experts are sure that the employees will be automatically enrolled in occupational DC schemes and that investment guarantees will be introduced or enhanced within the next five years.

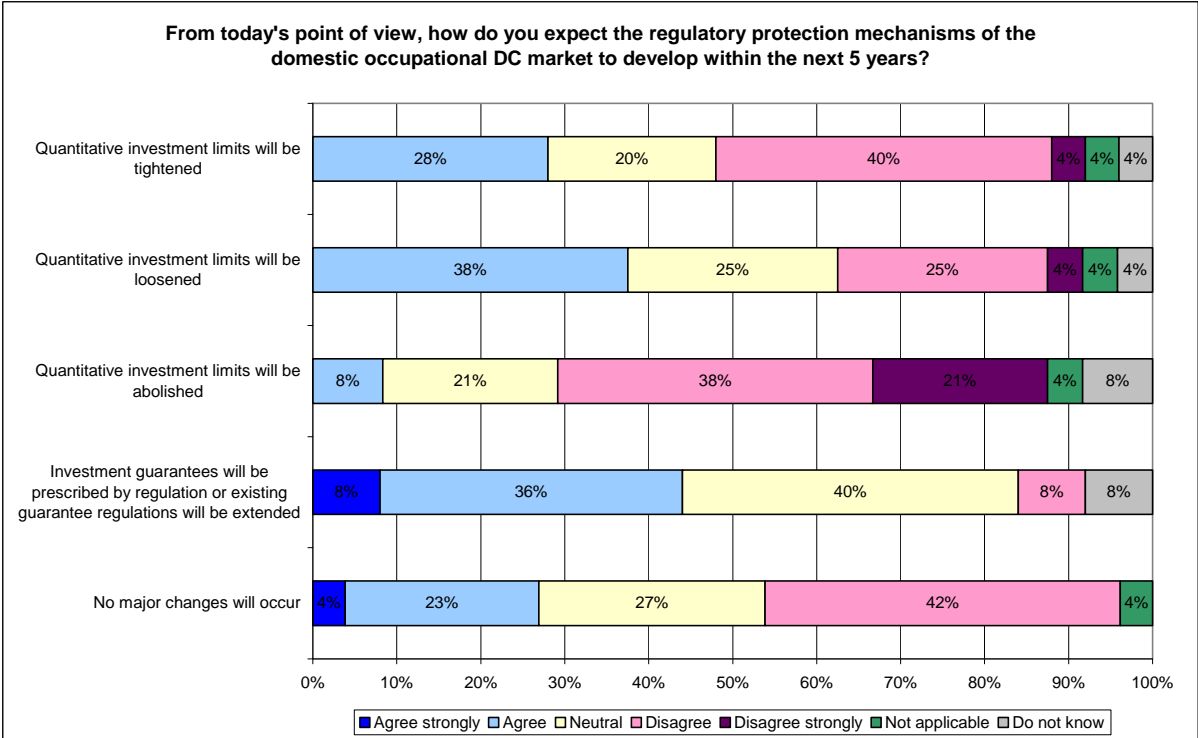
As we have seen in Section 3.4.2 participation rates in the Italian occupational DC system are still insufficient. This constitutes one point on which the majority of survey participants clearly agree. Two-thirds (60%) expect automatic enrollment to be introduced in DC plans within the next five years, while only 8% are against this solution (see Figure 52).

Figure 52: Future regulation of the occupational DC market I (in Italy)



While 42% of the experts think that there will be major changes in the regulatory framework, more than one-fourth (27%) state that there will be new reforms. At least two-fifths (44%) believe that minimum guarantees will be offered in most DC plans. Another group of 40% has no opinion in this matter. Almost two-fifths (38%) believe that the quantitative investment limits will be loosened while 28% believe that these restrictions will rather be tightened. The majority of 59% do not believe that investment restrictions will be fully removed (see Figure 53).

Figure 53: Future regulation of the occupational DC market II (in Italy)



There are two points about the occupational DC system on which one-third of the experts agree: 33% of them claim that the participation in the occupational system will be voluntary both for the employers and for the employees. On the contrary, 21% believe that participation will be mandatory for employees and merely 17% think that it will be compulsory for employers to offer DC plans (see Figure 52).

Opinions regarding the tax regulations are analytically unambiguous. Thus, more than one-third (39%) claim that there will be further tax advantages introduced for employees and 35% believe this will be the case for employers. However, 19% do

not expect any tax reform within the occupational DC market. Survey participants are undecided whether individual DC plans will be established. In the opinion of 20% individual DC plans will not be introduced, while 16% see this trend coming (see Figure 52).

2.4.4 Pay-out Phase

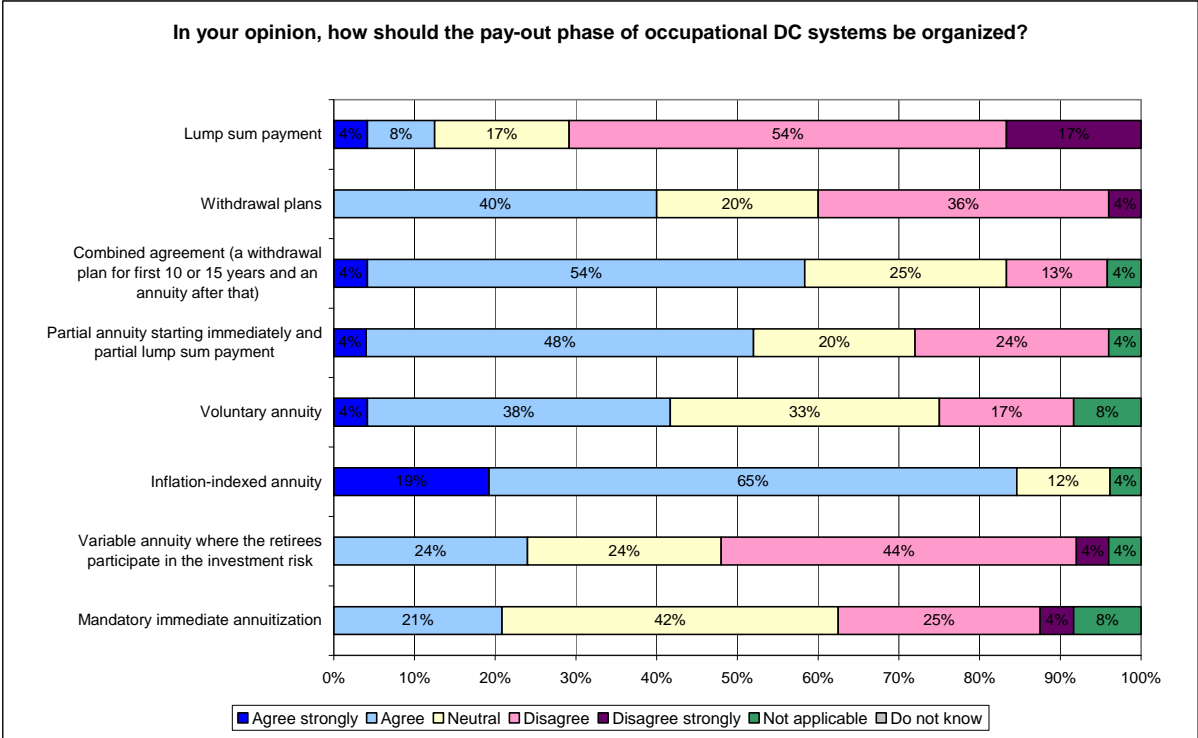
Almost all pension experts in Italy require benefits to be paid out as inflation-indexed annuity. They also consider agreements which combine a withdrawal plan or a lump sum with subsequent annuities to be a prudent way of organizing the pay-out phase. In contrast, they do not approve of lump sum payments as a proper choice for the pay-out phase.

As mentioned above, 84% of the participants believe that annuities which are indexed to inflation are the best way to design an occupational DC plan. In consequence, most of the participants (71%) strictly refuse arrangements with lump sum payments. Moreover, 58% claim that withdrawal plans in approximately the first 10 to 15 years and the following annuity payments constitute an appropriate design of the occupational DC system (see Figure 54).

More than half of the respondents (52%) support the following solution: part of the benefit is paid as lump sum and the remaining part as annuity. 42% of the experts state that annuity should be voluntary, while another 17% think that they should rather be obligatory. Almost half of the respondents (48%) do not believe that variable annuity where the retiree bears the investment risk is a good pay-out regime. One fourth (24%) holds an opposite opinion in this matter (see Figure 54).

There are two other organization forms where the participants do not have a distinct opinion. While two fifths (40%) are in favor of withdrawal plans, 40% do not approve of this pay-out regime. Only 21% state that immediate annuities should be mandatory. In contrast, 29% do not accredit this as being an appropriate contract design (see Figure 54).

Figure 54: Optimal pay-out phase design of occupational DC products (in Italy)



2.4.5 Financial Crisis

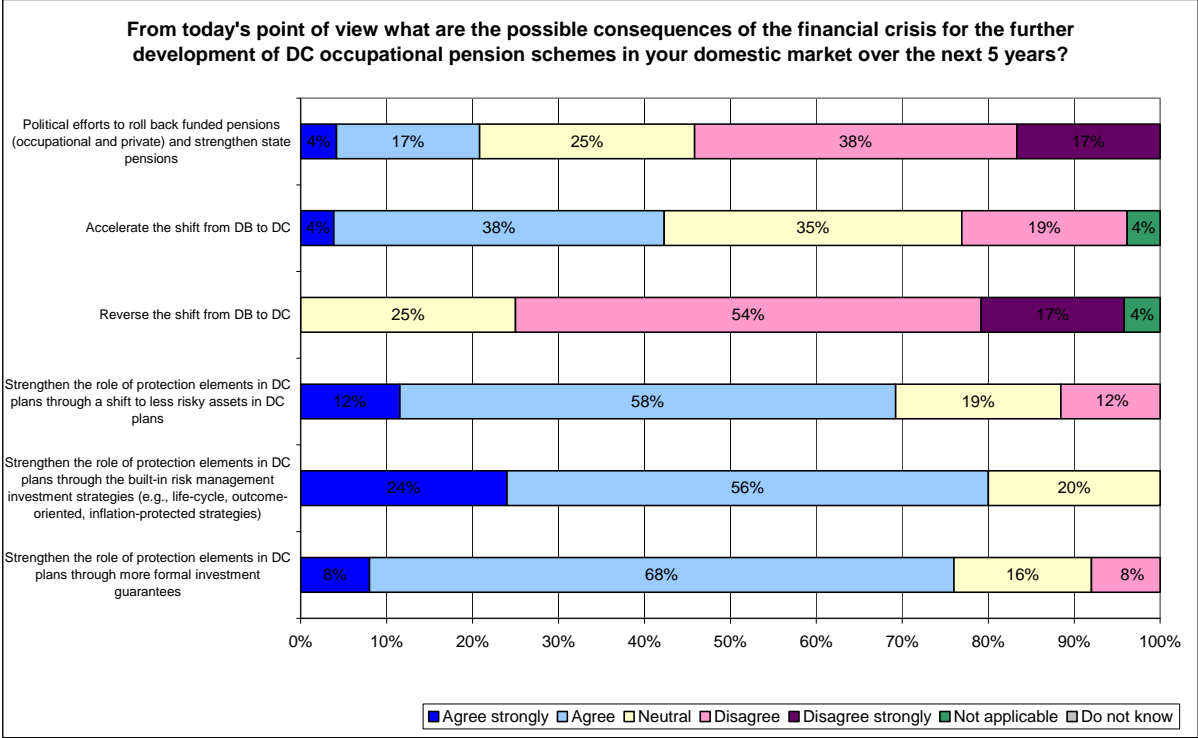
The financial crisis only has a limited impact on the general trends in the Italian occupational pension market. However, the experts think that due to the financial crisis the protection elements within DC plans will be strengthened within the next five years.

Four out of five experts (80%) believe that the risk management within the DC plans will change its character. Nobody contradicts the idea that life-cycle, outcome-orientated and inflation protected products will gain in importance. Accordingly, three-fourths (76%) claim that most plans will guarantee a certain minimum income for their participants. Additionally, 70% assert that DC plans will invest in less-risky assets. Merely 12% do not share this view (see Figure 55).

The vast majority of pension specialists (71%) do not believe that the general shift toward DC plans in the occupational pension market will be reversed due to the financial crisis. Instead, many experts (42%) think that this change will be expedited. More than half of the participants (55%) do not foresee a rollback of the compulsory

and unfunded system. In contrast, 21% say that this will not be the case because of the crisis (see Figure 55).

Figure 55: Impact of the financial crisis on the pension market (in Italy)



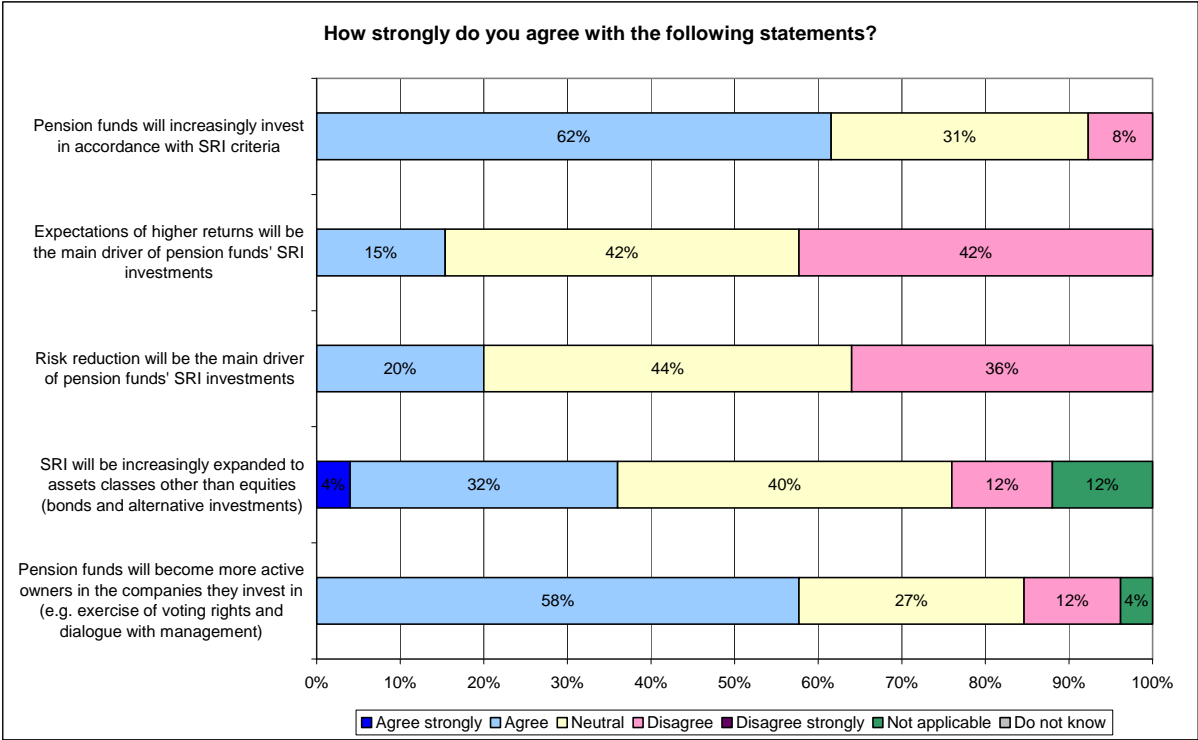
2.4.6 Socially Responsible Investment

This section deals with socially responsible investments (SRI) within the occupational DC scheme. The survey participants for the Italian market think that this will gain in importance within the next five years. The reasons for this are not only the increasing demand of the citizens and its representatives but also that of the management of the pension fund. There is a strong need for investments to be in line with ecological criteria.

The vast majority (62%) believe that the SRI concept will increase in importance for pension funds, while 58% claim that they will also become a more active partner in the invested companies. More than one-third (36%) state that the SRI concept will be expanded to other asset classes such as stocks (e.g. bonds and alternative investment products). Numerous experts (40%) do not have a clear opinion on this matter. The survey participants do not think that this increasing demand for SRI is

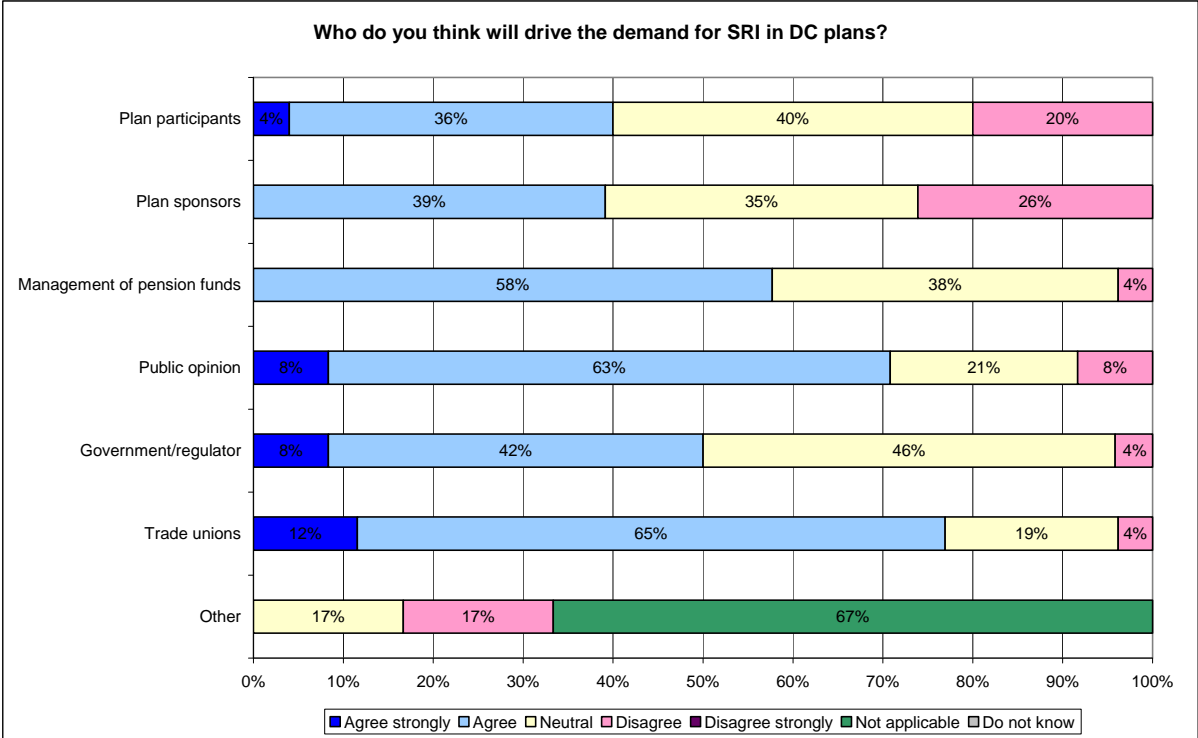
driven by the expectation of higher returns or a reduced risk. On the one hand, 42% do not think that higher returns are expected with SRI, while merely 15% have an opposite opinion. On the other hand, 36% do not believe that risk can be reduced with SRI, while 20% believe this to be the case (see Figure 56).

Figure 56: Socially Responsible Investment (SRI) (in Italy)



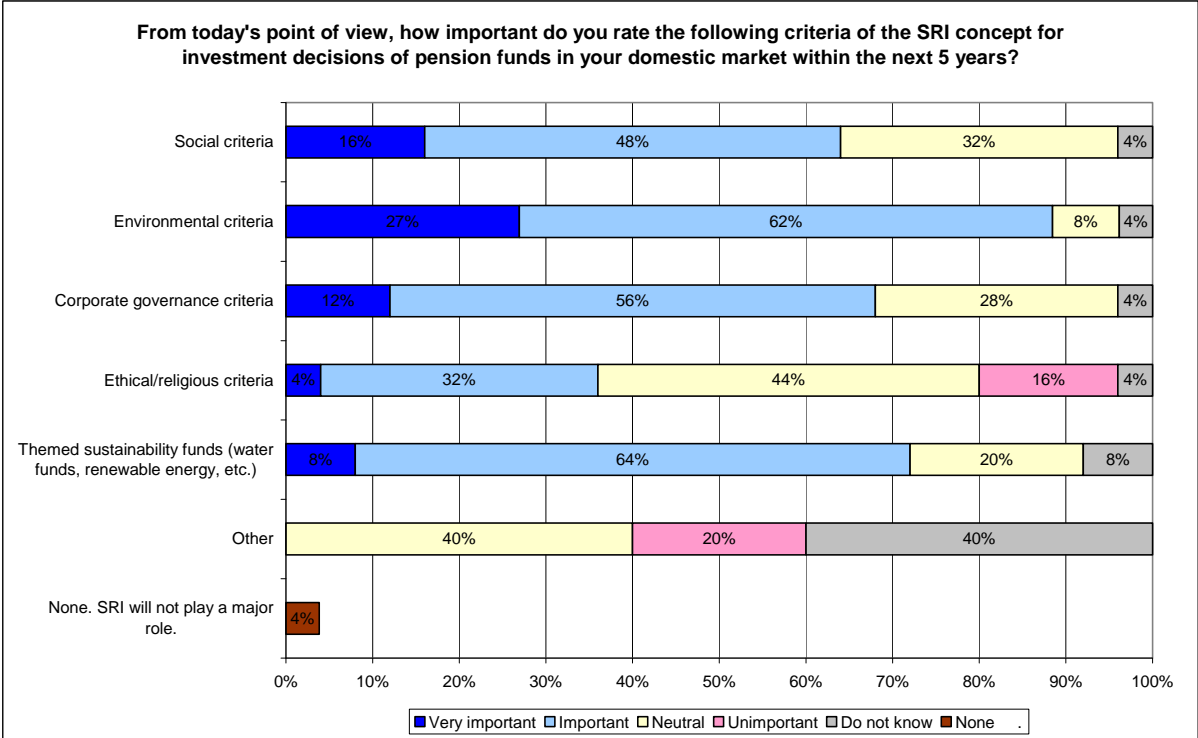
The participating experts believe that all involved parties with the exception of plan sponsors will demand a higher number of socially responsible investments to be made. According to 77% of the experts the trade unions will be the most important. Additionally, 71% claim that it is the public opinion that increases the demand for SRI. Moreover, 58% advocate that it is also the pension fund’s management and half of the participants (50%) state the government drives this demand. The plan participants responsible for this trend seem to be less crucial albeit still significant. Two-fifths (40%) believe that the members of DC plans postulate more SRIs, while 20% disagree. Lastly, the plan sponsors seem to be less important: 39% of all experts suggest that they demand more SRI products. This point of view is not approved by 26% of the experts (see Figure 57).

Figure 57: Stakeholders affecting demand for SRI (in Italy)



It is primarily the ecological issue that is responsible for the popularity of SRI. Accordingly, 89% state that environmental criteria are most important and 72% say that themed sustainable funds are good representatives for this issue. More than two-thirds (68%) believe that corporate governance constitutes a significant factor and 64% state that this is also true for social criteria. In contrast, ethical and religious criteria do not play an important role for SRI. While one-third (36%) regard them as crucial, 16% classify these issues as rather unimportant (see Figure 58).

Figure 58: SRI criteria (in Italy)



2.4.7 Pan-European Pension Plans

Although there is a demand for a pan-European pension system in Italy, the experts are rather undecided on whether this is a realistic scenario for the next ten years due to the different legislative frameworks of the EU member states. Furthermore, they expect legal reforms enabling the establishment of pan-European pensions on both the European and the national level.

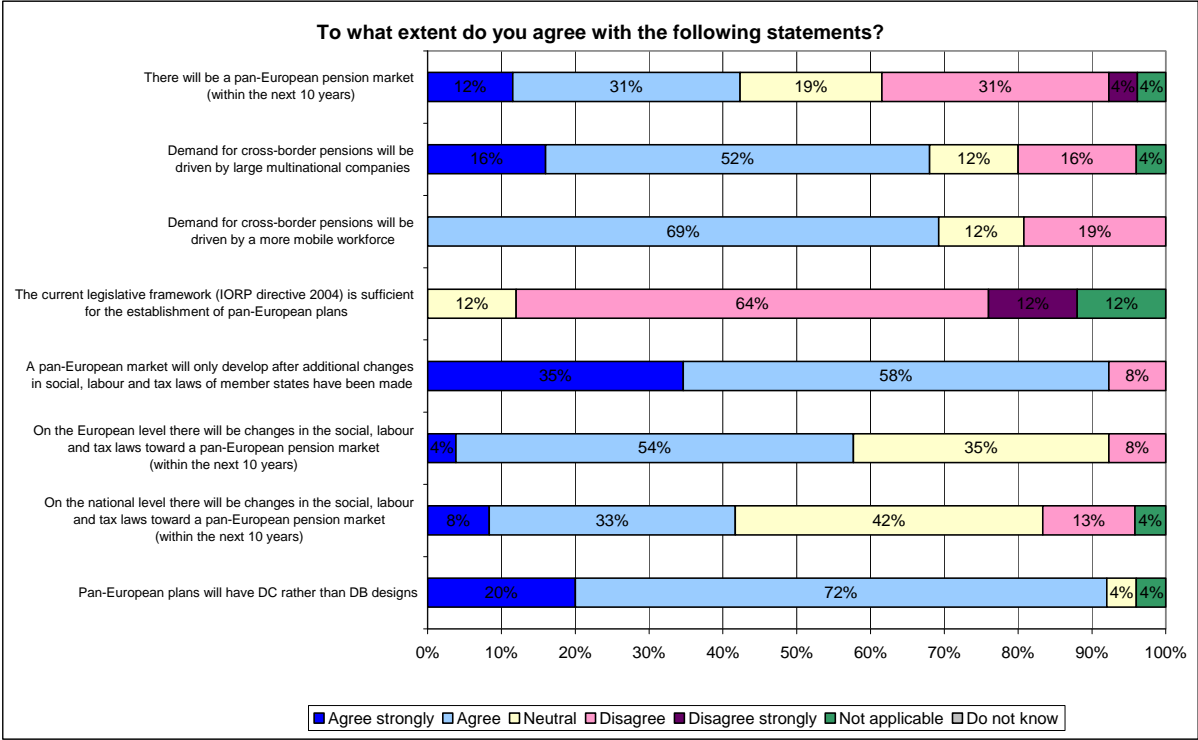
The experts maintain that there is a demand for cross-boarder pension plans. 69% claim that it is driven by the increasing mobility of the working population on the one hand, and by large international companies on the other, according to 68% of participants. Even though there is a demand for cross-boarder pensions the pension experts are undecided if there will be a pan-European pension market. This scenario is considered possible by 43%, while one-third (35%) consider this as rather unrealistic (see Figure 59).

According to 76% of the experts in question the current European legislation is insufficient to establish pan-European pension plans. At the same time, 93% of the

participants claim that a reform of social, labor and tax legislation on the national level is required prior to the introduction of pan-European pensions. The experts believe that corresponding legal amendments will be made both on the European and on the national level. Almost three-fifths (58%) of the participants claim that the European legislation will be amended, while 41% predict that such amendments in the Italian legal system will take place within the next ten years (see Figure 59).

Although it remains to be seen whether pan-European plans will in fact be established at all, the vast majority of 92% believes that in such a case it will have a DC character (see Figure 59).

Figure 59: Pan-European pension market (in Italy)



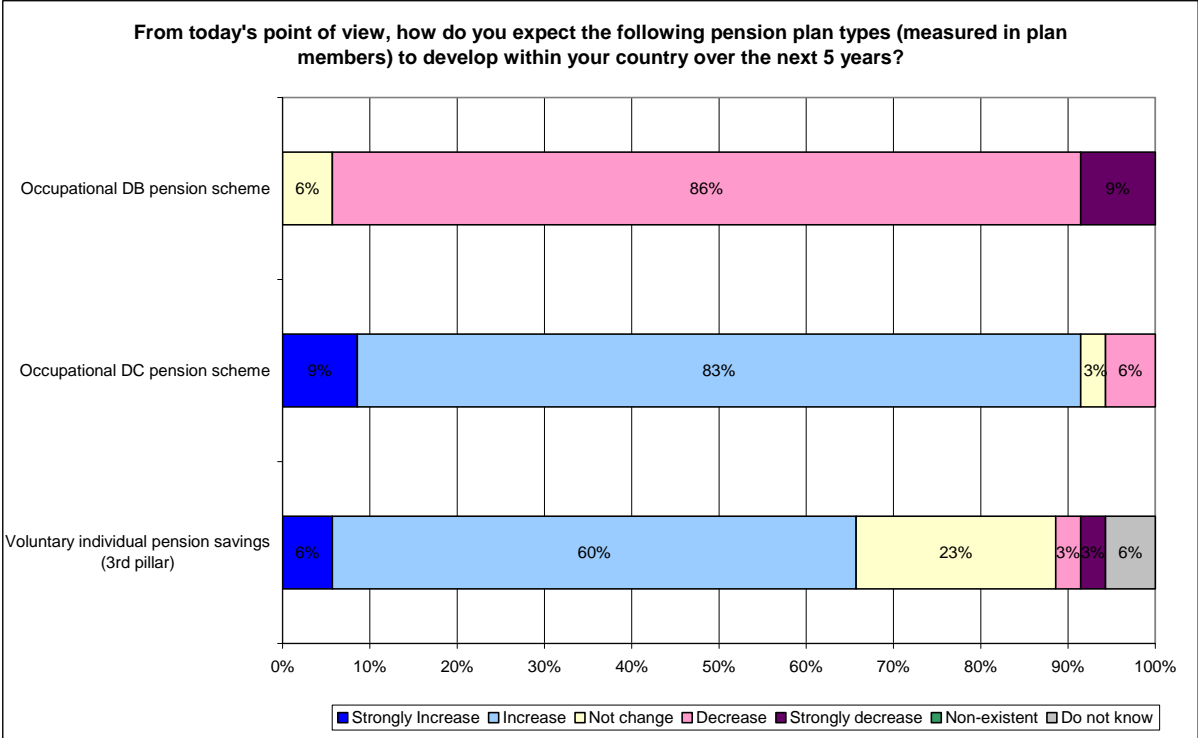
2.5 The Netherlands

2.5.1 Future Trends

The vast majority of Dutch pension experts predict a shift on the occupational pension market from DB to DC schemes as well as a strengthening of the 3rd pillar. However, opinions are divided about the future dominance of the two schemes. Many experts anticipate a coexistence of both pension schemes. Furthermore, the majority believes in a prevalence of hybrid plans in the occupational pension market. Apart from Dutch specialists, only European experts believe in the dominance of hybrid plans. Thus, even though Dutch experts observe a growth of DC pension plans, they do not expect this to be the dominant form of the occupational pension market.

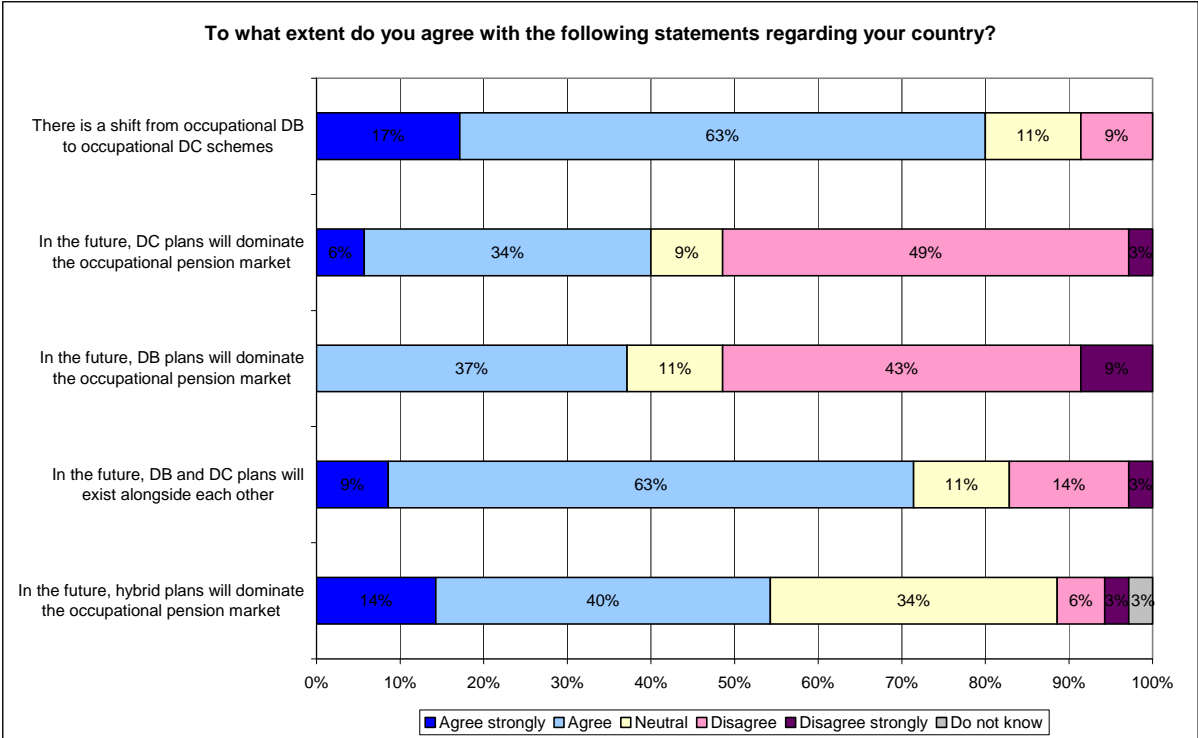
Almost all experts (95%) expect the occupational DB pension scheme to decline, while a vast majority of 92% expects a future growth of the DC market. This trend is underlined by 80% of the experts, who observe a shift from occupational DB to DC schemes. Moreover, the 3rd pillar, the voluntary individual pension savings, is also believed to increase, according to 66% of the experts (see Figure 60).

Figure 60: Future trend of the occupational DC market I (in the Netherlands)



Although the majority concurs with the idea that DB pension schemes will decline while DC will increase, neither of them are believed to dominate the market in the future. More than half (52%) of the participants believe that either the DC or DB schemes will be the dominant occupational pension design in the Netherlands. In the experts' view (72%), DB and DC plans will exist alongside each other in the future. Hybrid pensions will be assigned by 54% to dominate the occupational DC market in the Netherlands (see Figure 61).

Figure 61: Future trend of the occupational DC market II (in the Netherlands)



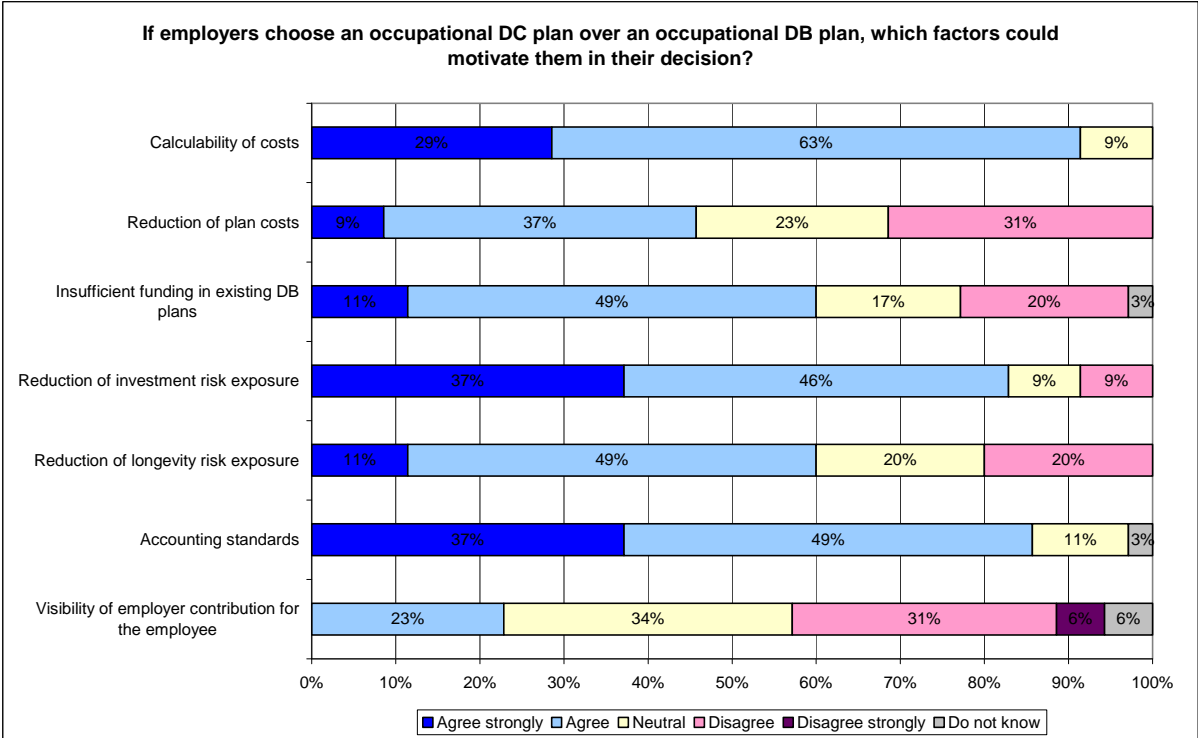
2.5.2 Factors of Development

The following section deals with the employers' incentives and decisive factors to establish an occupational DC plan over an occupational DB plan. The calculability of costs, accounting standards, and the reduction of investment risk exposure are rated as the top three factors for an employer to prefer a DC pension scheme. Interestingly, the reduction of plan costs is not specified as being a crucial factor. Furthermore, it aims at revealing the main drivers responsible for hindering a greater prevalence of occupational DC plans. On a national level, the Dutch experts only

mention the high costs as a hindering factor. The specialists also specify the poor financial education, and inadequate advice as the greatest obstacles for a set up of DC plans. Insufficient tax incentives and a lack of investment choices for employees play a minor role.

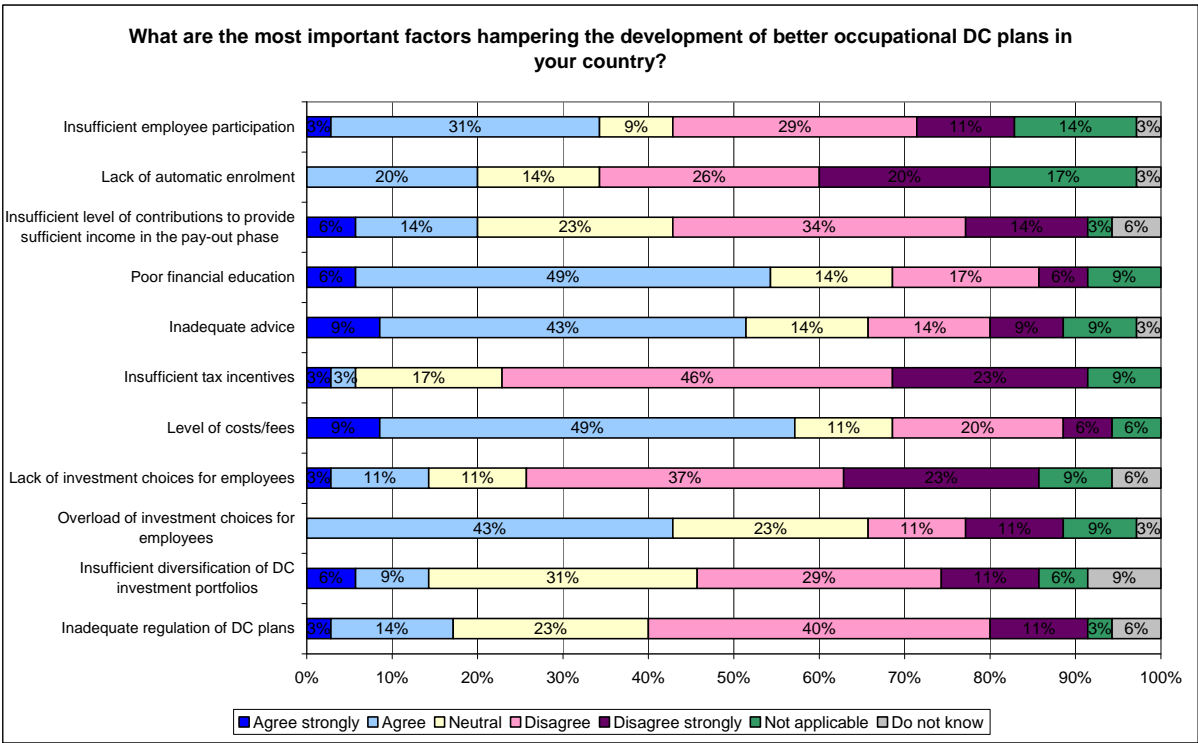
The vast majority of the pension experts (92%) specify the calculability of costs as the most significant factor for an employer to choose an occupational DC plan over an occupational DB plan. It is closely followed by the factor accounting standards (86%) and the reduction of investment risk exposure (83%). Three-fifths (60%) specify insufficient funding of existing DB plans and a reduction of longevity risk exposure as key drivers. The following factors play a much less prominent role regarding the employer’s decision making. Almost one half (46%) regards a reduction of plan costs as significant, while 31% object. The least important factor is the visibility of employees’ contributions for the employer, which is held by only 23%. A larger fraction of 37% even objects to this idea, thereby stating that it plays an inferior role (see Figure 62).

Figure 62: Motivation of employers to choose an occupational DC plan (in the Netherlands)



Moreover, we asked the experts about the factors hindering the establishment of new occupational DC pension schemes. The specialists rate the level of costs and fees (58%), a poor financial education (55%), and inadequate advice (52%) as the top three drivers. An overload of investment choices seems to be of secondary importance with 43% of the experts' approval. Insufficient employee participation receives an agreement rate of 34%, while 20% claim that the lack of automatic enrollment is responsible for the current insufficient implementation. Additionally, only 20% believe in the importance of the insufficient level of contribution providing sufficient income in the pay-out phase. An inadequate regulation of DC plans seems to play a marginal role with an agreement rate of 17%, along with insufficient diversification of DC investment portfolios (15%). Finally, the lack of investment choices for employees appears to be even less important obtaining 14%, shortly followed by insufficient tax incentives with a meagre 6% (see Figure 63).

Figure 63: Obstacles for the development of the occupational DC market (in the Netherlands)

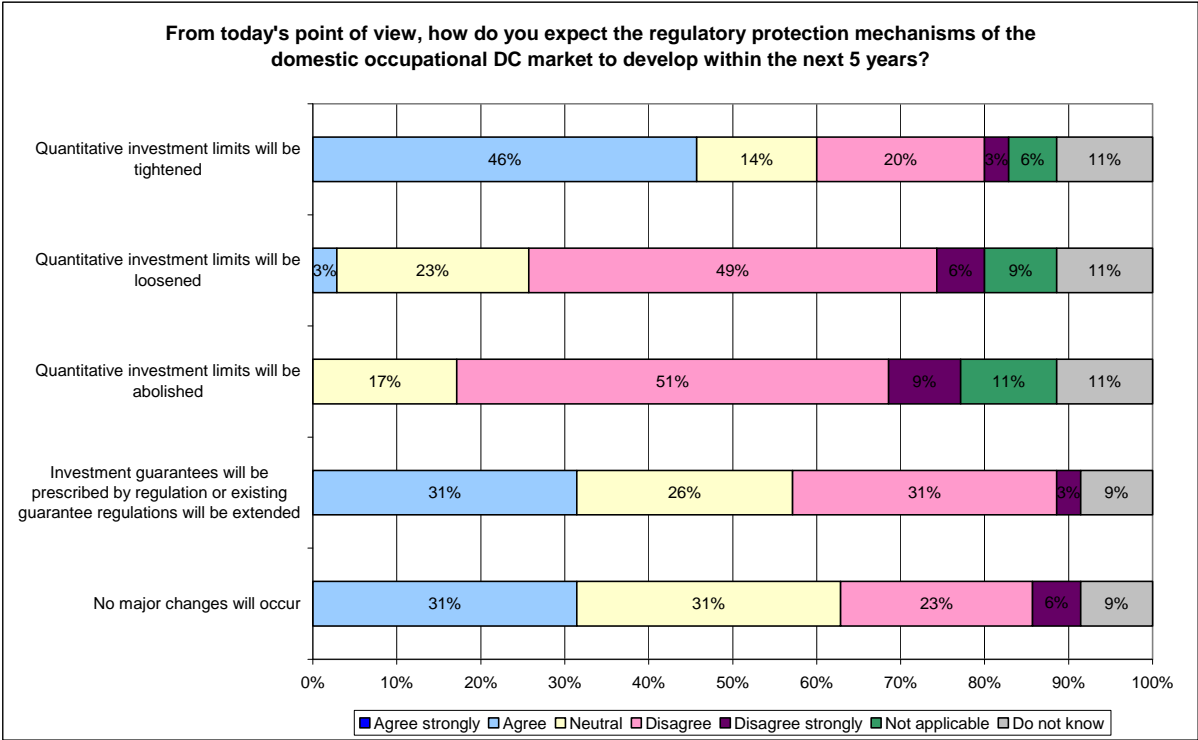


2.5.3 Regulation

The experts anticipate legislative amendments to take place in the Netherlands within the next five years. While the majority do not believe that quantitative investment limits are to be loosened, even less than half expect them to be tightened. The opinions are divided as to whether major changes in the regulatory protection mechanism may occur. With reference to the design of the occupational DC market, the majority of experts neither anticipate additional tax incentives for employers and employees nor a mandatory DC plan for employers.

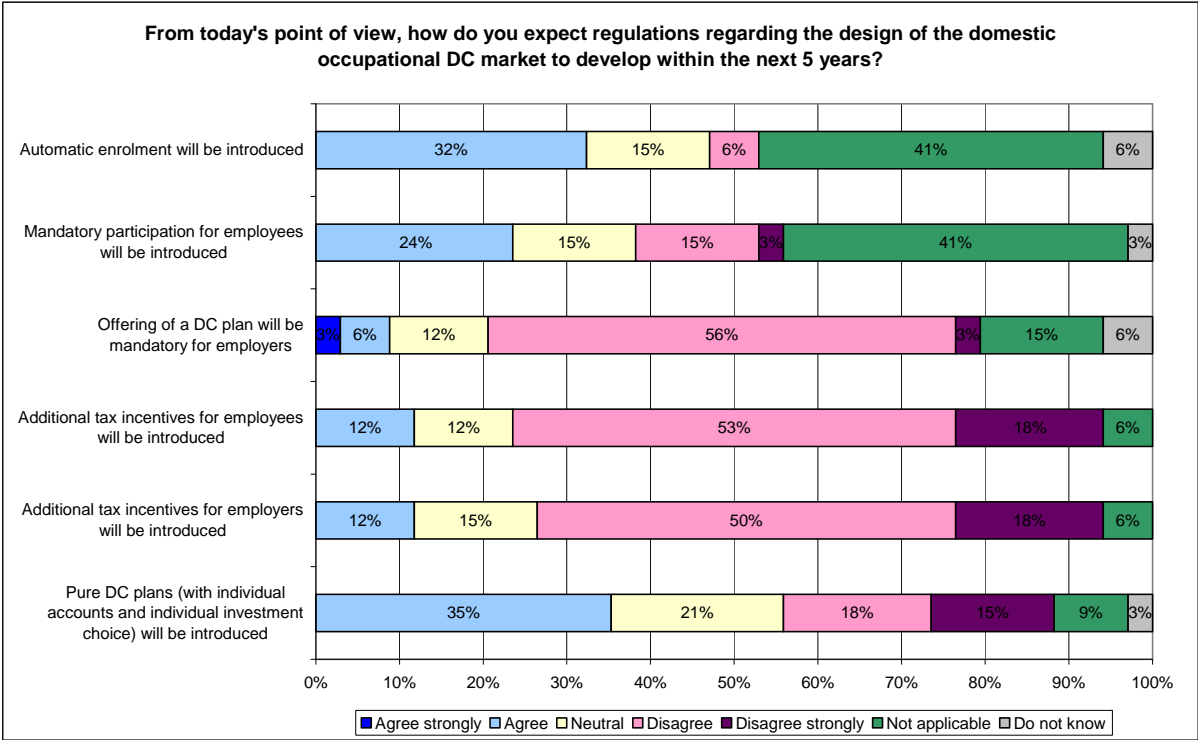
Moreover, more than one half (55%) do not expect the quantitative investment limits to be loosened, 46% expect them to be tightened. However, almost quarters (23%) do not assume that the quantitative investment limits will be tightened. None of the experts believe those limits will be abolished. Opinions are divided on whether investment guarantees will be prescribed by regulation or whether existing guarantee regulations will be extended. Almost a third, namely 31% agree, 26% remain neutral while 34% disagree. A similar picture may be observed when considering the experts' forecast of major changes in the regulatory framework: 31% do not believe in major changes, 31% remain neutral, and 29% anticipate major changes (see Figure 64).

Figure 64: Future regulation of the occupational DC market I (in the Netherlands)



The Dutch experts neither expect additional tax incentives for employees (71%) nor for employers (68%). Three of five experts (59%) do not anticipate a mandatory DC plan for employers. There is a strong pro and contra party regarding the introduction of pure DC plans with individual accounts and an individual investment choice: while 35% are positive, 33% object, and 21% remain neutral. Introducing an automatic enrollment is not applicable in the opinion of 41% of the respondents, as the Netherlands have a quasi-mandatory occupational pension market with a high participation rate. However, 32% would approve an automatic enrollment. A similar picture may be observed regarding the introduction of mandatory participation for employees. 41% say that it is not applicable and 18% deem it unnecessary. Yet a further 24% are convinced that it will be introduced (see Figure 65).

Figure 65: Future regulation of the occupational DC market II (in the Netherlands)



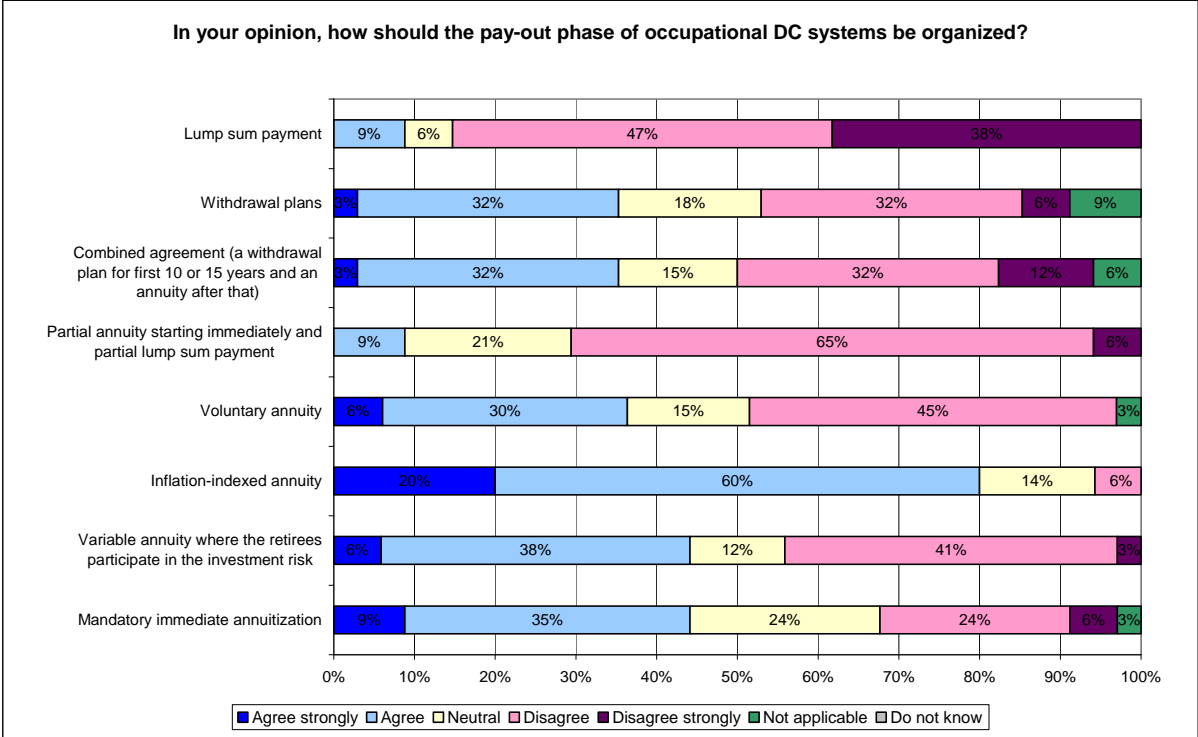
2.5.4 Pay-out Phase

The pension experts’ opinion about the organization of the pay-out phase of occupational DC systems shall be analysed below. In opinion of pension experts, the most popular contract design being advocated by the specialists is the inflation-indexed annuity. It is followed by the variable annuity where the retirees participate in the investment risk, and the mandatory immediate annuitization. The experts hardly disapprove of an immediate inception of lump sum payment and partial annuity combined with a partial lump sum payment.

The inflation-indexed annuity as a possible contract design receives among all suggestions the biggest support with 80% while only 6% object. The following cases are marked by a strong pro as well as strong counter party. The mandatory immediate annuitization is supported by 44% while 30% oppose. The variable annuity where the retirees participate in the investment risk receives an acceptance rate of 44% although exactly the same fraction does not think of it as being a prudent way to organize the pay-out phase of an occupational DC pension system. The

withdrawal plans as well as the combined agreement (a withdrawal plan for the first 10 to 15 years and an annuity after that) both receive 35% agreement. Again, a large fraction of 38% opposes the withdrawal plan while even more, namely 44%, disfavours the combined agreement. 36% of the pension experts believe in the voluntary annuity whereby a higher fraction of 45% disagrees (see Figure 66).

Figure 66: Optimal pay-out phase design of occupational DC products (in the Netherlands)



The strongest disagreement concerns the lump sum payment as a way to organize the pay-out phase. The vast majority of 85% is in disfavor while only 9% would consider it as a reasonable contract design. More than two-thirds of the Dutch pension experts (71%) are opposed to the partial annuity starting immediately combined with partial lump sum payment as opposed to only 9% being in favor of it (see Figure 66).

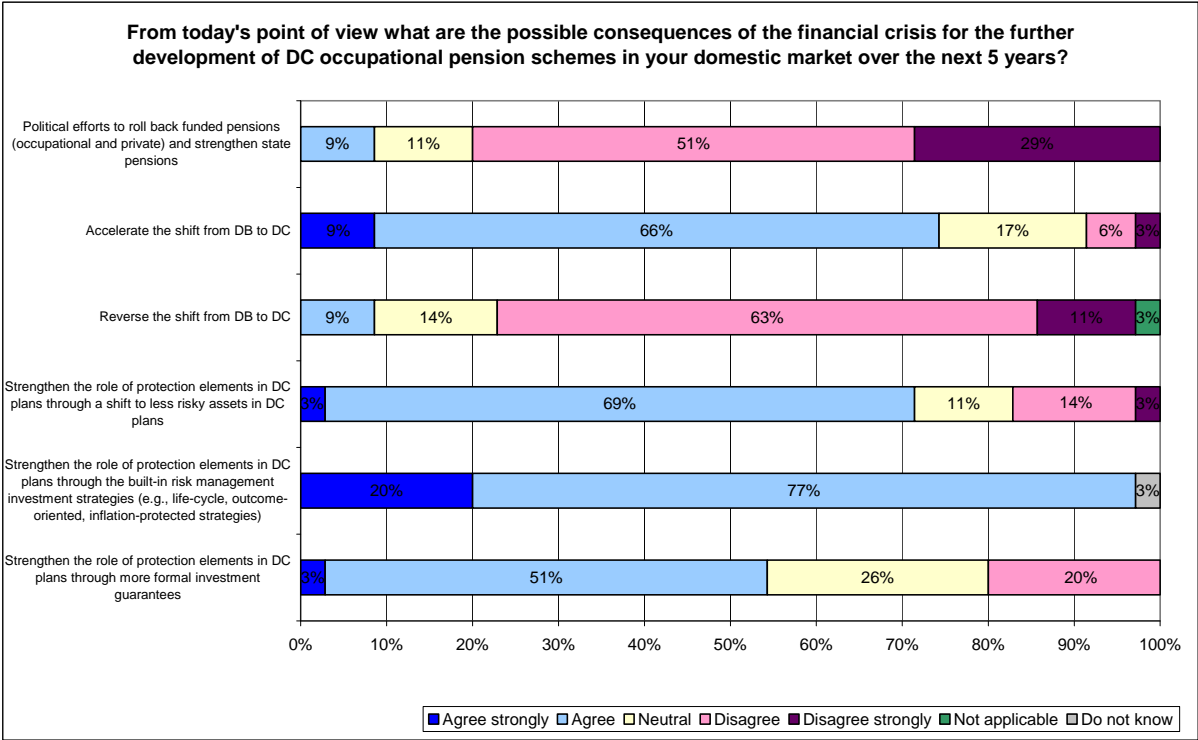
2.5.5 Financial Crisis

In the view of experts the recent financial crisis with its tremendous impacts on various fields will influence the future Dutch DC occupational pension schemes, as

well. Almost all experts are certain that one consequence will be the strengthening of the role of protection elements in DC plans and the built-in risk management investment strategies. Similarly, the vast majority believes that a trend towards less risky assets and formal investment guarantees in DC plans will be strengthened. The vast majority of Dutch pension experts even predict that the financial crisis will accelerate the shift from DB to DC. In this spirit, political efforts to roll back funded pensions (occupational and private), thereby strengthening state pensions, is specified as highly unlikely.

The shift towards more protection elements in DC plans due the financial crisis is an unambiguous result of the survey. 97% of the specialists state that the role of protection elements in DC plans will be strengthened by the built-in risk management investment strategies. Almost three quarters (72%) forecast a shift to less risky assets in DC plans while 17% oppose this. The majority of 54% is certain that the role of protection elements in DC plans will gain in importance by an introduction of more formal investment guarantees. Although the trend directs towards an increase in protection elements, the majority of the experts do not believe in negative consequences for the establishment of DC plans. 74% of the specialists state that a reverse shift from DB to DC will not occur. Yet, an accelerating shift from DB to DC is predicted by almost four-fifths (75%). Similarly, 80% do not think that political efforts to roll back funded occupation and private pensions shall be observed (see Figure 67).

Figure 67: Impact of the financial crisis on the pension market (in the Netherlands)



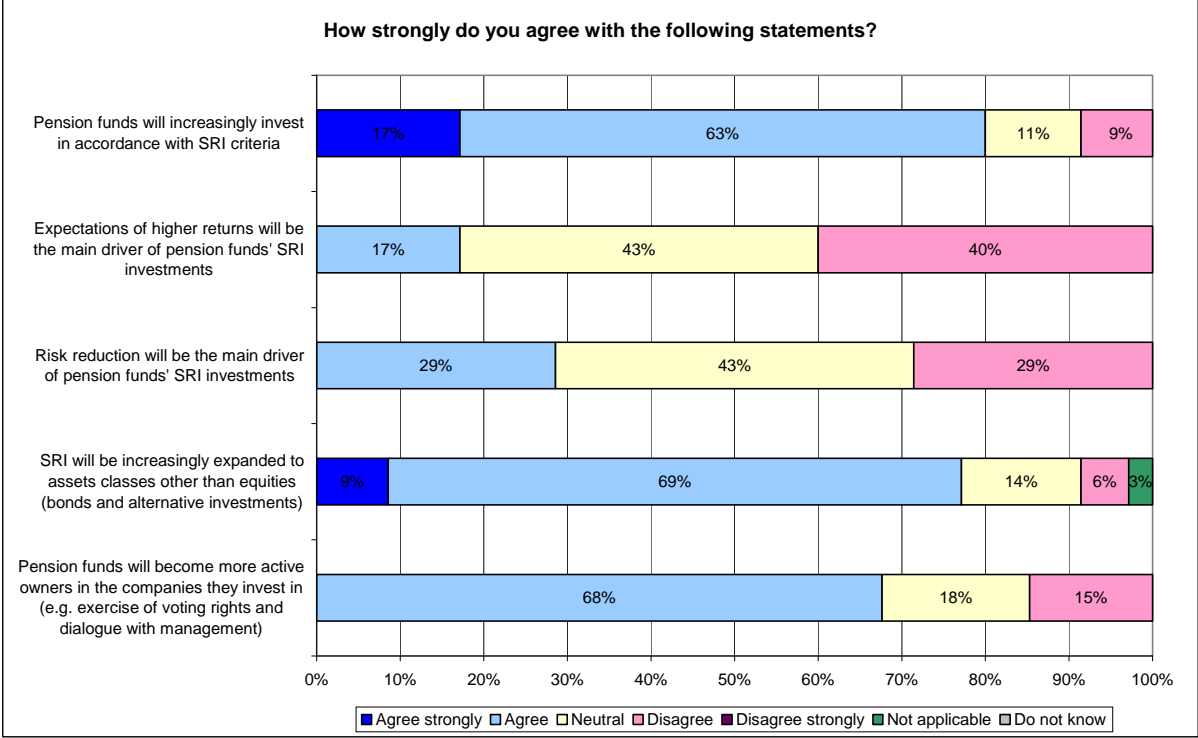
2.5.6 Socially Responsible Investment

The prospects of socially responsible investment (SRI) for Dutch pension funds are examined in the following section. The vast majority of the Dutch pension experts see the future investment of pension funds in accordance with SRI criteria as being very likely. Furthermore, they forecast that SRIs will be increasingly expanded to asset classes other than equities. Many think that pension funds will become more active owners in the companies they invest in. Demand for pension plans for SRI will be mainly driven by the opinion of the public, trade unions, and plan participants. In contrast, expectations of higher returns as well as risk reduction play an inferior role. The main reasons for choosing SRI are specified as being environmental and social criteria as well as themed sustainability funds such as water or renewable energy funds. In contrast, ethical and religious criteria seem to be less important.

Four-fifths of the Dutch pension experts (80%) assume pension funds to invest in accordance with SRI criteria. Furthermore, Dutch pension funds are anticipated to increasingly expand their asset classes from traditional stocks to bonds and

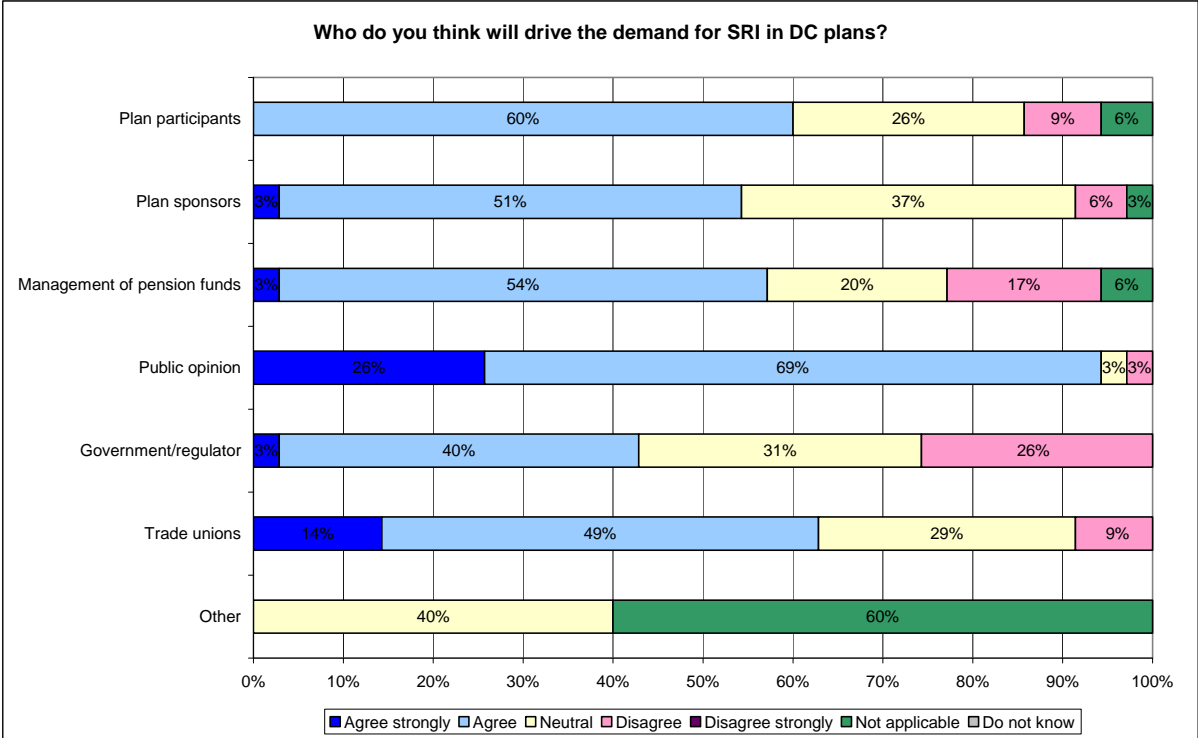
alternative investments. 78% of the specialists believe in this trend. Another 68% believe that pension funds will become more active members in the companies they invest in (see Figure 68).

Figure 68: Socially Responsible Investment (SRI) (in the Netherlands)



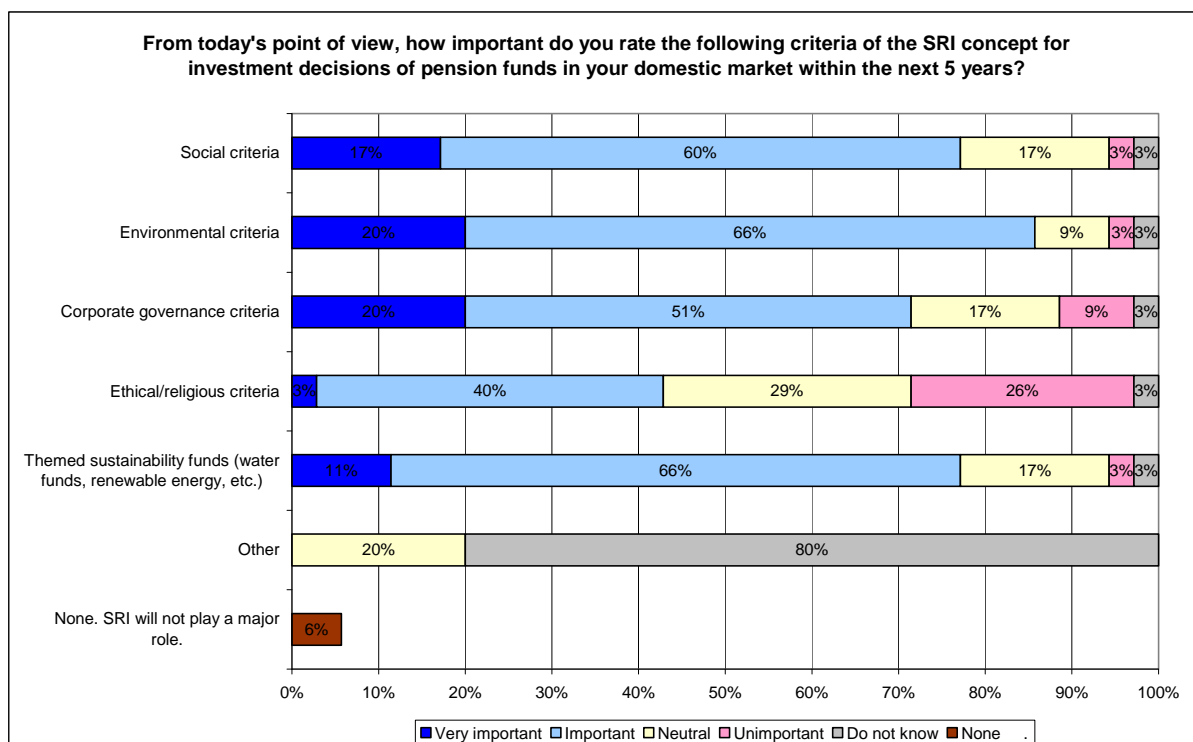
The by far most influential factor, which is presumed to drive the demand for SRI in DC pension schemes in the future, is the public opinion. The vast majority of 95% support this driver. It is followed by the importance of trade unions (63%) and plan participants (60%). A mediocre determinant for pension funds to invest in SRI is the management of pension funds, which receives 57% support. 54% of the participants believe plan sponsors to be a driver. 43% think that government and regulators influence the demand for SRI (see Figure 69). In contrast, the expectation of higher returns and risk reduction as a reason to invest in SRI are not considered to be crucial factors. Two-fifths (40%) of the participants specify expected higher returns as not significant while 43% remain neutral. Moreover, 29% do not believe risk reduction to be a main driver whereas 43% remain neutral (see Figure 68).

Figure 69: Stakeholders affecting demand for SRI (in the Netherlands)



Since an SRI of pension funds may be determined by many different criteria, we wanted to identify the most significant ones. Environmental criteria (86%), social criteria (77%), and themed sustainability funds (77%) are rated as being the most determining drivers in SRI decisions. Also, the corporate governance criteria are incorporated when managing a pension fund, hence, receiving 71% support. Only ethical and religious reasons are merely given 43% approval while 26% even specify them as being unimportant (see Figure 70).

Figure 70: SRI criteria (in the Netherlands)



2.5.7 Pan-European Pension Plans

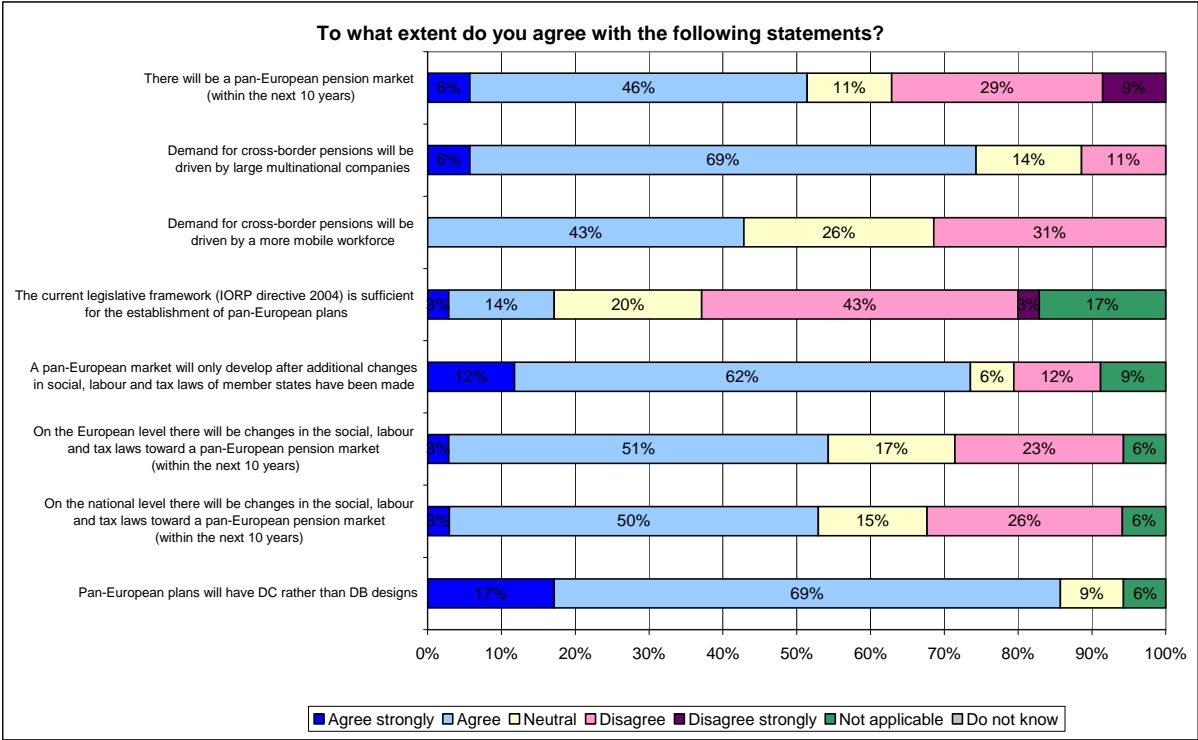
The last section aims at giving a clearer picture regarding the Dutch experts' expectations about pan-European and cross-border pension markets. Dutch experts believe that the pan-European market will exist in the middle time period. Furthermore, they state that changes in social, labor, and tax laws will be introduced, paving the way for a pan-European pension market on the European and national level. However, the specialists believe additional changes to be necessary for a pan-European market to develop at all. Interestingly, it seems cross-border pension demands will be driven by large multinational companies rather than by a more mobile workforce. Pan-European plans are anticipated to have a DC rather than a DB design.

More than half of the Dutch experts (52%) believe that the pan-European pension market will be established in the next 10 years. Almost three-fourths (74%) believe that a pan-European market will develop only after supplementary modifications in social, labor, and tax laws have been made. Accordingly, only 17% think that the current legislative framework is sufficient. However, it remains controversial whether

such changes will occur. 54% of the participants believe that additional changes in the social, labor, and tax laws towards a pan-European pension market on the European level will take place. Slightly less (53%) are confident that such changes will occur on the national level (see Figure 71).

75% state that large multinational firms will be the main drivers for the demand of cross-border pensions. 43% of the participants believe the more mobile workforce will be responsible for a higher demand. The vast majority of 86% claim that pan-European pension plans will have DC rather than DB designs (see Figure 71).

Figure 71: Pan-European pension market (in the Netherlands)



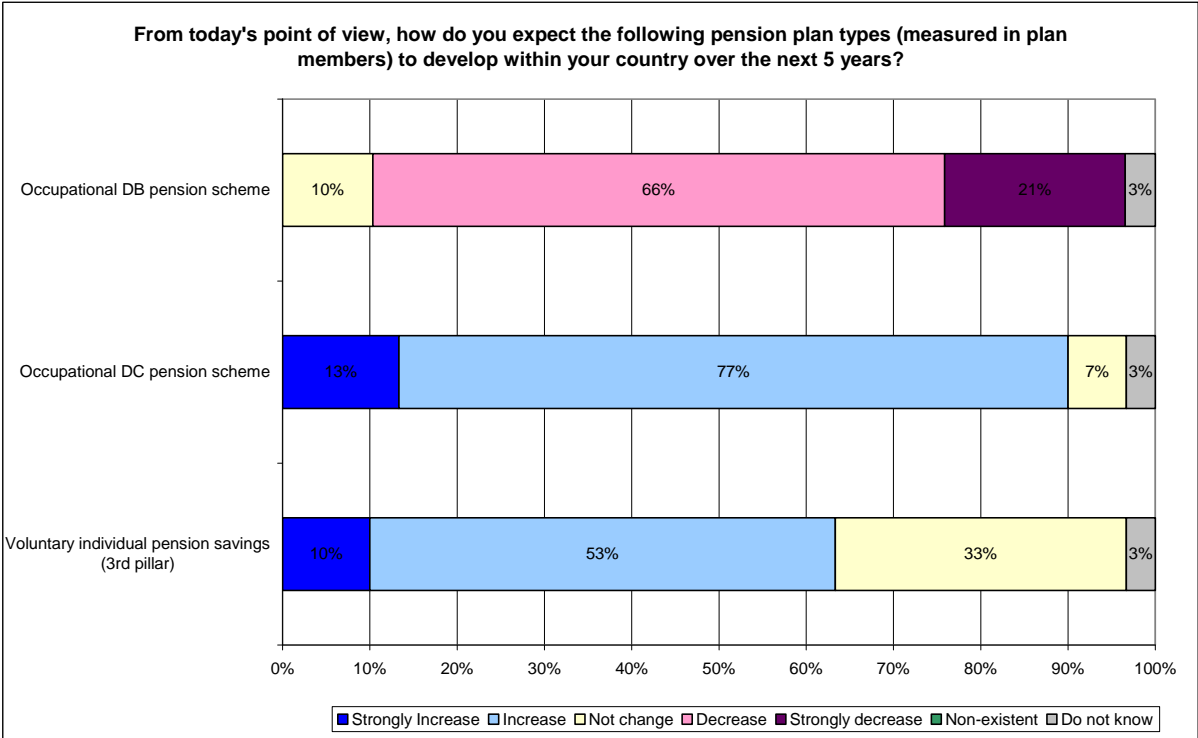
2.6 Switzerland

2.6.1 Future Trends

Most Swiss pension experts expect that the actual shift from occupational defined benefit (DB) to defined contribution (DC) will continue at least throughout the next five years. They are also sure that DC plans in the occupational pension market will be dominant, although certain DB plans will still exist in the future. Furthermore, voluntary personal pensions in the third pillar will also gain importance in Switzerland.

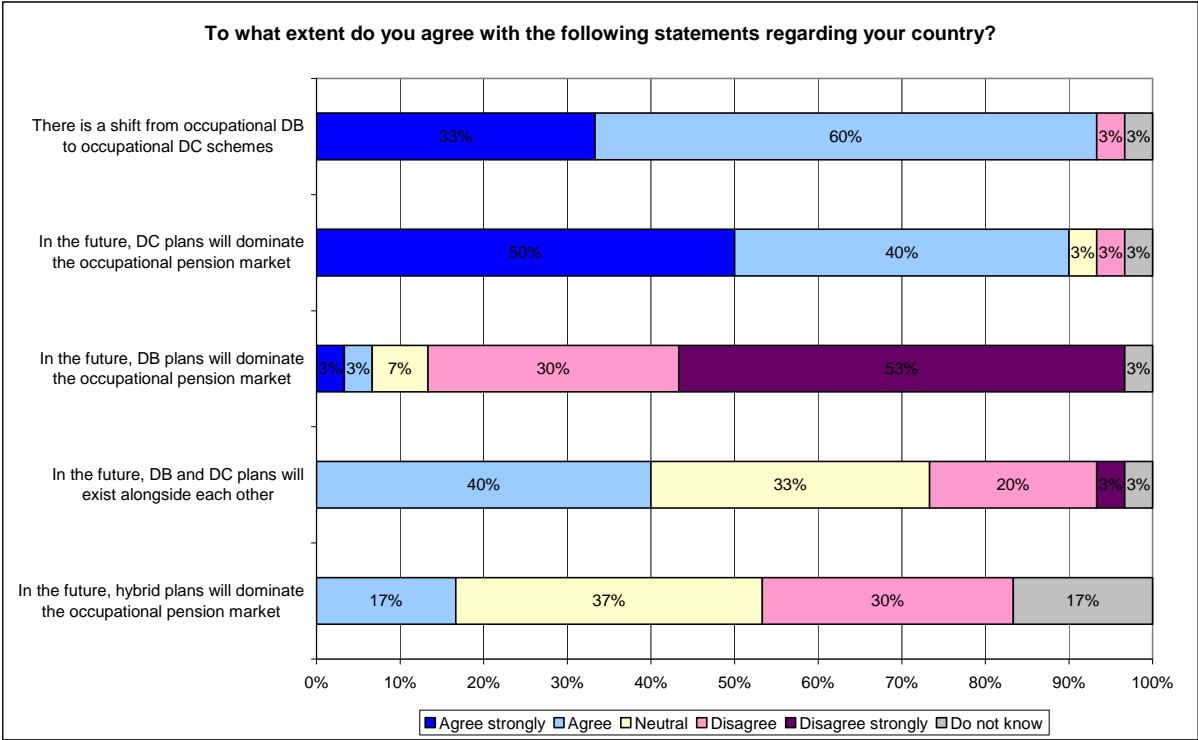
Almost all experts (90%) expect occupational DC pension scheme to further increase its participation rates. Accordingly, 87% are of the opinion that the number of plan members in DB schemes will decline. Almost two-thirds (63%) claim that there will be a growing number of members in voluntary personal pensions of the third pillar. None of the participants expect the number to decline, but 33% claim that it will remain at today's level (see Figure 72).

Figure 72: Future trend of the occupational DC market I (in Switzerland)



Nearly every participating expert (93%) observes that there is a shift away from occupational DB towards DC schemes. Nine out of ten participants (90%) also expect a domination of DC plans within the occupational pension market. At the same time 83% of all experts doubt that DB plans can dominate the pension market. However, it is assumed that certain DB plans will still exist in the future alongside the dominant DC plans. Two-fifths (40%) of the respondents represent this point of view, while 23% disagree. Hybrid plans do not seem to play any important role. Only 17% expect hybrid plans to dominate occupational pensions, while 30% disagree (see Figure 73).

Figure 73: Future trend of the occupational DC market II (in Switzerland)



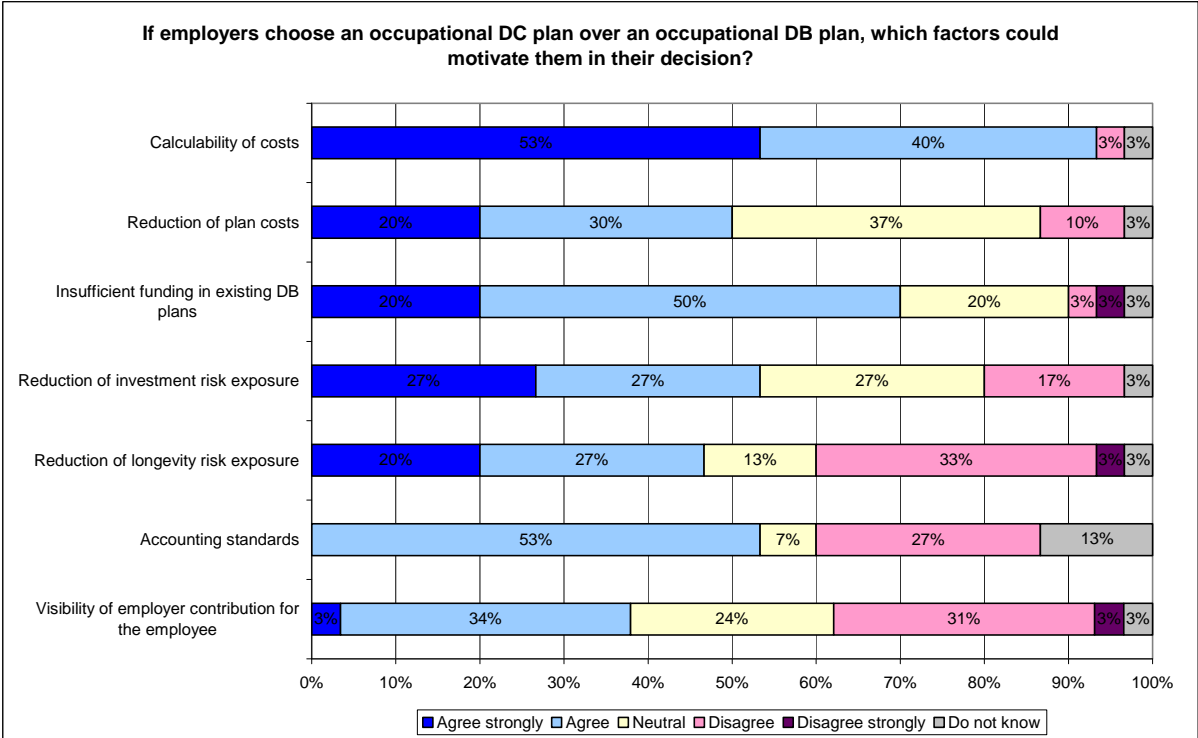
2.6.2 Factors of Development

Now we want to find out which factors induce an employer to choose an occupational DC plan, and which factors hinder a further development of this market. We see that it is most certainly the calculability of costs that drives the employer’s demand. Also a very important factor is the inadequate funding within the existing DB plans. The Swiss and the Dutch experts are the only ones who do not consider the reduction of plan costs a crucial factor. The pension experts do not believe that there are many

things to improve in their occupational DC system. They only criticize the insufficient financial education and unsatisfactory advisory service for employees.

The lion’s share of the participants (93%) considers the calculability of costs to be the main reason for employers to choose an occupational DC over a DB plan. The vast majority of 70% deem the insufficient funding in DB plans to be the cause for an occupational DC decision. More than half of the experts claim that the reduction of investment risk exposure (54%) and accounting standards (53%) constitute a significant issue in the employers’ decision. Half of the participants (50%) believe that costs can be reduced within DC plans. In contrast, 37% claim that there are no great differences between the costs of DC and DB plans. The reduction of longevity risk exposure is an important motivational factor for nearly half of our participants (47%), whereas more than one third (36%) reject this point of view. There is no clear opinion on whether the visibility of employees’ contribution is important for the employers. While nearly two-fifths (37%) of the respondents hold this opinion, one-third of the respondents (34%) are opposed to this argument (see Figure 74).

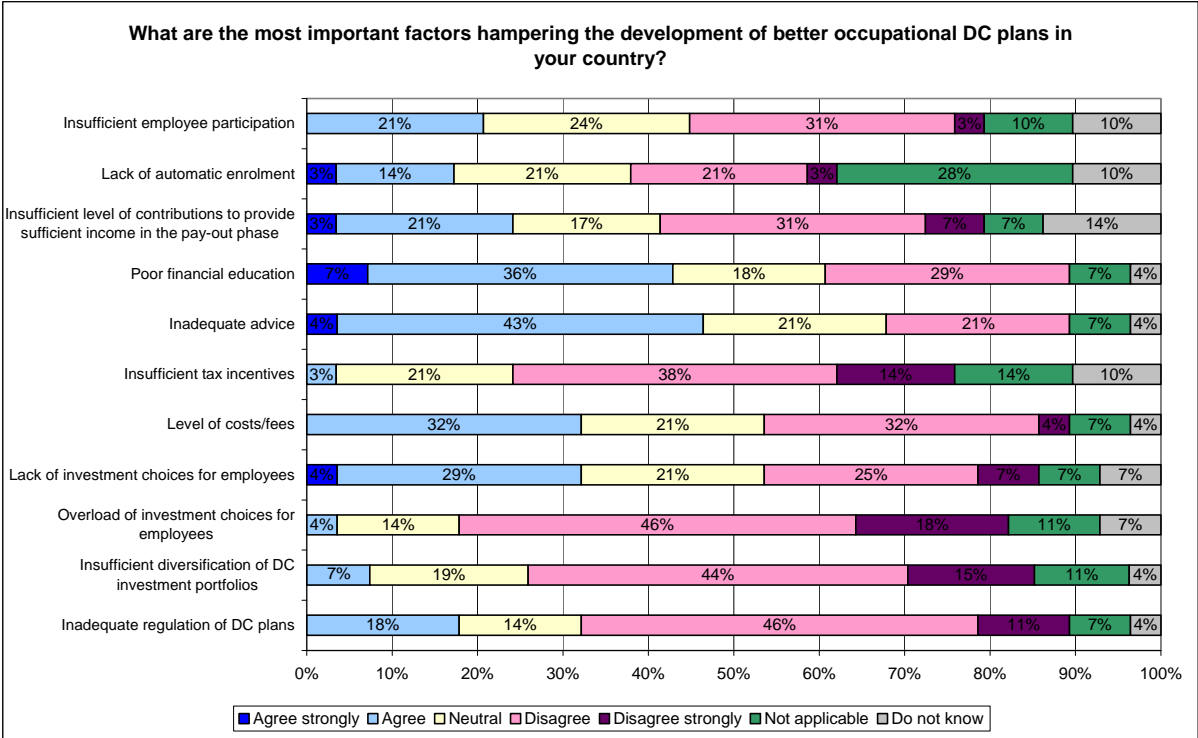
Figure 74: Motivation of employers to choose an occupational DC plan (in Switzerland)



The pension experts in Switzerland do not see many factors that hamper the progress towards even better occupational DC plans. However, they criticize the advisory service (47%) and the financial education of the workforce (43%) as being insufficient. On the contrary, almost one-third (29%) claim that the financial education is satisfactory and more than one-fifth (21%) see no need for a further improvement of the advice service (see Figure 75).

In the opinion of the experts, the number of investment choices, tax incentives, and the regulation do not hinder the development of even more efficient occupational DC schemes: Nearly two-thirds (64%) of the experts do not believe that pension plans participants are overwhelmed by the number of investment choices. In contrast, 33% think that participants could have more investment options. Almost three out of five respondents (59%) are of the opinion that investment portfolios within DC plans are well diversified. Furthermore, 57% of the experts think that the current regulation of DC plans is sufficient, and more than half of the respondents (52%) believe that the tax incentives are adequate (see Figure 75).

Figure 75: Obstacles for the development of the occupational DC market (in Switzerland)



Other issues are also rejected as obstacles for the occupational DC market in Switzerland, however, not as unambiguously as the factors above. Almost two-fifths (38%) believe that the paid-in contributions are adequate to provide sufficient income in the pay-out phase, whereas 24% claim that contributions are too low. Accordingly, one-third (34%) advocate that the participation rate is sufficient, while one-fifth (21%) state that the rates of employees who participate in occupational DC plans are insufficient. Nearly one-fourth (24%) do not regret the absence of an automatic enrollment system and merely 17% have an opposite opinion. Another 28% of the experts claim that an automatic enrollment system is not applicable. While one-third of experts (32%) claim that costs are too high, a nearly similar fraction (37%), however, believes the opposite to be true (see Figure 75).

2.6.3 Regulation

Regarding the regulation of the occupational DC market, the pension experts suggest that there is no need for major changes. Thus, they also do not expect the occupational pensions to change their character within the next five years.

Almost half of the experts (46%) believe that there will be no major changes in the regulation of their occupational DC plans. 32% of the respondents are opposed to this opinion. More than two-thirds of the experts (68%) do not consider the investment limits to be completely removed. At the same time, only 21% of all experts expect quantitative investment limits to be tightened, while a further 25% expect these limits to be loosened within the next 5 years. Additionally, 46% state that the regulation will not extend the existent investment guarantees (see Figure 76).

The Swiss pension experts do not expect major changes of the occupational DC system regarding the regulation. There is a consensus that no further tax incentives will be given, neither for the employers nor for the employees. Almost half of the participants (47%) support this opinion, while merely 4% are actually convinced that this is possible. More than two-fifths (43%) do not think that the system will turn into a purely funded one. On the contrary, almost one-third (29%) believes that pure DC plans will be introduced (see Figure 77).

Figure 76: Future regulation of the occupational DC market I (in Switzerland)

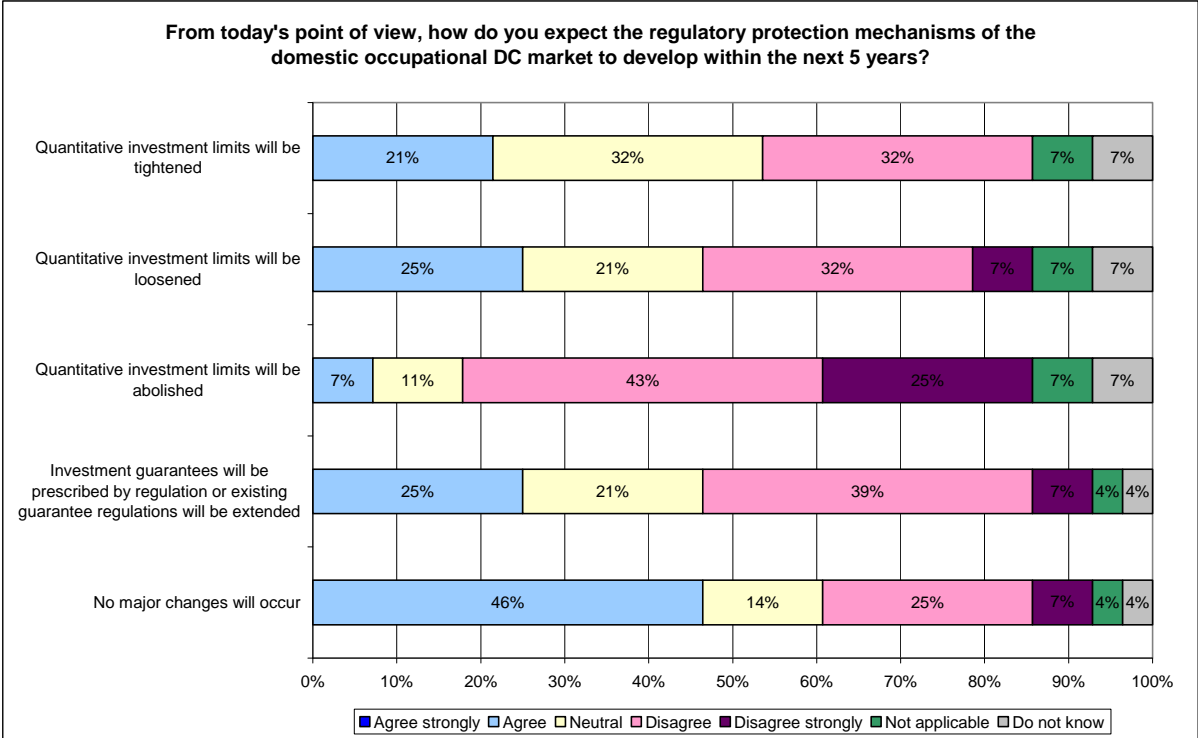
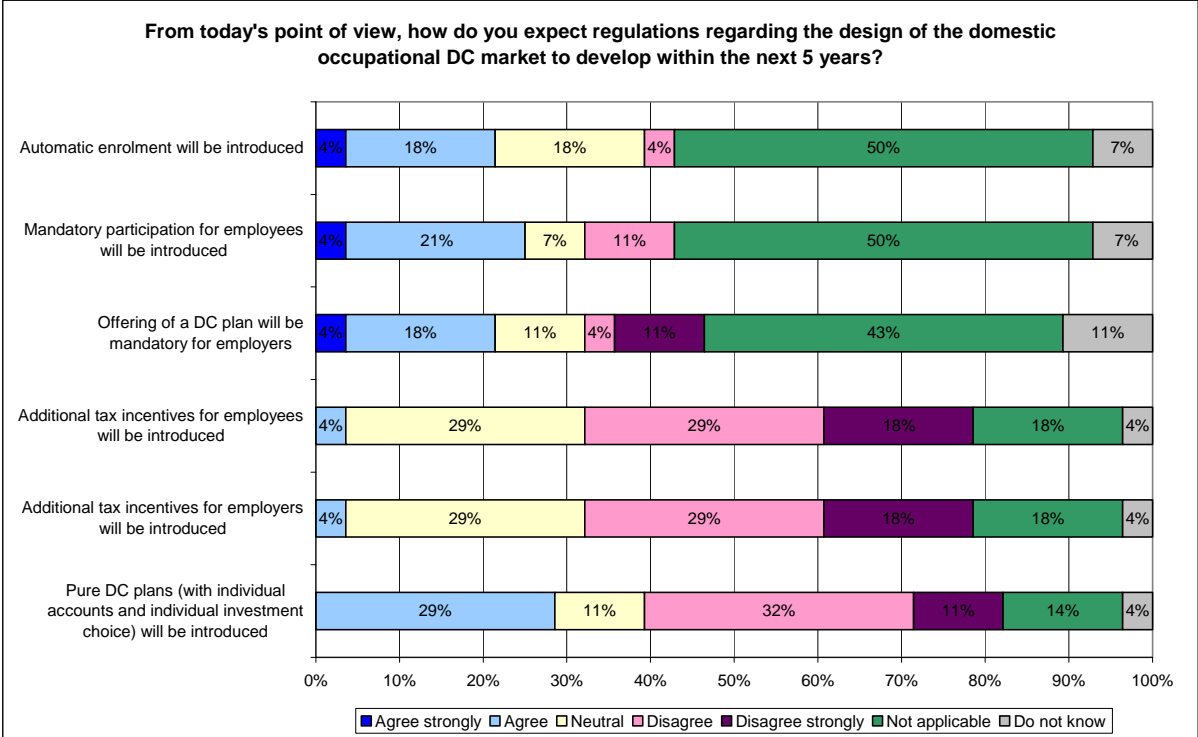


Figure 77: Future regulation of the occupational DC market II (in Switzerland)

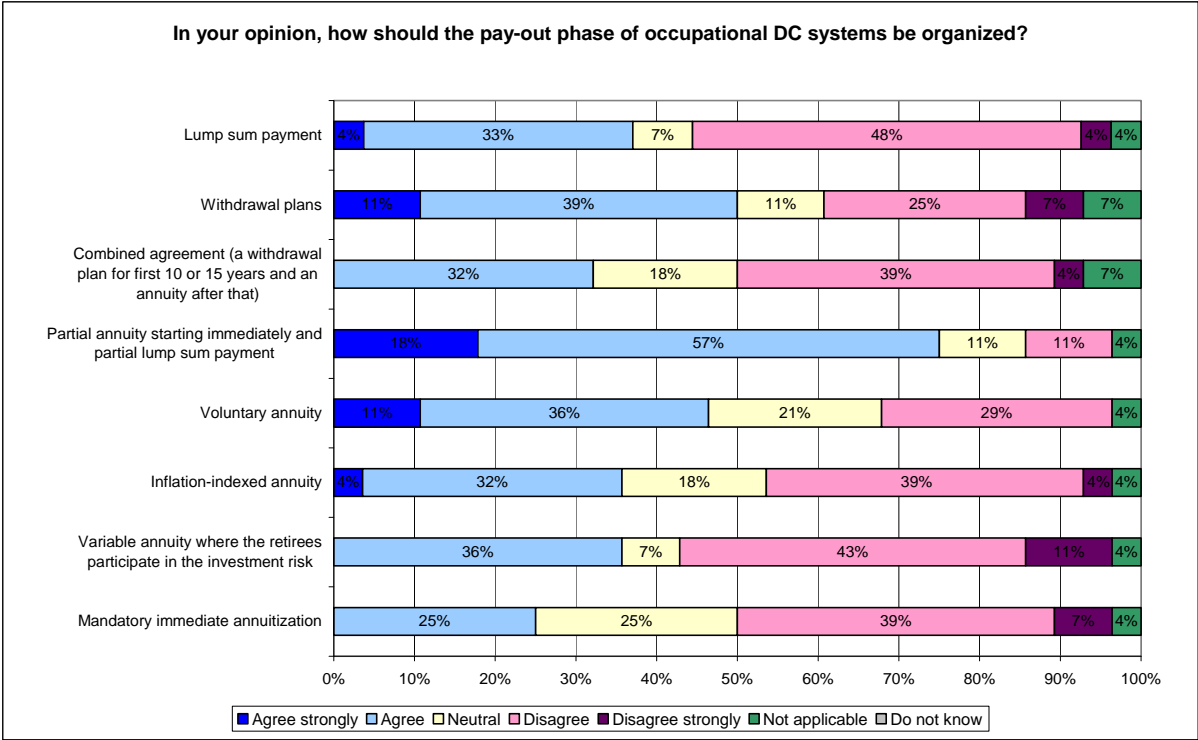


2.6.4 Pay-out Phase

We further wish to ascertain the experts' opinion on how to best pay out pension benefits in occupational DC systems. The Swiss pension experts advocate an occupational DC plan where the pension benefit is partly paid as a lump sum and the remaining part is converted into an annuity. However, almost one half of the Swiss experts disapprove of the inflation indexed annuity.

The vast majority (75%) believe that partial lump sum payments with immediate starting annuities are the best design for the pension benefits. Half the participants (50%) state that withdrawal plans are a good way of organizing the pay-out phase in DC plans. Almost one half (47%) is of the opinion that annuities should be voluntary. On the contrary, 29% disagree to this statement (see Figure 78).

Figure 78: Optimal pay-out phase design of occupational DC products (in Switzerland)



Other possible designs of the pay-out phase are rejected by many experts. More than half of the experts (54%) do not think that an annuity in which the plan member participates in the investment risk is a proper pay-out design. Accordingly, participating experts (52%) do not believe that lump sum payments are an efficient

way of paying pension benefits. In contrast, one-third (37%) prefers this pay-out regime at retirement. Almost half of the participants (46%) do not approve mandatory immediate annuitization. Only a minor amount of 25% maintains that it is a proper plan design. More than two-fifths (43%) reject inflation protected annuities, while more than one-third (36%) do not share this opinion. More than two-fifths (43%) reject agreements consisting of a withdrawal plan and annuity as constituting a good contract design. Not even one-third (32%) prefer these agreements (see Figure 78).

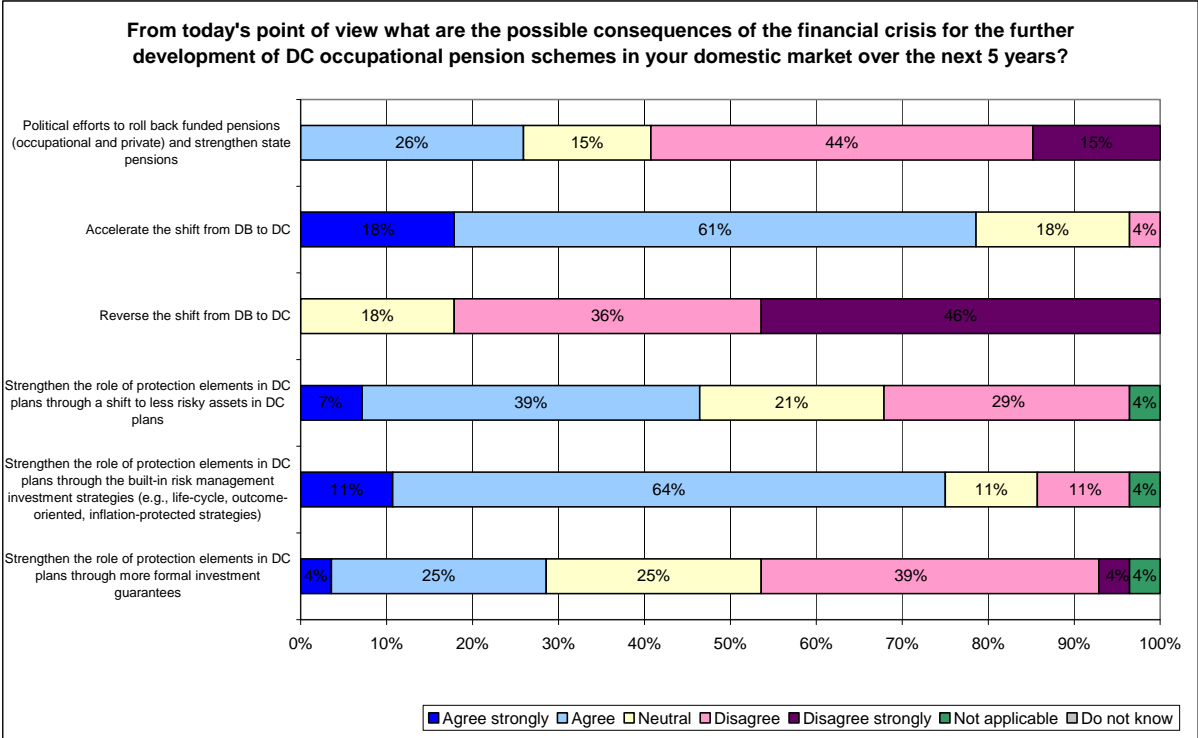
2.6.5 Financial Crisis

Most Swiss pension experts doubt that the financial crisis affects the development of occupational DC plans in general. However, they observe that the protection elements regarding the risk management within DC plans will be strengthened within the next five years.

The lion's share of the survey participant (82%) does not believe that the shift from occupational DB towards DC schemes will be reversed. The experts believe that politics will not strengthen the state pension and roll back funded pensions to provide their citizens with an income at retirement. This is the opinion of the majority (59%), while 26% disagree (see Figure 79).

The financial crisis will strengthen the role of protection elements in DC plans. 75% of respondents claim that it is primarily investment strategies which aim to lower the investment risk (life cycle, outcome-orientated, inflation-protected etc.) that will gain in importance. As to other protection elements, the opinions are divided. Almost half of all experts (46%) expect that DC plans will shift their investments to less-risky assets. This suggestion is rejected by almost a third (29%). More than two-fifths (43%) consider the prospect that DC plans will be obliged to give more formal investment guarantees than today to be unfeasible. However, more than one-fourth (29%) believe that this will occur (see Figure 79).

Figure 79: Impact of the financial crisis on the pension market (in Switzerland)

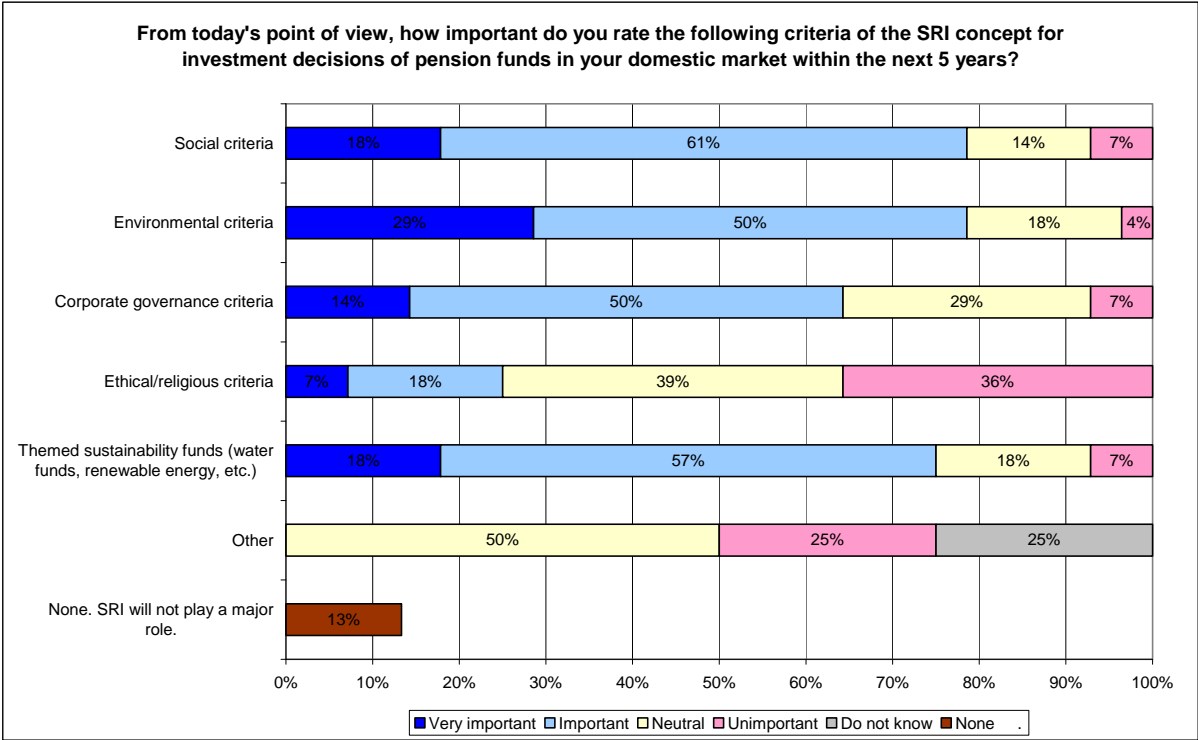


2.6.6 Socially Responsible Investment

In the past years socially responsible investment (SRI) has become a rapidly growing segment in most European countries. The experts believe that SRI will become increasingly important for DC plans’ management due to the great public pressure. In Switzerland all concepts of SRI seem to be very significant with the exception of ethical and religious criteria.

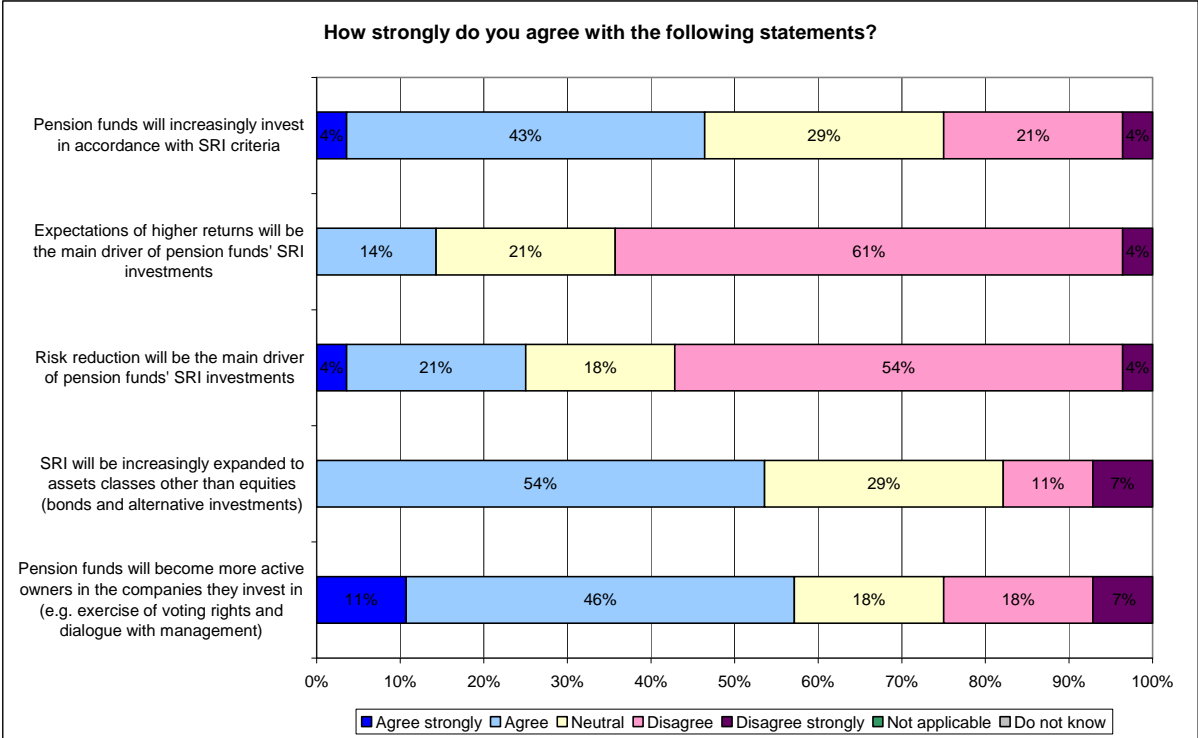
A vast majority (79%) rate the environmental and social criteria as being the most important concepts of SRI. Furthermore, 75% of the participants assert that themed sustainable funds are similarly crucial. Corporate governance criteria are considered to be significant by 64%. Only exceptions are the ethical and religious criteria. While 36% believe that these issues are rather unimportant, 25% of the experts hold these to be important concerns. Only 13% of the pension experts believe that SRI will not play an important role in pension funds (see Figure 80).

Figure 80: Socially Responsible Investment (SRI) criteria (in Switzerland)



More than half of the participants (54%) expect SRI to expand their field of investments to different asset classes. In contrast, almost one-fifth (18%) expect SRI to mainly invest in equities. Furthermore, 47% state that SRI will increasingly become an issue for pension funds. This expectation is not shared by 25% of the participating experts. Almost three-fifths (57%) of the pension specialists believe that pension funds will further enter into a dialogue with the management of the firms they invest in and exercise more voting rights. One-fourth (25%) do not believe that this will happen (see Figure 81).

Figure 81: Socially Responsible Investment (SRI) (in Switzerland)



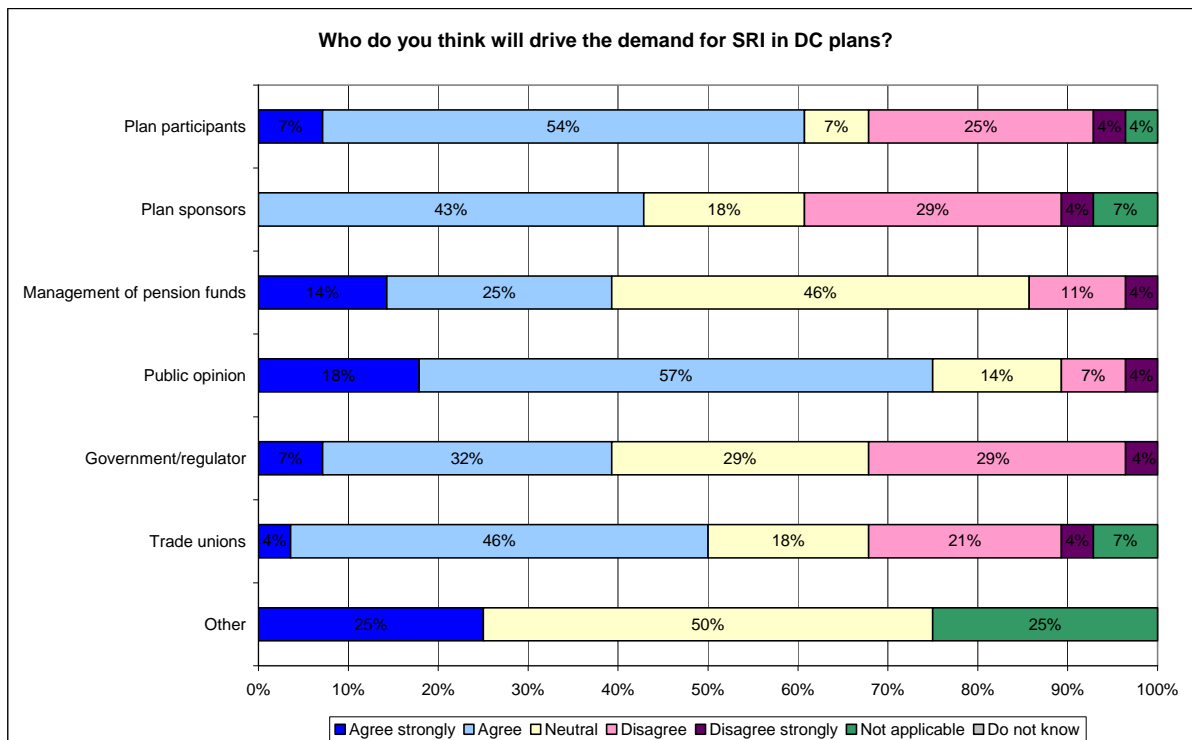
One must note that the pension funds decision to invest according to SRI criteria is neither driven by an expectation of higher returns nor by an expected risk reduction. Nearly two-thirds (65%) do not believe that pension funds expect higher returns with SRI. The majority (58%) also claim that risk cannot be reduced with SRI (see Figure 81).

According to 75% of the participants, the public will be the main driving factor for growing demand for SRI in DC plans. More than three-fifths (61%) believe that the plan participants require more possibilities to invest in SRI. Half of the participants (50%) think that trade unions are an important driver for a growing demand for SRI in DC plans (see Figure 82).

Other persons are believed to play a less important role in the future, which is indicated by an almost equal amount of pro and contra answers. While 39% of the participants claim that government drives the demand, a third (33%) do not think so. Similarly, an amount of 43% agrees that plan sponsors are important demanders, but one-third (33%) have the opposite opinion. Almost two-fifths (39%) claim that it is the pension fund's management that is responsible for the request of SRI. Merely 15%

disagree with this point of view, while a large part (46%) is indifferent to this matter (see Figure 82).

Figure 82: Stakeholders affecting demand for SRI (in Switzerland)



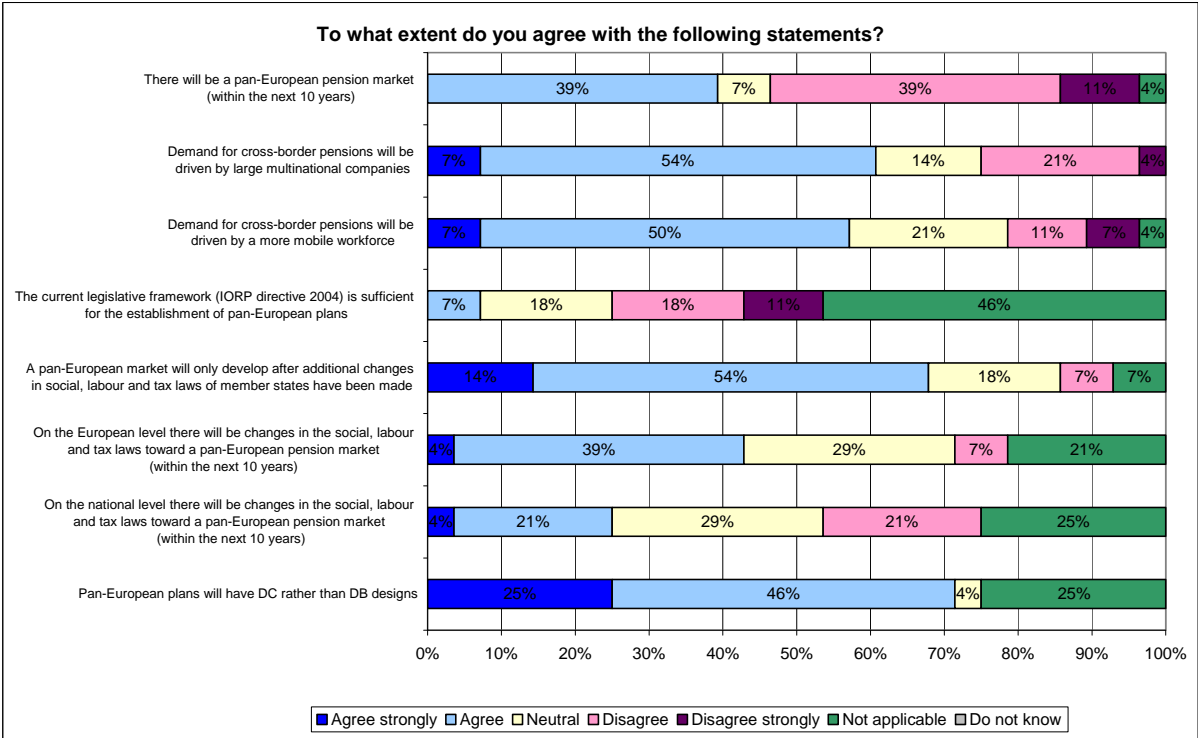
2.6.7 Pan-European Pension Plans

This section addresses the question whether pan-European pension plans will be established within the next ten years. Although multinational firms and a mobile workforce increasingly exhibit a demand for cross-boarder plans, the pension experts do not believe that a pan-European system is realistic for the future. This result corresponds to the fact that Switzerland is not an EU member state.

Although multinational firms (61% positive answers) and mobile workforces (57% positive answers) have a demand for cross boarder pension plans, half of the experts (50%) we asked in Switzerland do not believe that there will be a pan-European pension system within the next 10 years. In contrast, 39% consider this to be possible. However, 68% claim that this is only possible after certain amendments in social, labor and tax laws of the European countries. 46% even think that the IORP (Institutions for Occupational Retirement Provisions) directive is not applicable in

Switzerland as it is not a member of European Union, while 29% think that it is insufficient for the establishment of pan-European plans. If pan-European plans are introduced, then the system will demonstrate a DC rather than a DB design, as stated by 71% of the participants. More than two-fifths (43%) believe that the changes in the social, labor and tax legislation will occur on a European level, while only one-fourth (25%) think that changes will take place in Switzerland (see Figure 83).

Figure 83: Pan-European pension market (in Switzerland)



2.7 The United Kingdom

2.7.1 Future Trends

The British pension experts have no doubt that the shift in the occupational pension market from DB towards DC schemes will continue in the next five years. They believe DC plans to dominate in the future, although it remains ambiguous whether DB and DC plans will exist alongside each other. The experts are sceptical of whether hybrid plans will be dominant in the future.

Nearly all of the British pension experts (97%) predict that the occupational DB pension scheme will decrease, while 88% believe in a future growth of the occupational pension scheme. Furthermore, less than the half (42%) predict that the 3rd pillar, the voluntary individual pensions savings, will increase, while 39% of the specialists remain neutral (see Figure 84). Consensus prevails on the issue which occupational scheme will dominate the future British pension market: 97% of the respondents predict a shift from occupational DB to occupational DC schemes while 91% are certain that DC schemes will be the dominant pension scheme in the future. There is a strong pro and contra party attached to the future coexistence of DB and DC pension schemes: 34% are confident while 37% are sceptical, and 28% remain neutral. As far as the prevalence of hybrid plans on the British pension market is concerned, British experts remain doubtful as to its dominance. Accordingly, 62% of the experts do not believe hybrid plans to be dominant in the future while 28% remain neutral (see Figure 85).

Figure 84: Future trend of the occupational DC market I (in the United Kingdom)

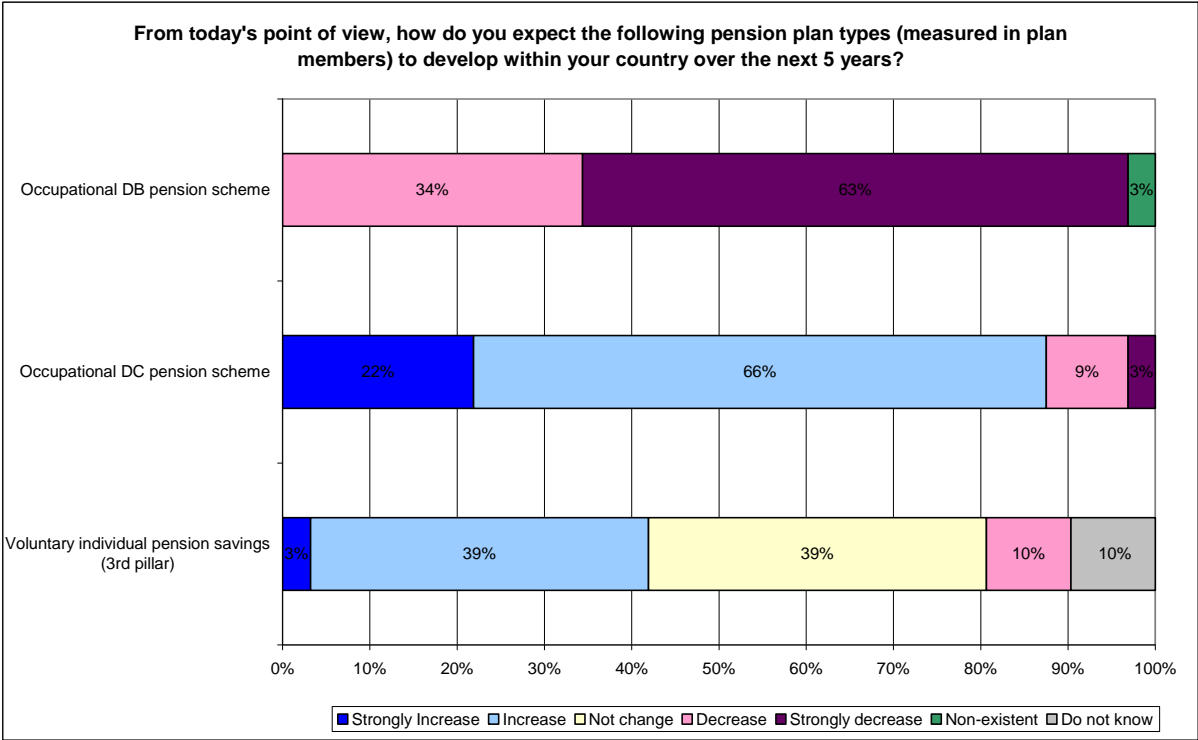
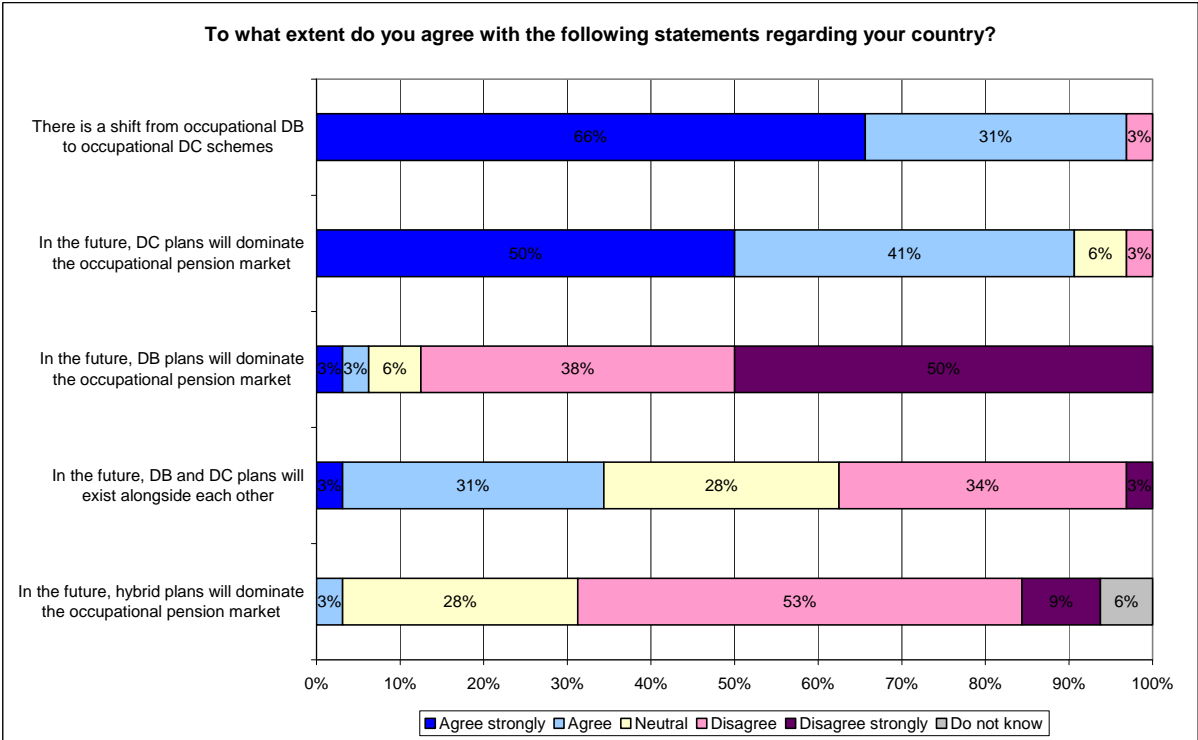


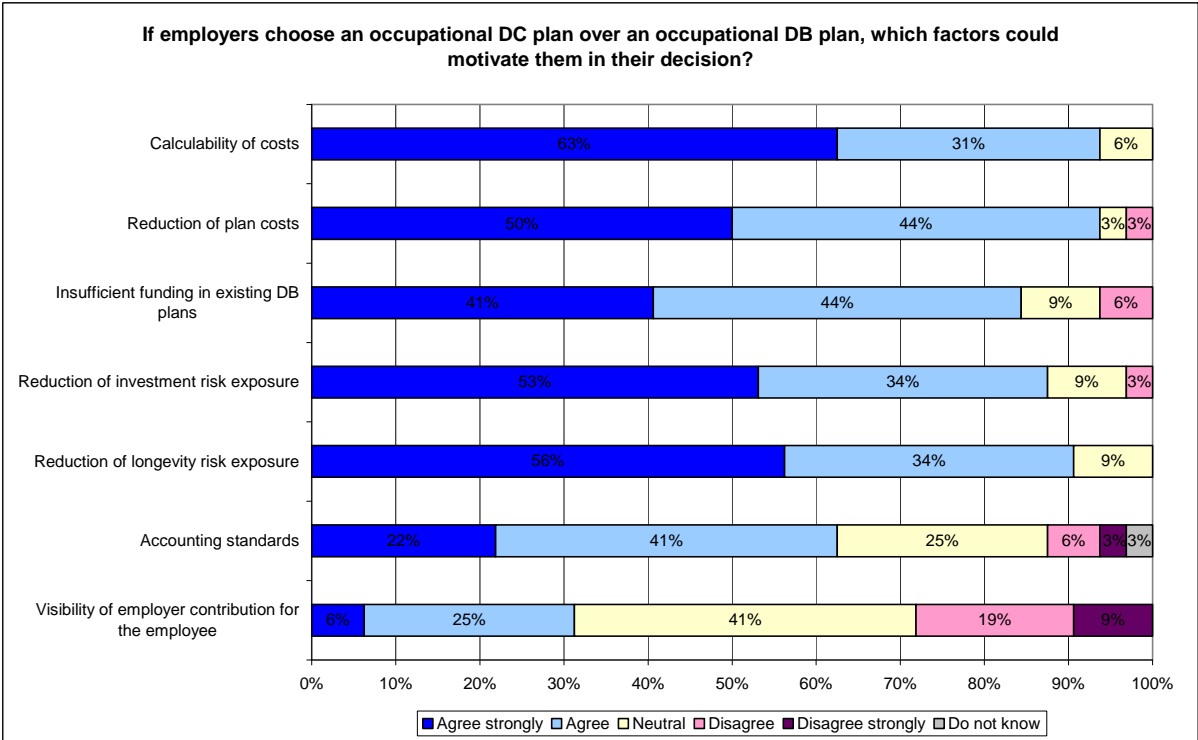
Figure 85: Future trend of the occupational DC market II (in the United Kingdom)



2.7.2 Factors of Development

The following section deals with the employers’ incentives and decisive factors to establish an occupational DC plan over an occupational DB plan. The calculability of costs, the reduction of plan costs as well as the reduction of longevity risk exposure are considered to be the most significant factors for an employer to choose a DC pension scheme over a DB pension scheme. The visibility of employer contribution for the employee seems to play minor role. As far as hampering factors for a greater prevalence of DC plans is concerned, the experts specify a poor financial education, inadequate advice, and an insufficient level of contributions to provide sufficient income in the pay-out phase as the three most important reasons. Inadequate regulation of DC plans receives the least support.

Figure 86: Motivation of employers to choose an occupational DC plan (in the United Kingdom)

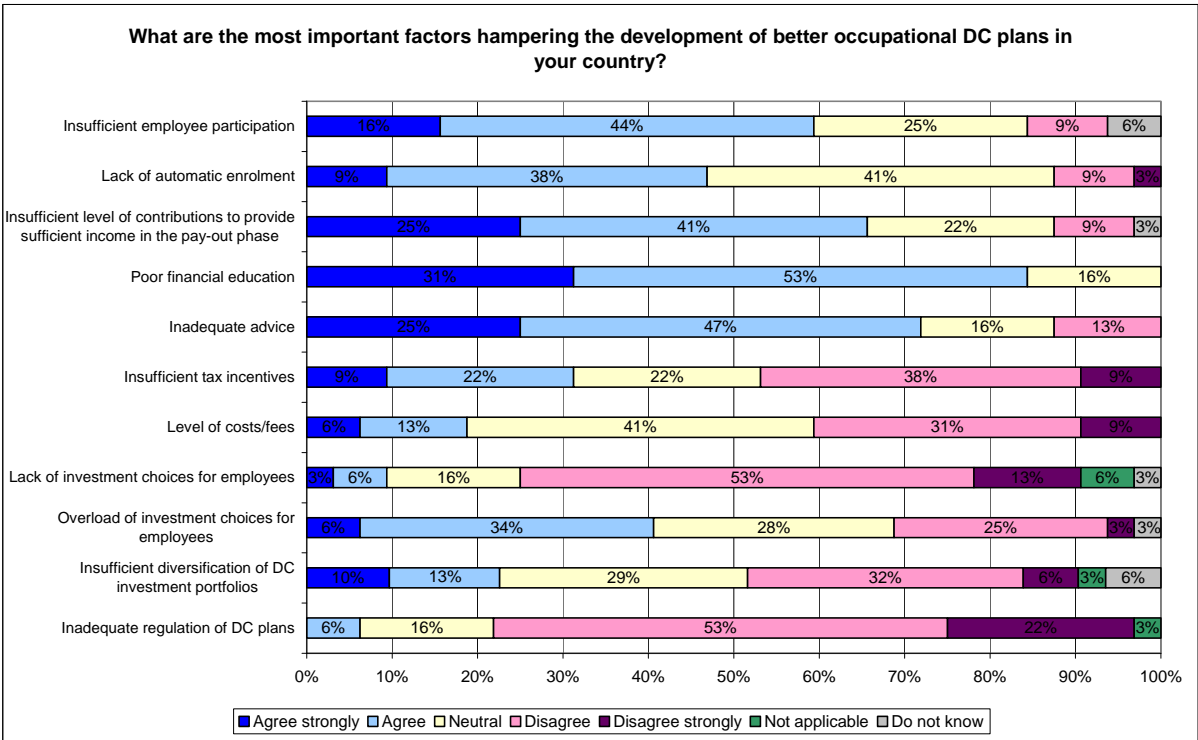


With 94% support, both the calculability of costs and the reduction of plan costs are considered to be the main motivating factors for an employer to choose an occupational DC plan over an occupational DB plan. They are closely followed by the reduction of longevity risk exposure (90%) and the reduction of investment risk

exposure (87%). Furthermore, insufficient funding in existing DB plans receives an approval rate of 85% while less than two-thirds of the pension experts (63%) believe accounting standards to be a motivating driver. The visibility of employer contribution for the employee seems to play a minor role in the employers' decision-making process: not even one-third (31%) deem it important, 41% remain neutral while another 28% even object to it (see Figure 86).

Furthermore, we wanted to specify the main hampering factors for the establishment of occupational DC plans in the British pension market. The pension specialists specify a poor financial education as the greatest obstacle, giving it an approval rate of 84%. It is followed by inadequate advice (72%) and an insufficient level of contributions to provide a sufficient income in the pay-out phase (66%). Three-fifths of the experts (60%) believe insufficient employee participation to be responsible for the weak prevalence of occupational DC plans. Therefore, 45% find that the lack of automatic enrollment plays an important role (see Figure 87).

Figure 87: Obstacles for the development of the occupational DC market (in the United Kingdom)



The overload of investment choices for employees and insufficient tax incentives are considered to be secondary, receiving a support rate of 40% and 31%, respectively. They are followed by an insufficient diversification of DC investment portfolios with an agreement rate of 23% as well as the level of costs and fees (19%). The lack of investment choices for employees hardly seems to play any role at all, with only 9% support, while 66% object. The majority of 75% of the British pension experts also classify the regulation of DC plans as adequate (see Figure 87).

2.7.3 Regulation

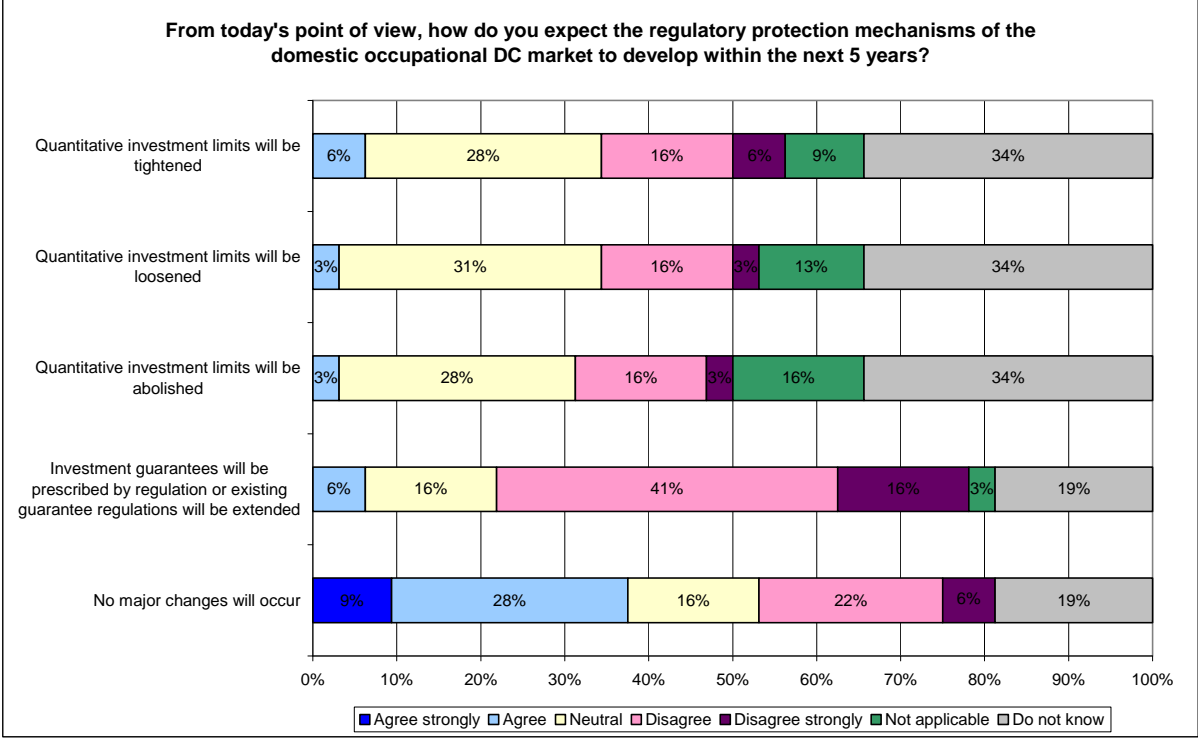
The following section will focus on the experts' anticipation of the development as well as the future design of the British occupational DC market within the next five years. The majority of the British pension experts neither expect the quantitative investment limits to be loosened nor tightened. Furthermore, they do not believe quantitative investment limits will be abolished. As far as investment guarantees are concerned, British pension specialists neither think that they will be prescribed by regulation nor that existing guarantee regulations will be extended. As to the future design of the UK occupational DC market, the vast majority expects the introduction of automatic enrollment as well as a mandatory offering of a DC plan for employers. The pension market in the UK is the only one in Europe where a pure DC plan design is expected to be introduced.

Only 6% of the British pension specialists believe quantitative investment limits to be tightened, 22% disagree, 28% remain neutral, and 34% do not know. Similarly, a tiny fraction of 3% expects quantitative investment limit to be loosened while many experts either remains neutral (31%) or does not know (34%). Accordingly, the majority of the specialists stating their opinion do anticipate neither a tightening nor a loosening of quantitative investment limits. Furthermore, 19% of the experts do not believe in an abolition of quantitative investment limits, 28% remain neutral while 34% state that they do not know (see Figure 88).

There are only a few experts supporting the idea of a prescription of investment guarantees by regulation respectively the extension of existing ones. More than one half (57%) do not believe that both will occur while 6% agree. Opinions are divided

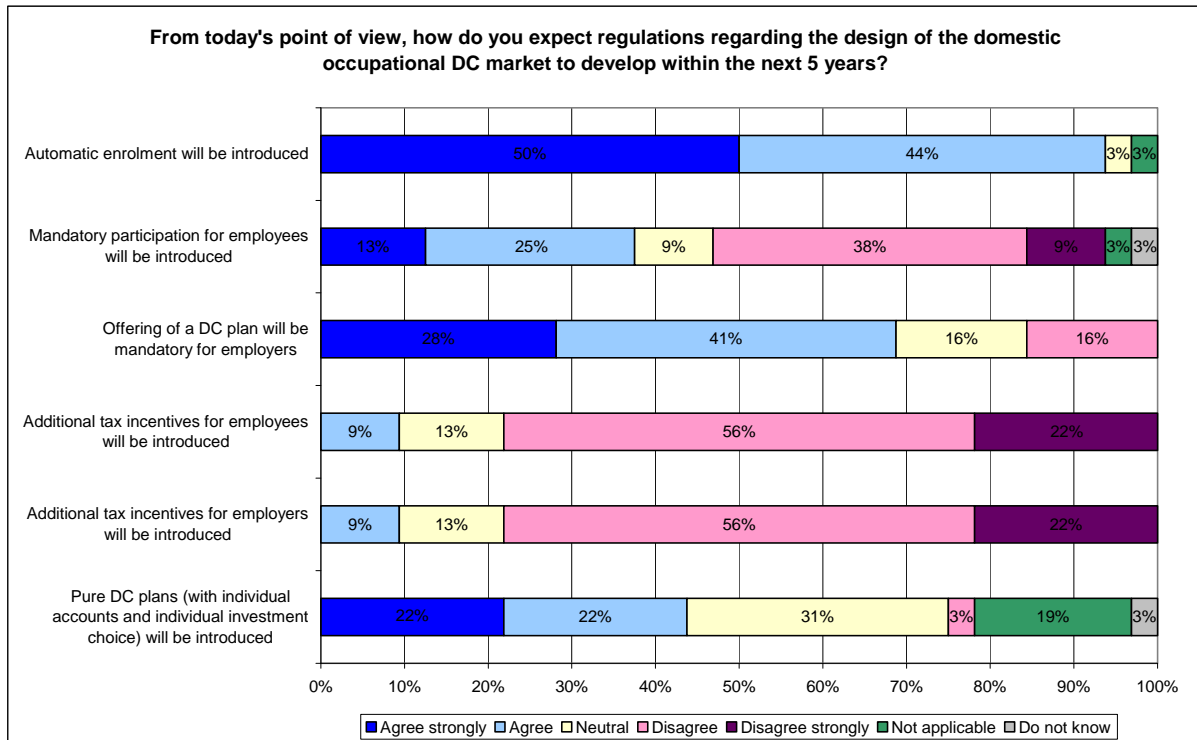
over whether major changes will occur or not. While 28% of the experts believe that this will be the case, 37% object (see Figure 88).

Figure 88: Future regulation of the occupational DC market I (in the United Kingdom)



As far as the future design of the British occupational DC market is concerned, the vast majority of 94% of the British pension specialists believes in a future introduction of automatic enrollment. Moreover, 69% are certain that offering a DC plan will become mandatory for employers. It is followed by the introduction of pure DC plans with individual accounts and individual investment choice which is supported by 44% of the experts, and a mandatory participation for employees (38%), which 47% object to. Apparently, additional tax incentives for employers and employees are less likely to be introduced. 78% of the respondents do not believe in an adoption of additional tax incentives for both employers and employees (see Figure 89).

Figure 89: Future regulation of the occupational DC market II (in the United Kingdom)



2.7.4 Pay-out Phase

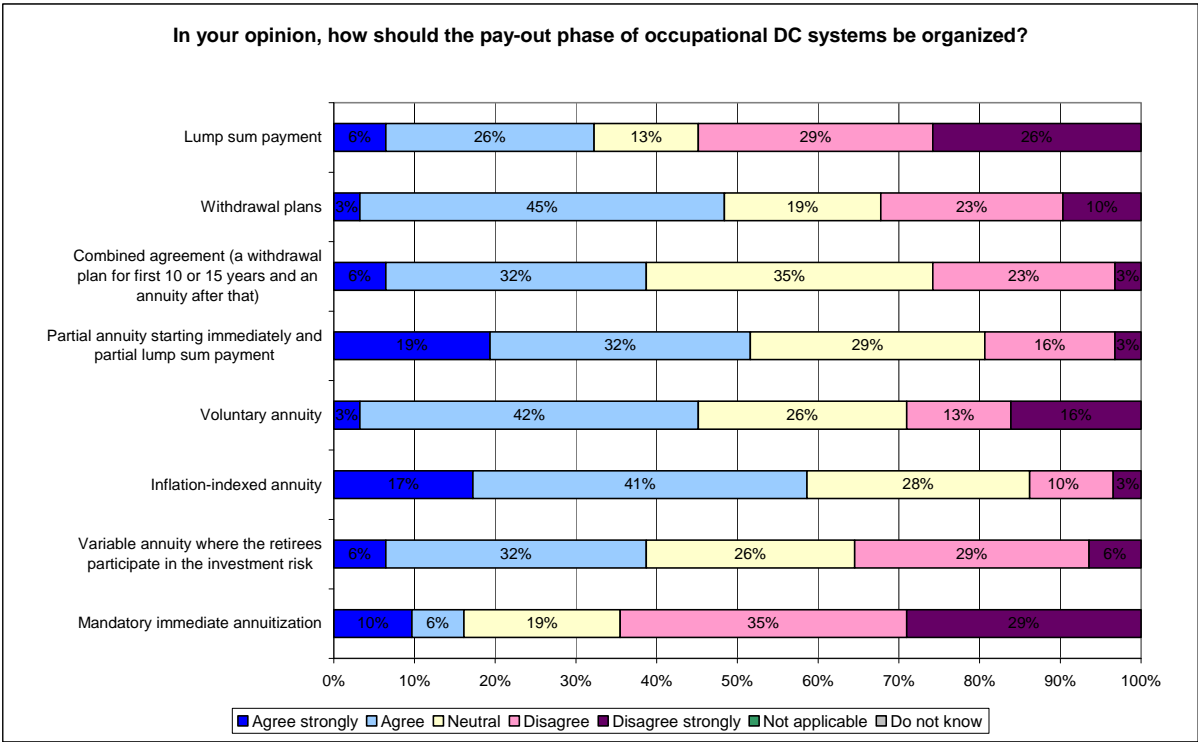
The experts' opinion on the organization of the pay-out phase of British occupational DC systems shall be analysed below. The most popular forms of structuring a pay-out phase are the inflation-indexed annuity as well as the partial annuity starting immediately and the partial lump sum payment. On the contrary, lump sum payment and mandatory immediate annuitization are not considered to be a prudent way of organizing a pay-out phase.

The inflation-indexed annuity is classified as the best way to design a pay-out phase, obtaining almost three-fifths of the experts' approval (58%). More than half of the specialists (51%) believe in an immediate partial annuity and partial lump sum payment is a prudent way of organizing a pay-out phase. It is closely followed by withdrawal plans (48%) and the voluntary annuity (45%). The combined agreement, meaning a withdrawal plan for the first 10 to 15 years and a following annuity, receives 38% support while 26% object. Additionally, 38% of the pension experts

specify the variable annuity, where the retirees participate in the investment risk, to be a reasonable pay-out form, while one-third (35%) objects (see Figure 90).

The strongest disagreement prevails over the mandatory immediate annuitization as a way to organize the pay-out phase. The majority of 64% is in disfavor while only 16% would consider it a reasonable contract design. More than one half of the British pension experts (55%) refuse the lump sum payment as opposed to 32% being in favor of it (see Figure 90).

Figure 90: Optimal pay-out phase design of occupational DC products (in the United Kingdom)



2.7.5 Financial Crisis

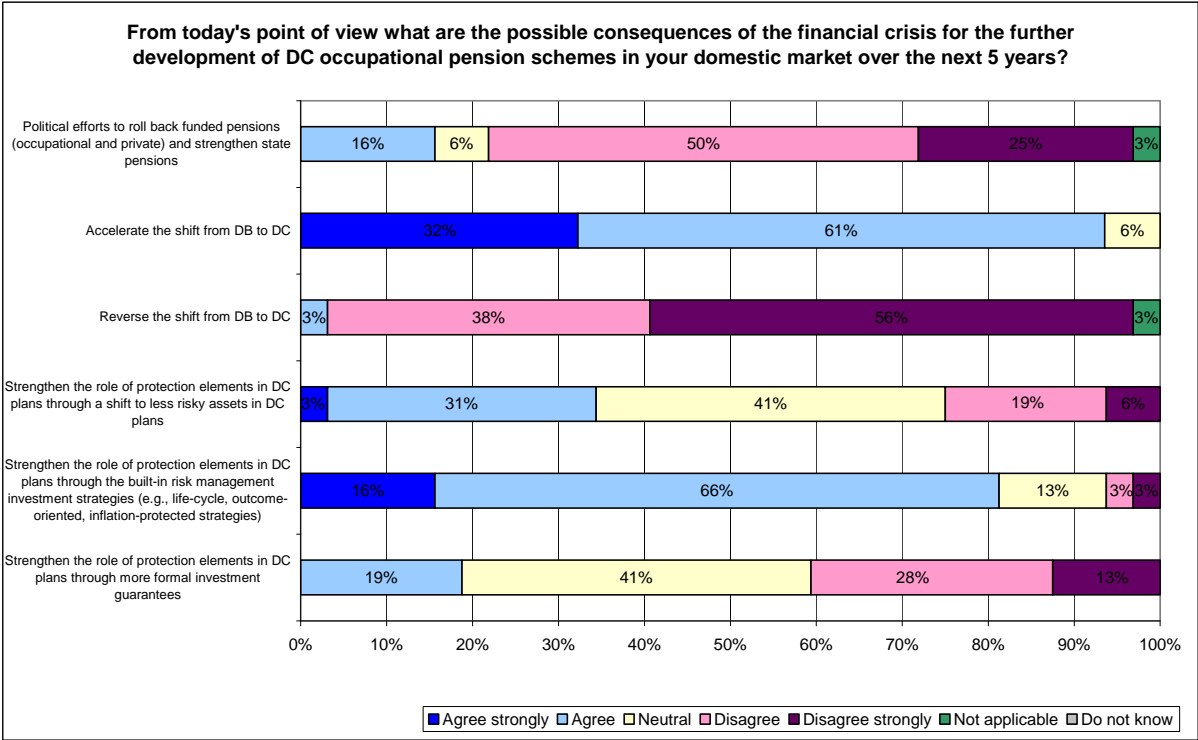
The recent financial crisis with its tremendous impact on various fields may also influence the British DC occupational pension schemes. The following section will focus on how the British pension experts assess the pension schemes and its consequences. Many pension experts believe that the financial crisis will partly strengthen the protection elements of DC plans. While a strengthening of built-in risk management investment strategies is assessed to be very likely, the shift to less-

risky assets and more formal investment guarantees in DC plans are less likely to occur. However, the experts are certain that the financial crisis will accelerate the shift from DB to DC. Additionally, the vast majority is confident that there will not be political efforts to roll back funded pensions, both occupational and private, thereby strengthening state pensions.

More than four-fifths of the pension experts (82%) believe that the financial crisis will strengthen the protection elements in DC plans through the growing role of the built-in risk management investment strategies. Such strategies include the life-cycle, outcome-orientation and inflation-protection strategy. 34% believe in a future shift to less-risky assets in DC plans, while 25% think this will not occur. More formal investment guarantees as a way to strengthen the role of protection elements in DC plans obtain even less support: only 19% regard them as likely, 41% are pessimistic about a future implementation, while a total of 41% even remain neutral (see Figure 91). The British reluctance towards investment guarantees stems from the 1990s when some insurers had solvency problems with guaranteed annuities rates embedded in with-profit insurance contracts. These problems even forced the House of Lords to close the world's oldest mutual insurer, The Equitable Life Assurance Society.

British specialists agree on the issue of the future trend of DB and DC plans. The vast majority of 94% is confident that the shift from DC to DB will not be reversed. Quite the contrary, 93% of the experts believe that the financial crisis will even accelerate the shift from DB to DC. Additionally, there is a clear picture as to whether efforts will be made to roll back funded pensions, thereby strengthening state pensions: three-quarters (75%) are skeptical and do not see this as likely, while 16% expect this change to come (see Figure 91).

Figure 91: Impact of the financial crisis on the pension market (in the United Kingdom)



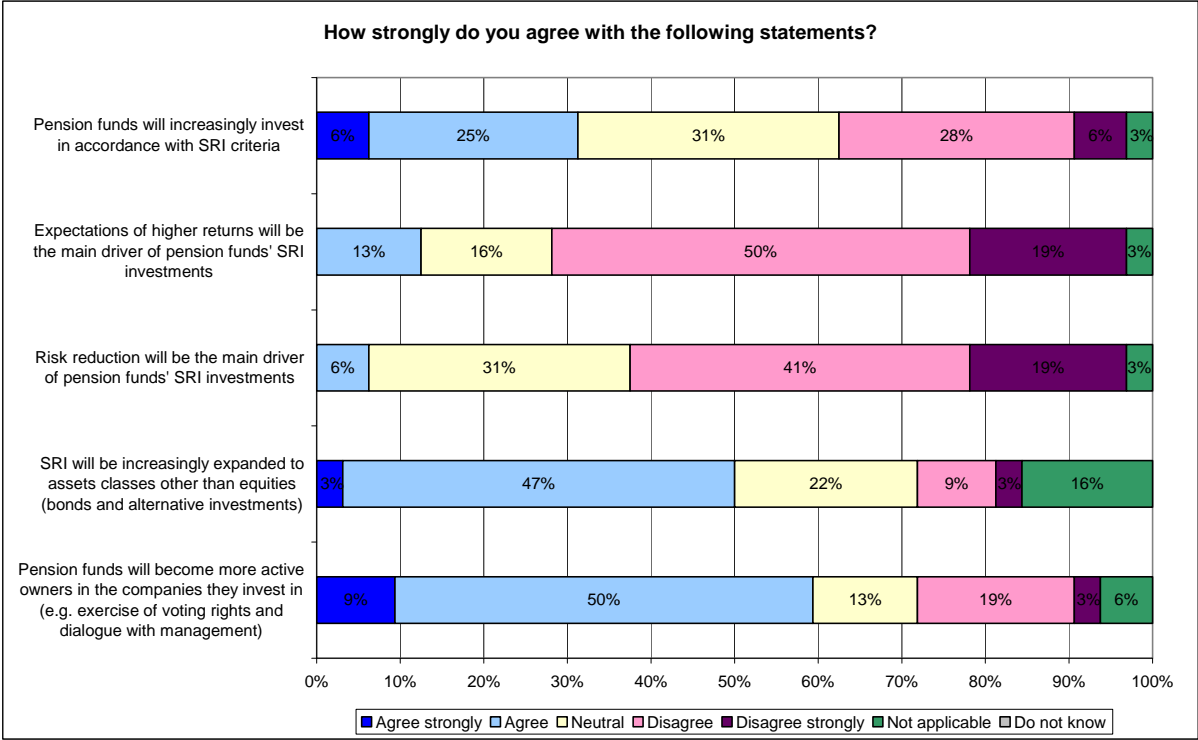
2.7.6 Socially Responsible Investment

The following section examines the future role of socially responsible investment (SRI) in British pension funds. There is a strong pro and contra party with respect to the issue of an increasing investment of pension funds in accordance with SRI criteria. Furthermore, the majority believes that pension funds will play a more active role in the companies they invest in. The public opinion, plan participants, and trade unions are specified as the main drivers for a future SRI demand. On the contrary, plan sponsors as well as the expectations of higher returns and risk reductions seem to play an inferior role. Environmental as well as corporate governance criteria are the most significant factors when it comes to SRI investment. However, among British experts, a definite majority cannot be obtained for social criteria or for themed sustainability funds.

Opinions remain divided as to whether British pension funds will increasingly invest in accordance with SRI criteria. While 34% object, 31% forecast such a trend, while the same fraction remains neutral. Less ambiguity may be observed as far as an

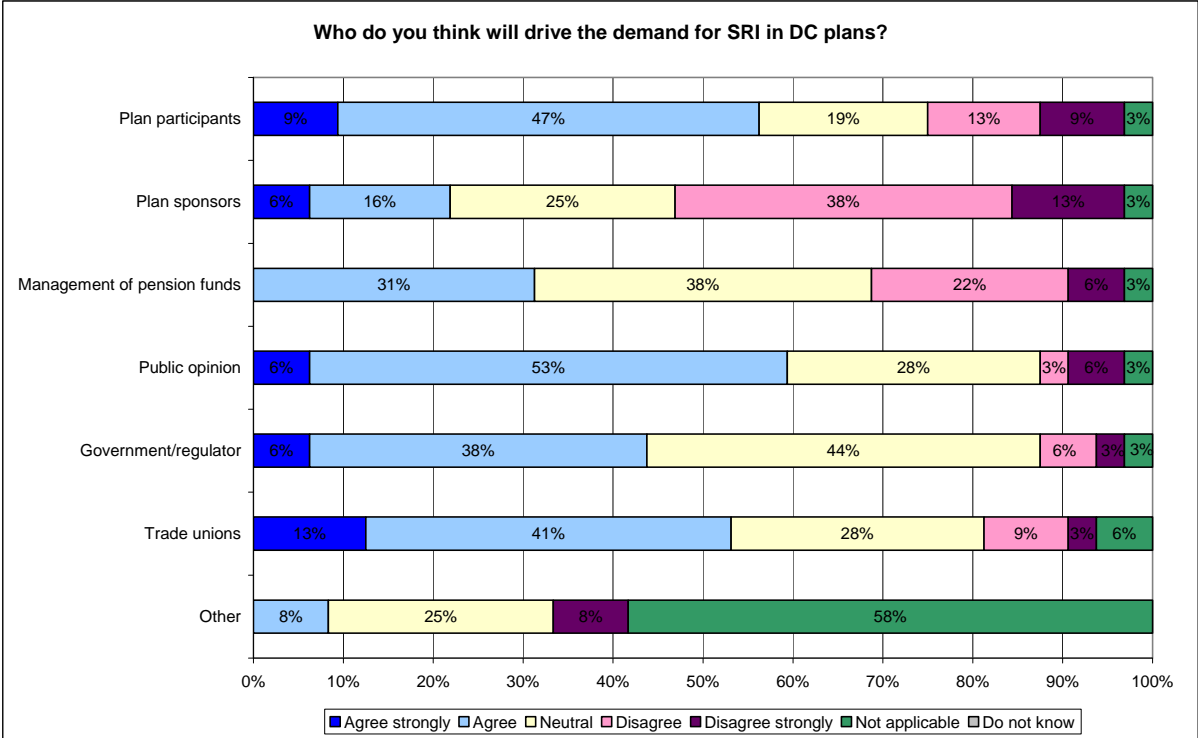
expansion to asset classes apart from equities, such as bonds and alternative investments, is concerned. Exactly one half (50%) believes that this will be the case. Similarly, 59% of the experts predict pension funds to become more active owners in the companies they invest in. This may occur in form of voting rights or a dialogue with the management (see Figure 92).

Figure 92: Socially Responsible Investment (SRI) (in the United Kingdom)



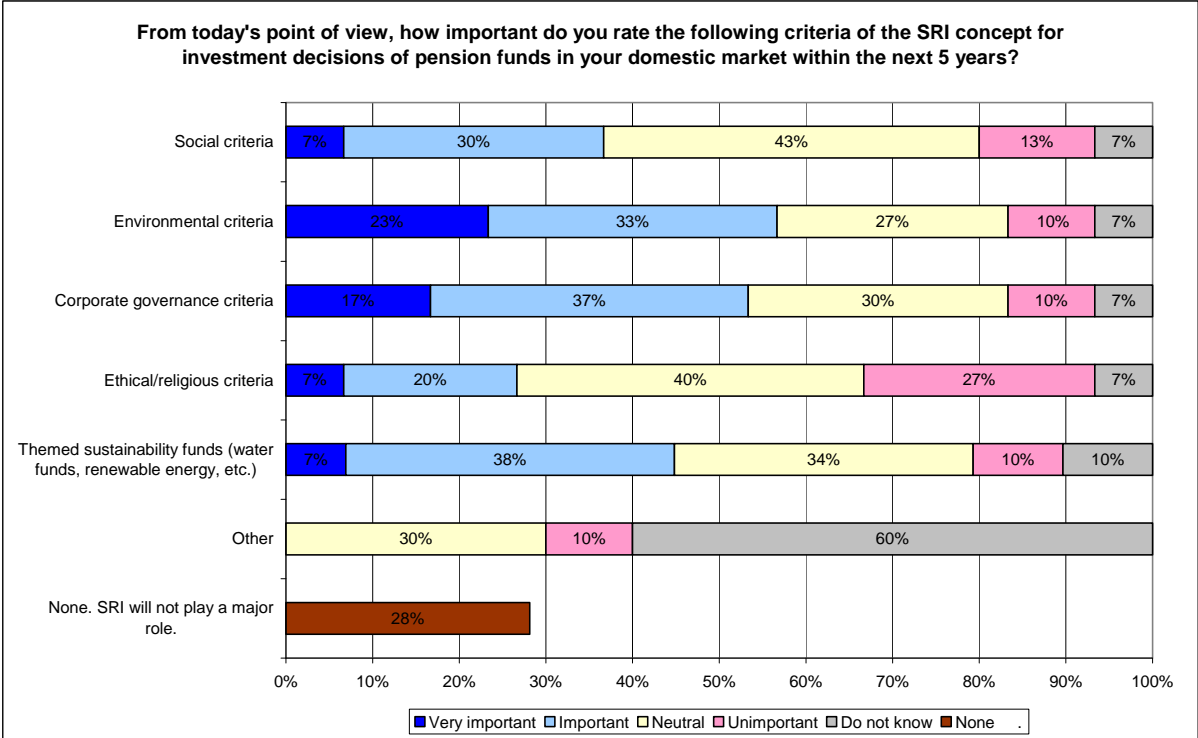
The expectation of higher returns as a driver of pension funds' SRI is assessed to be less likely. More than two-thirds (69%) remain pessimistic while 60% make the same statement with regard to risk reduction (see Figure 92). In contrast, the public opinion is considered to be the main driver for SRI in DC plans with 59% of the experts opting for it. It is closely followed by plan participants (56%) and trade unions (54%). The government and the regulator, respectively, seem to play the role of a secondary determinant for SRI demand, obtaining 44% support, while the management of pension funds seems to be of even less importance (31%). According to the experts, plan sponsors play the least important role with only 22% support and more than one half (51%) disagreeing (see Figure 93).

Figure 93: Stakeholders affecting demand for SRI (in the United Kingdom)



Since SRI in pension funds may be determined by many different criteria, we wanted to identify the most significant ones. Environmental criteria for SRI investment decisions are the most significant ones, obtaining 56% support. It is closely followed by corporate governance criteria (54%) and themed sustainability funds such as water renewable energy funds (45%). According to the British pension experts, social criteria play a secondary role, obtaining 37% approval. Ethical and religious criteria are assessed to the least important drivers when it comes to SRI investment decisions: more than a quarter (27%) regards them as important, 27% object, while 40% remain neutral (see Figure 94).

Figure 94: SRI criteria (in the United Kingdom)



2.7.7 Pan-European Pension Plans

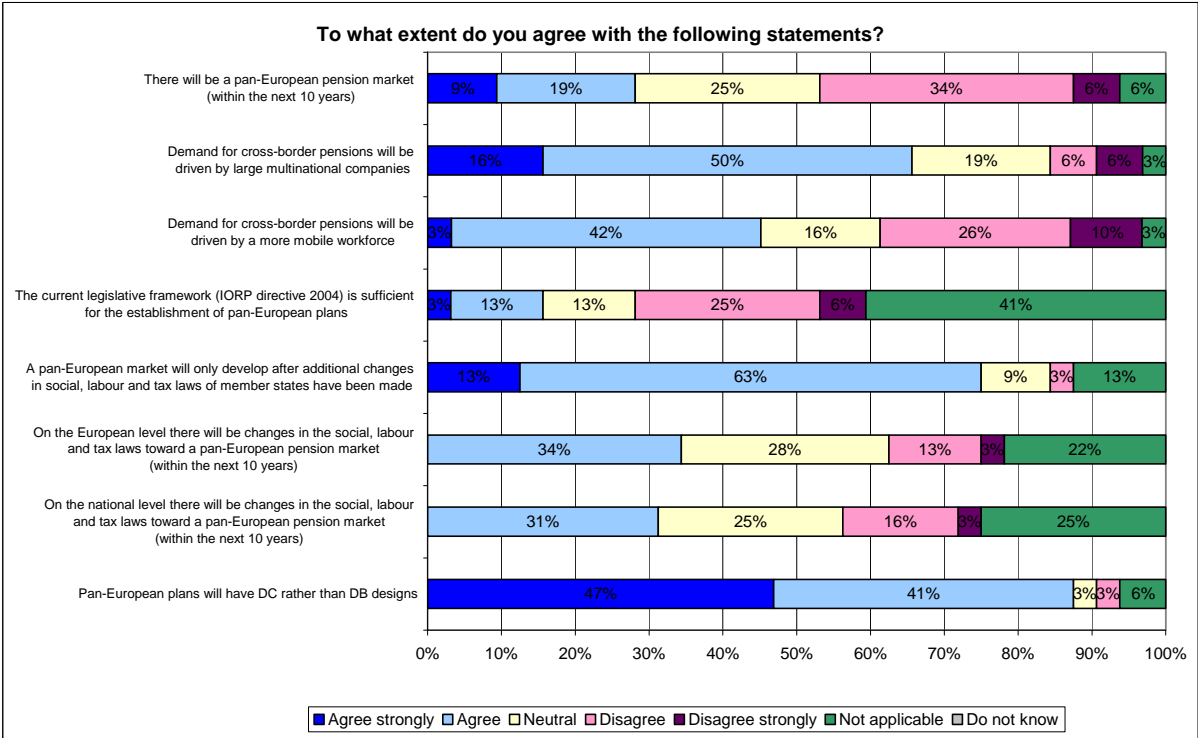
The last section aims at giving a clearer picture with respect to the British experts’ expectations about pan-European and cross-border pension markets. The specialists are not unanimous about whether or not a pan-European pension market will exist within the next 10 years. Many British pension experts believe that the current legislative framework is not sufficient for such a market to develop, and that a pan-European market will develop only after certain reforms in the social, labor, and tax laws of the EU member states have been made. Furthermore, there is a higher likelihood that such legal changes will occur on the European than on the national level. Additionally, the demand for cross-border pensions will be driven by large multinational firms rather than by the more mobile workforce. The experts reach a consensus that the future design of a pan-European pension market, provided that it will exist as such, will have rather DC than DB features.

The British pension experts are pessimistic as far as a pan-European pension market within the next 10 years is concerned. While 40% do not think that it will exist, 28% are confident, and 25% remain neutral. Furthermore, 31% believe the current

legislative framework, the IORP (Institutions for Occupational Retirement Provisions) directive 2004, is not sufficient for the establishment of pan-European plans. 16% state that this is the case, whereas the biggest fraction of 41% claim that this directive is not applicable for establishing a pan-European pension market. The majority of three-quarters (76%) is certain that a pan-European market will only develop after certain social, labor, and tax laws of the EU member states have been reformed. 34% of the participants predict that such changes will occur on the European level while 31% are confident that they will take place on the national level (see Figure 95).

Regarding the main factors for cross-border pension demands, 66% of the British pension experts forecast that large multinational companies will be the main driver. Fewer experts believe a more mobile workforce will drive demand: while 45% are confident, more than one-third (36%) object to this notion. The experts are unanimous with respect to the future design of a pan-European market. 88% state that such a market will have a DC rather than a DB design (see Figure 95).

Figure 95: Pan-European pension market (in the United Kingdom)



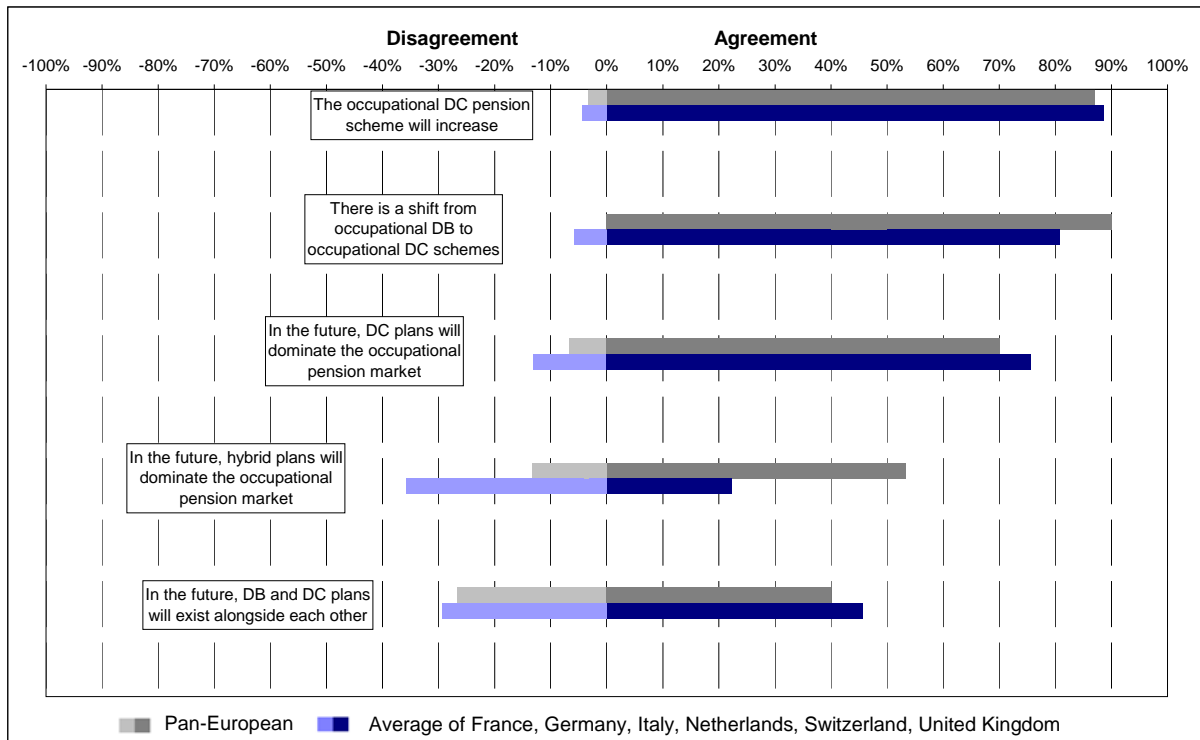
3 Comparing Opinions of Pan-European Experts and the Western European Average

We also want to compare whether the opinions of the pan-European experts differ from those of other experts. For this purpose, we build a weighted average of opinions from all of the 6 countries we investigated. The impact of each country was weighted by $1/6$ as we wanted to avoid over-representing particular countries. Henceforth, we will refer to this weighted average opinion as the Western European average opinion in contrast to the opinion of pan-European experts, i.e., experts who have chosen to answer from the perspective of a pan-European market instead of a particular country. For details on the average results for the six countries see the figures in the Appendix.

3.1 Future Trends

Regarding the future trends, both the pan-European and the Western European experts, believe in a growth of the occupational DC market. Both parties think that DC plans will dominate the occupational pension market, while certain DB plans will still exist. There are only differences in the opinions regarding the future of hybrid pension plans. The majority of pan-European pension specialists (53%) believe that this plan type will dominate the occupational pension market, whereas only 23% of the Western European average agree and a third (36%) object (see Figure 96).

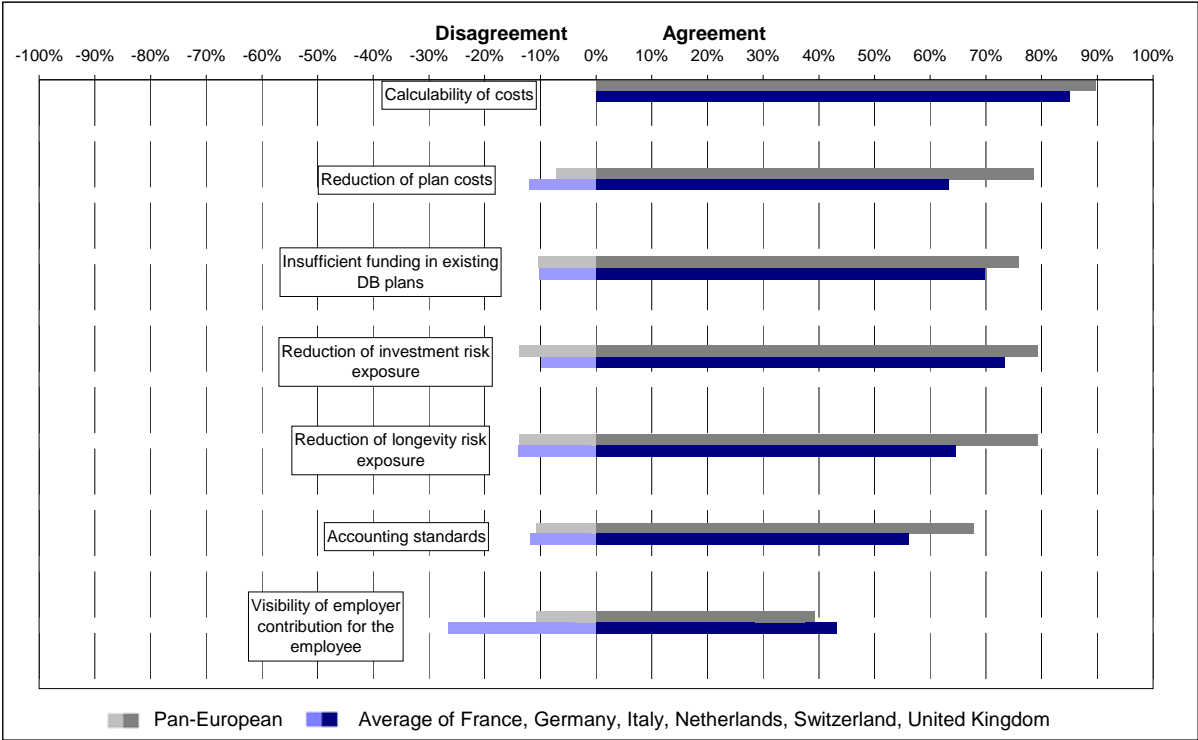
Figure 96: Future trend of the occupational DC market (comparison)



3.2 Factors of Development

Almost all experts are convinced that the most important incentive for the employers to offer occupational DC rather than DB plans is the calculability of costs. The other factors – with one exception – are also rated as very important by the Western European average, whereas the pan-European experts always agree a bit stronger. This is the case regarding the reduction of longevity risk exposure, the reduction of plan costs, accounting standards, insufficient funding in existing DB plans, and the reduction of longevity risk exposure as motivational factors to offer DC pension plans. However, there is some variation in the view of whether the visibility of employers' contributions is also an incentive and decisive factor for the employers to establish an occupational DC plan. Two-fifths (40%) of the pan-European participants believe that this is an important issue, while only 11% object. The average Western European opinion on this matter is more divided. More than two-fifths (44%) agree that the visibility of the contributions is an additional factor stimulating an establishment of DC plans. However, 27% do not believe that this is true (see Figure 97).

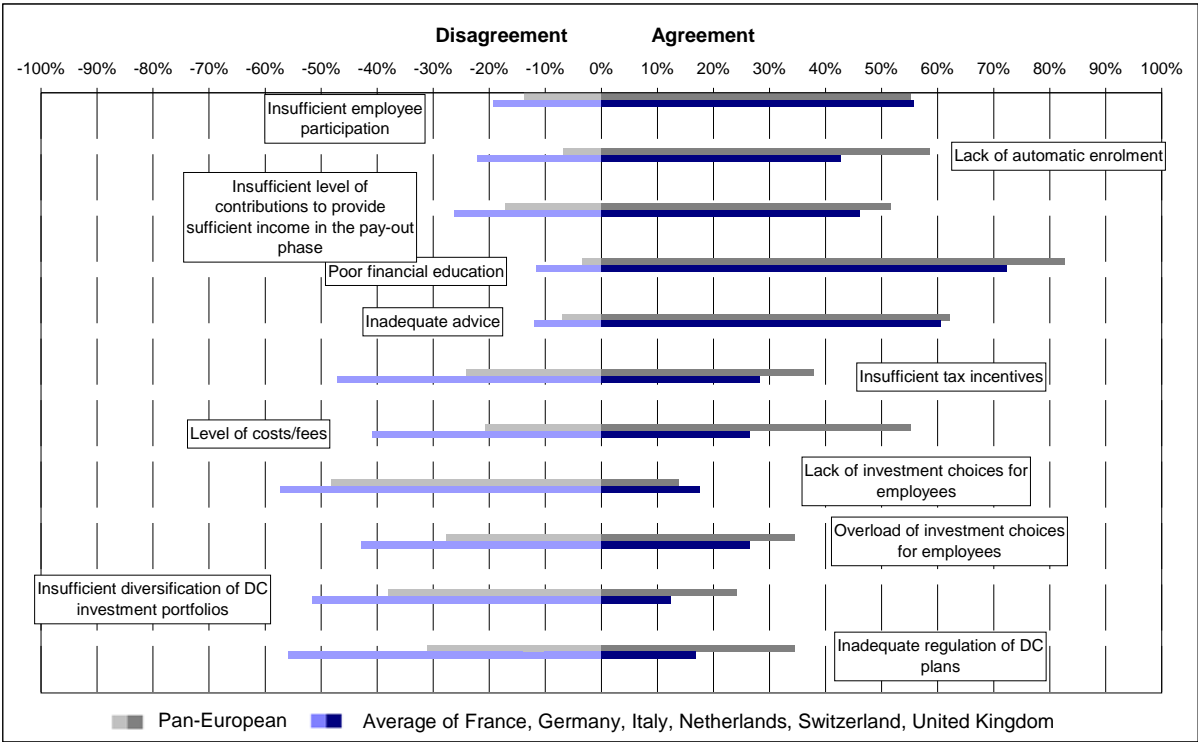
Figure 97: Motivation of employers to choose an occupational DC plan (comparison)



The vast majority of experts are certain that a poor financial education as well as inadequate advice are the most prominent obstacles in the development of the occupational DC market. In addition, the majority of pan-European experts and the average of the Western European experts believe that insufficient participation rates are a crucial hindering factor as well. An insufficient level of contributions is seen as an obstacle by more than half of the pan-European experts (52%), while not quite half of the Western European average (46%) agrees. The majority of pan-European experts (59%) also mention the lack of automatic enrollment as hindering factors, while only about two-fifths (42%) of the Western European average agrees to this matter and more than one-fifth (22%) object. Even more divided are the opinions regarding the level of costs and fees. On the pan-European level the majority (55%) claim that these costs are too excessive, while only 21% object. On the contrary, only one-fourth (26%) of the Western European average say that costs are too high, while 41% believe that they are on an adequate level (see Figure 98).

The last four potential obstacles are rated by the survey participants as rather unimportant in the establishment of more DC occupational pension schemes. Almost one half of pan-European experts reject a lack of investment choice for employers as problem and on average even more than the half of the Western European experts are of the same opinion. The overload of investment choices for employees, insufficient diversification and regulation in DC plans are also rated as rather unimportant. However, they are seen as more significant by the pan-European experts (see Figure 98).

Figure 98: Obstacles for the development of the occupational DC market (comparison)

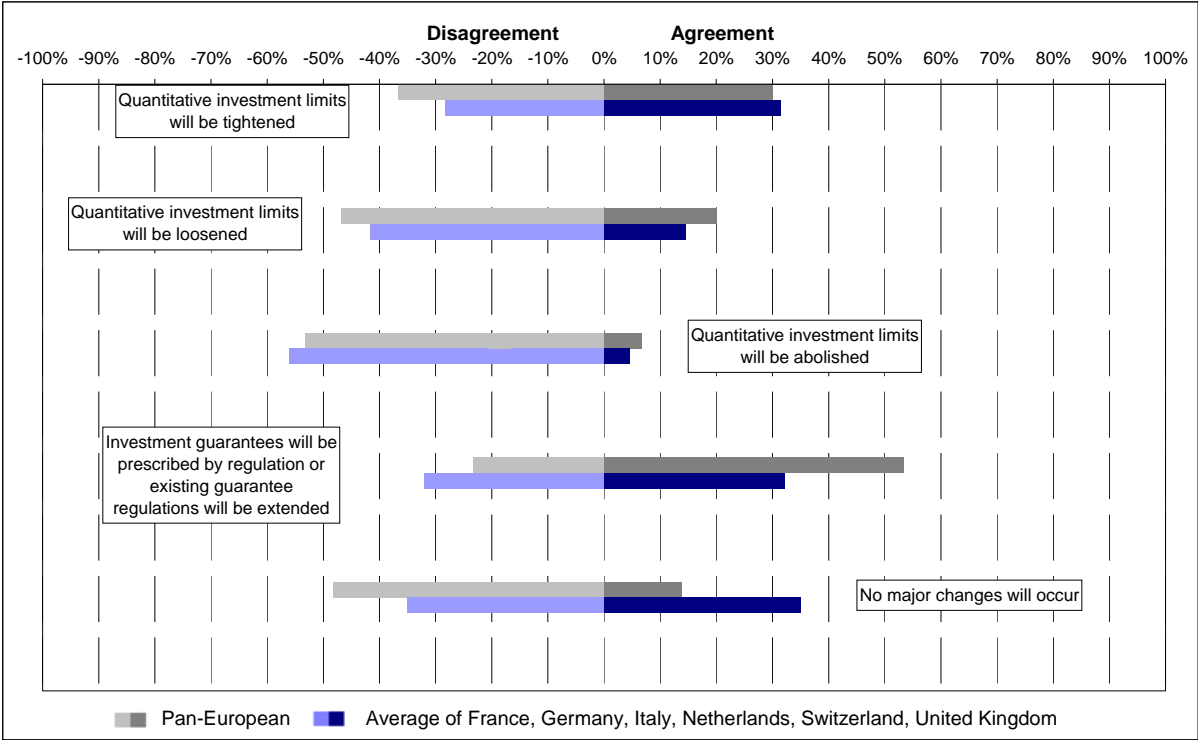


3.3 Regulation

There are quite similar suggestions regarding the development of the investment limits within the occupational DC market. On average, a few more experts claim that these limits will be tightened rather than loosened. The suggestions differ if major changes will occur and if investment guarantees will be prescribed or extended by the regulation. Almost half of the pan-European experts believe that there will be major changes in the occupational DC market, while on average only a third (36%) of

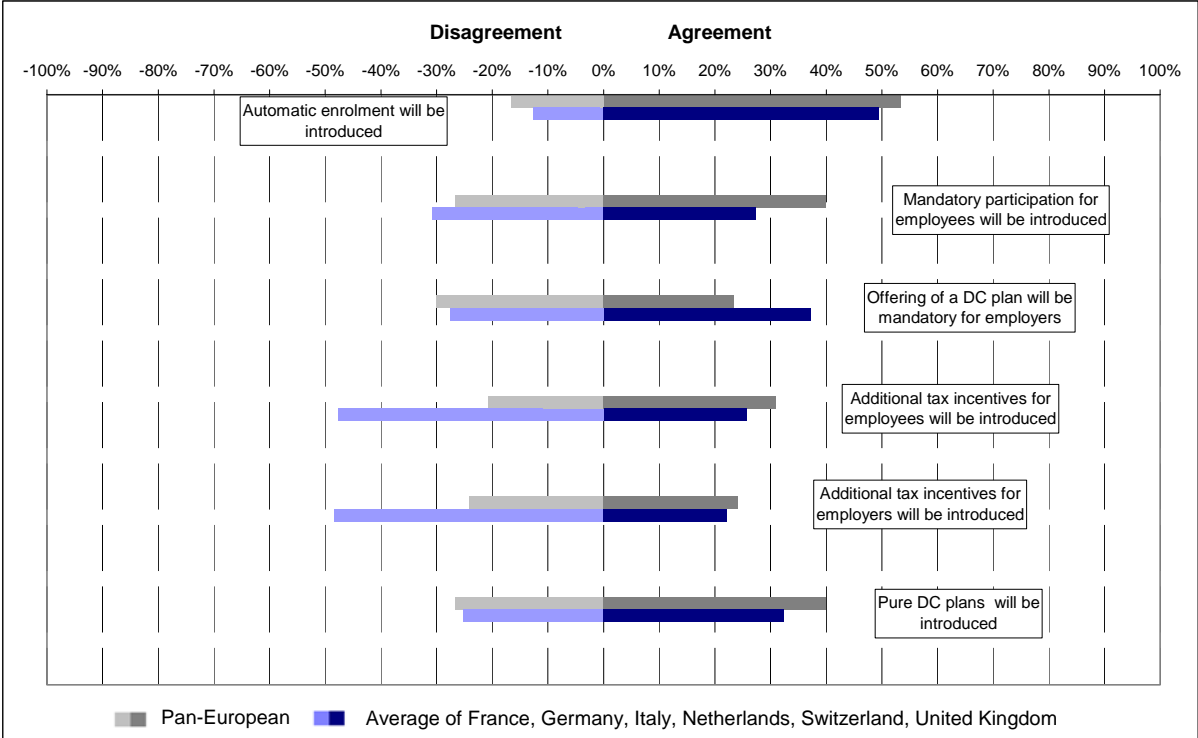
the participants believe that this will happen. Therefore, pan-European experts believe in an introduction or a respective extension of investment guarantees, while the average of Western European participants is rather indecisive regarding this matter (see Figure 99).

Figure 99: Future regulation of the occupational DC market I (comparison)



Around half of all participating experts claim that automatic enrollment will be introduced and therefore it seems to be the most likely form of regulation. However, pan-European experts also consider that the participation for employees will be mandatory and that pure DC plans will be introduced. In these points the average opinions of the Western European experts in the six studied countries is rather divided. On the other hand, the pan-European survey participants are indecisive on the last three points. On average, almost half of the Western European experts do not think that additional tax incentives for the employers as well as for the employees will be introduced. They further believe that offering DC plans could eventually be mandatory for the employers (see Figure 100).

Figure 100: Future regulation of the occupational DC market II (comparison)



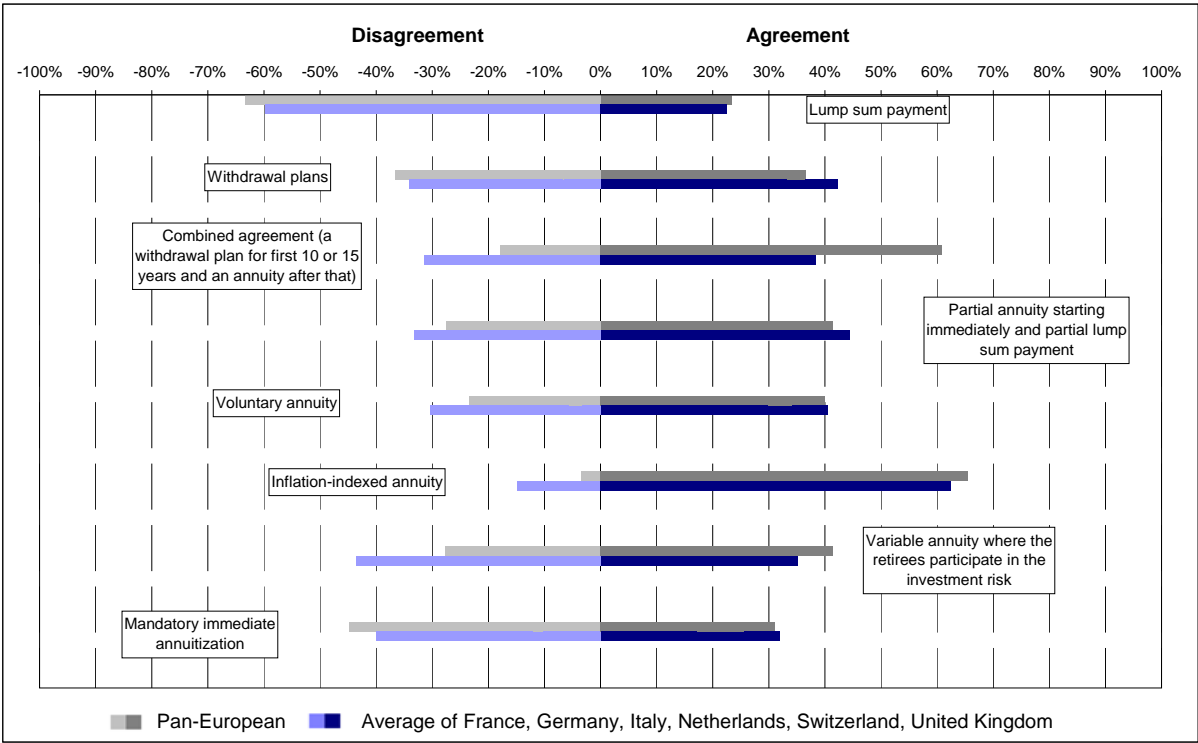
3.4 Pay-out Phase

The majority of experts believe that the inflation-indexed annuity is the optimal pay-out phase design. In line with that, the average of the Western European experts as well as the average of the pan-European participants reject the lump sum payments as a proper design of occupational DC plans. However, pan-European experts predict that a combined agreement with a withdrawal plan for the first 10 or 15 years and a subsequent annuity is a prudent way to organize the pay-out phase. On average, the opinion of Western European survey participants is not so distinct (see Figure 101).

Other pay-out designs do not have majorities agreeing or disagreeing and there are no great differences between the opinions of the Western European average and those of the pan-European experts. However, more pan-European participants predict that a variable annuity where the retiree bears the investment risk constitutes an appropriate pay-out design, while this arrangement also has a strong counter fraction. This is true for all survey participants in the last three cases. Partial annuity

starting immediately combined with partial lump sum payment receives a support of about two-fifths. A similar result is observed regarding withdrawal plans. Mandatory immediate annuitization is predominantly rejected by the experts as being a prudent way to design the pay-out phase in occupational DC plans (see Figure 101).

Figure 101: Optimal pay-out phase design of occupational DC products (comparison)

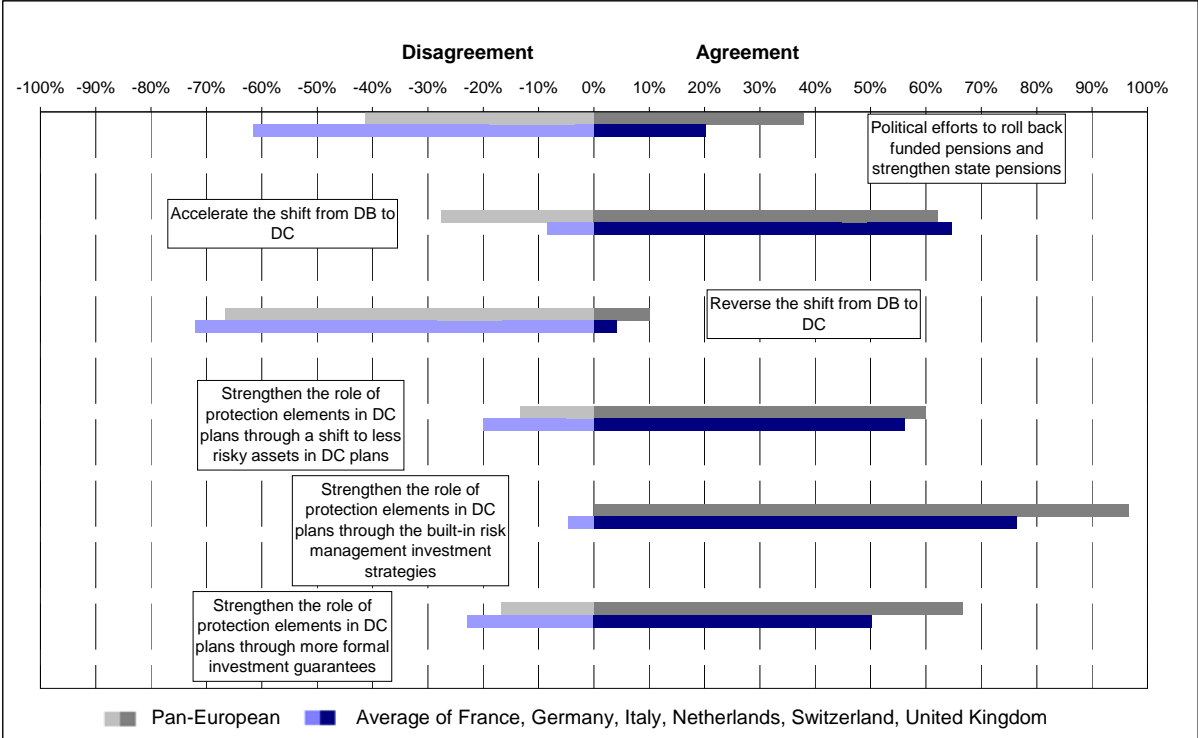


3.5 Financial Crisis

The vast majority of pension experts are certain that due to the financial crisis the protection elements in DC plans will be strengthened. However, especially the pan-European experts suggest that this will happen through the built-in risk management and through more formal investment guarantees. In addition more than half of the experts believe that DC plans will invest in less-risky assets in consequence of the financial crisis. The experts are also sure that the shift from DB towards DC plans is irreversible, but still this opinion is even more strongly pronounced on a Western European average than on the pan-European level. There is only one consequence where the suggestions differ dramatically. On average, Western European pension

experts are sure no political efforts will be made to roll back funded pensions and strengthen the state pension system. Pan-European experts are undecided on this matter (see Figure 102).

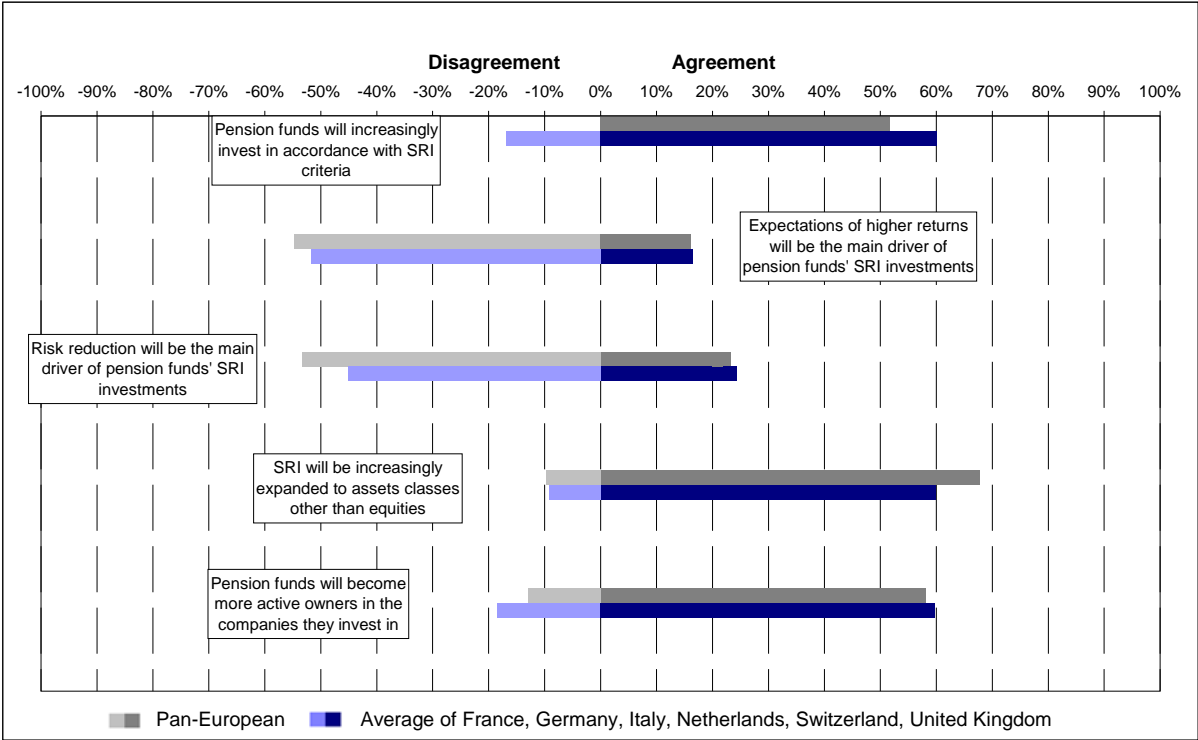
Figure 102: Impact of the financial crisis on the pension market (comparison)



3.6 Socially Responsible Investment

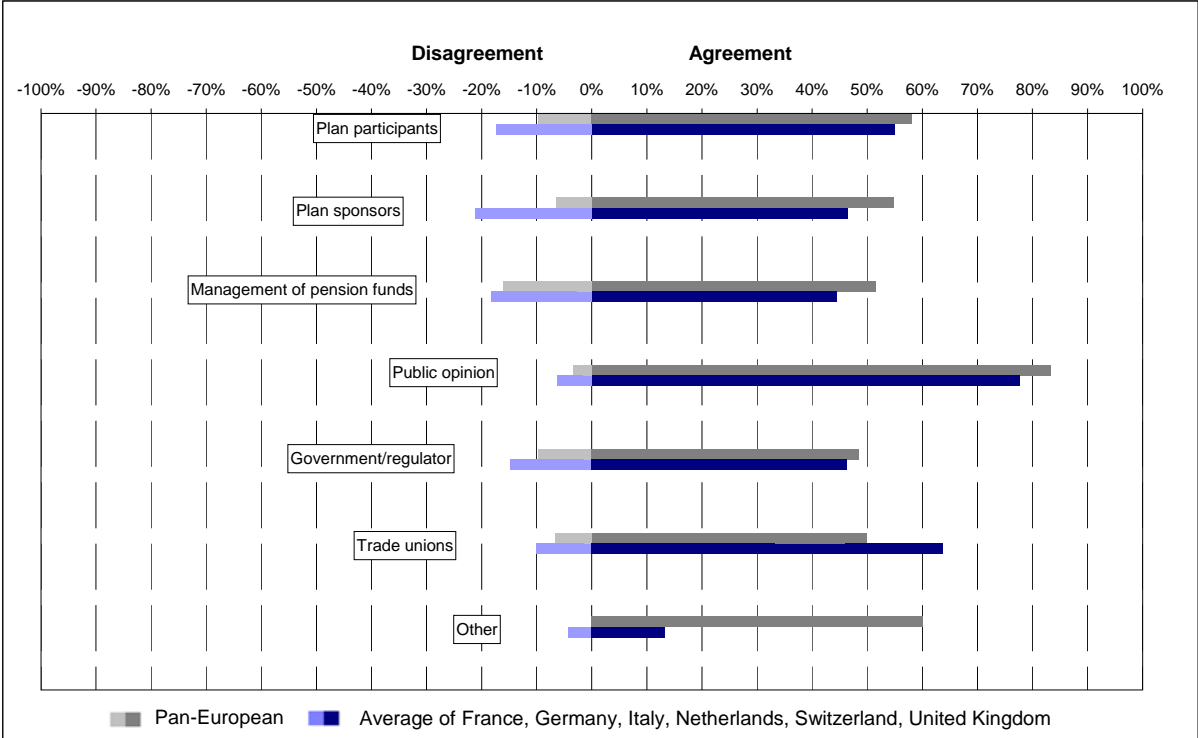
The majority of pension experts believe that socially responsible investments (SRI) will be expanded to asset classes other than equities. They further claim that pension funds will become more active owners of the companies they invest in and that they will increase their investments in accordance with SRI. However, on a Western European average 17% do not believe that these investment strategies will gain further importance, while no pan-European expert shares this expectation. There are quite similar results in factors that drive the demand for SRI. More than one half does not believe that this demand stems from the expectation of higher returns. However, only slightly more than half of the pan-European experts also state that the demand is not driven by the reduction of risk, while 45% on average believe that this is true (see Figure 103).

Figure 103: Socially Responsible Investment (SRI) (comparison)



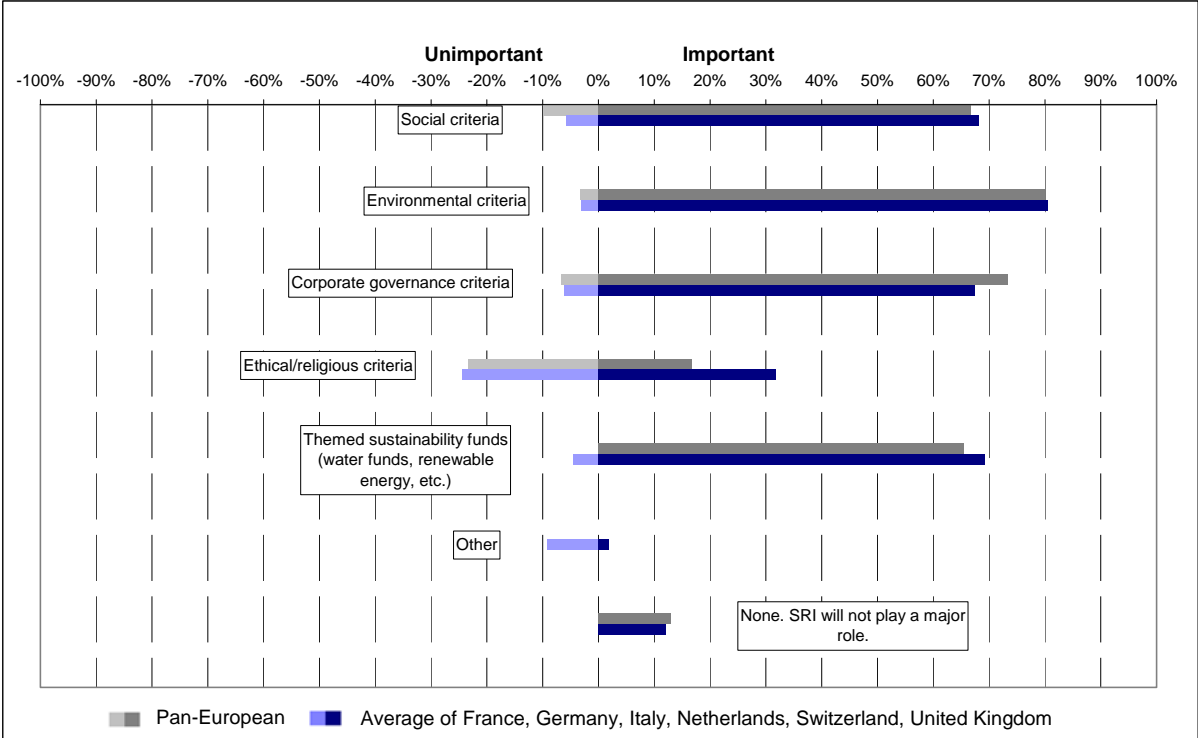
Around 80% of the experts believe that it is the public that drives the demand for SRI. It is followed by plan participants, plan sponsors, management of pension funds, and the government. In all cases the pan-European experts agree a bit stronger with the arguments which drive the demand for more investments in accordance with SRI. On the contrary, 64% of the Western European average also believe that trade unions are an important demander for SRI. This opinion is supported by exactly half of the pan-European survey participants (see Figure 104).

Figure 104: Stakeholders affecting demand for SRI (comparison)



The most important criteria when it comes to investments in accordance with SRI are environmental criteria, closely followed by social criteria. The number of pan-European experts, who believe that corporate governance criteria are essential as well, is slightly higher than the corresponding average of Western European experts. Nearly the same fraction claims that themed sustainable funds, such as water funds, and investments in renewable energy, are crucial determinants for SRI decisions. Ethical and religious criteria are assessed to be the least important drivers when it comes to SRI investment decisions: 31% of the experts of the 6 European countries regard them as important, 24% object, while only 17% of pan-European participants consider them as essential, and 23% object. Only around 10% of the pension specialists state that SRI will not play an important role in the occupational DC pension schemes (see Figure 105).

Figure 105: SRI criteria (comparison)

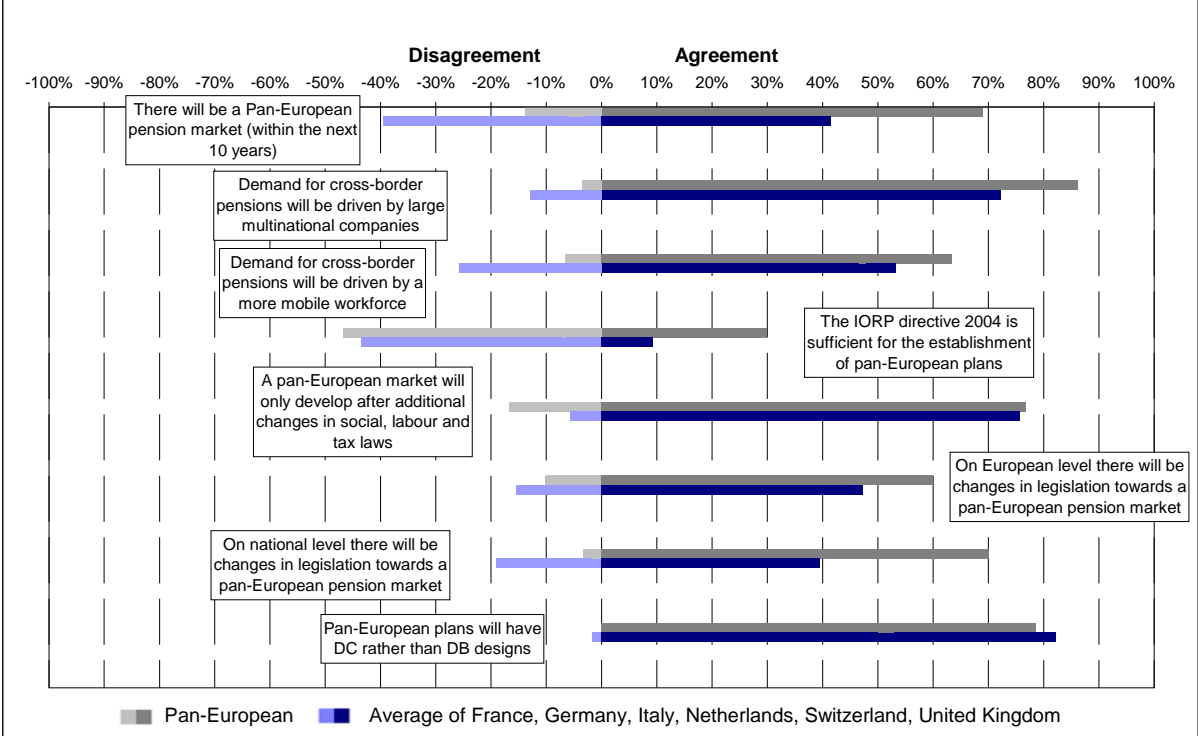


3.7 Pan-European Pension Plans

Regarding the future of a pan-European pension market, there are some great differences in the average Western European opinion and the suggestions of the pan-European experts. First of all, the vast majority of almost 70% of the pan-European pension specialists believe that there will be a pan-European pension market within the next ten years, while only 13% object. In contrast, experts of the 6 European countries in question are divided on this matter. Only 42% state that an establishment of a pan-European pension market will occur, while almost the same fraction states that this is a rather unrealistic scenario. The experts have no doubt that pan-European plans will have a DC rather than a DB design. They also agree that this is only possible after certain amendments in the social, labor, and tax legislation have been made. Thus, almost half of the experts claim that the IORP (Institutions for Occupational Retirement Provision) directive is insufficient to establish pan-European pension plans. However, while on average only 9% disagree with this statement, 30% of all pan-European experts think that the current framework is adequate. In addition, pan-European experts are obviously more confident that changes in legislation will occur on a European as well as on a national level.

Similarly, they are also more certain that while the demand for cross-border pension plans is primarily driven by multinational companies, the increasingly mobile workforce also exhibits a growing demand for such plans (see Figure 106).

Figure 106: Pan-European pension market (comparison)



Appendix

Figure 107: Future trend of the occupational DC market I (Western European average)

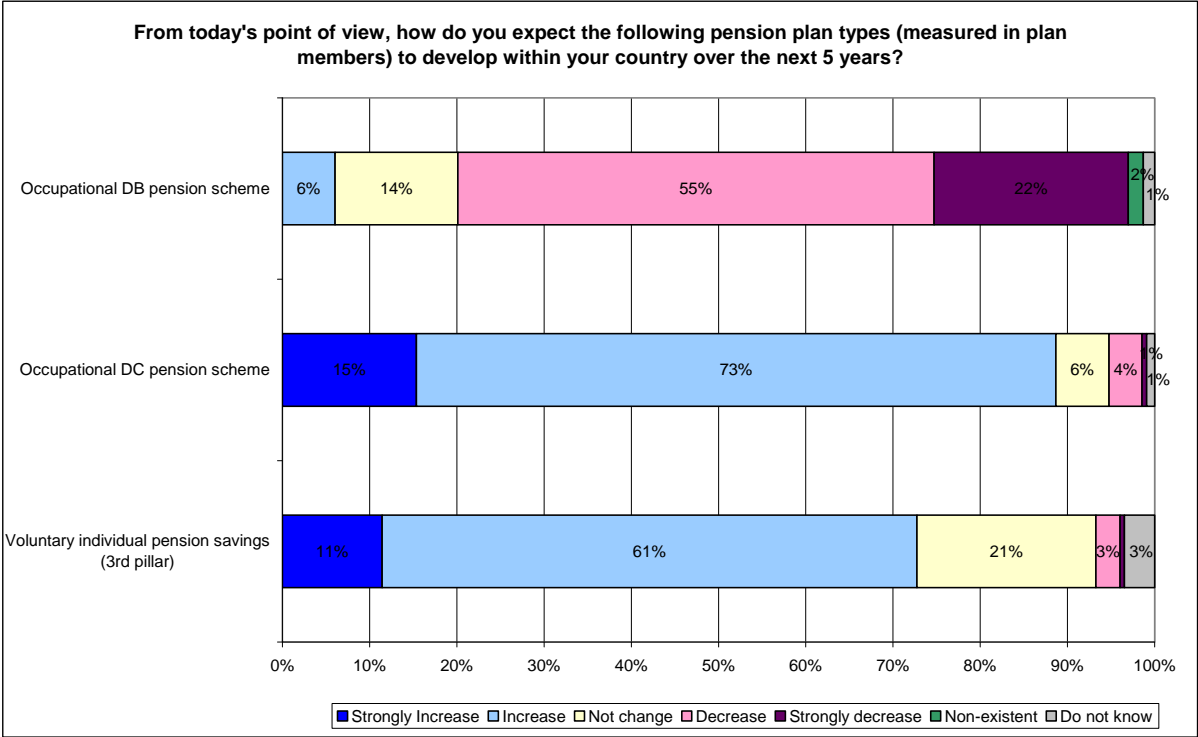


Figure 108: Future trend of the occupational DC market II (Western European average)

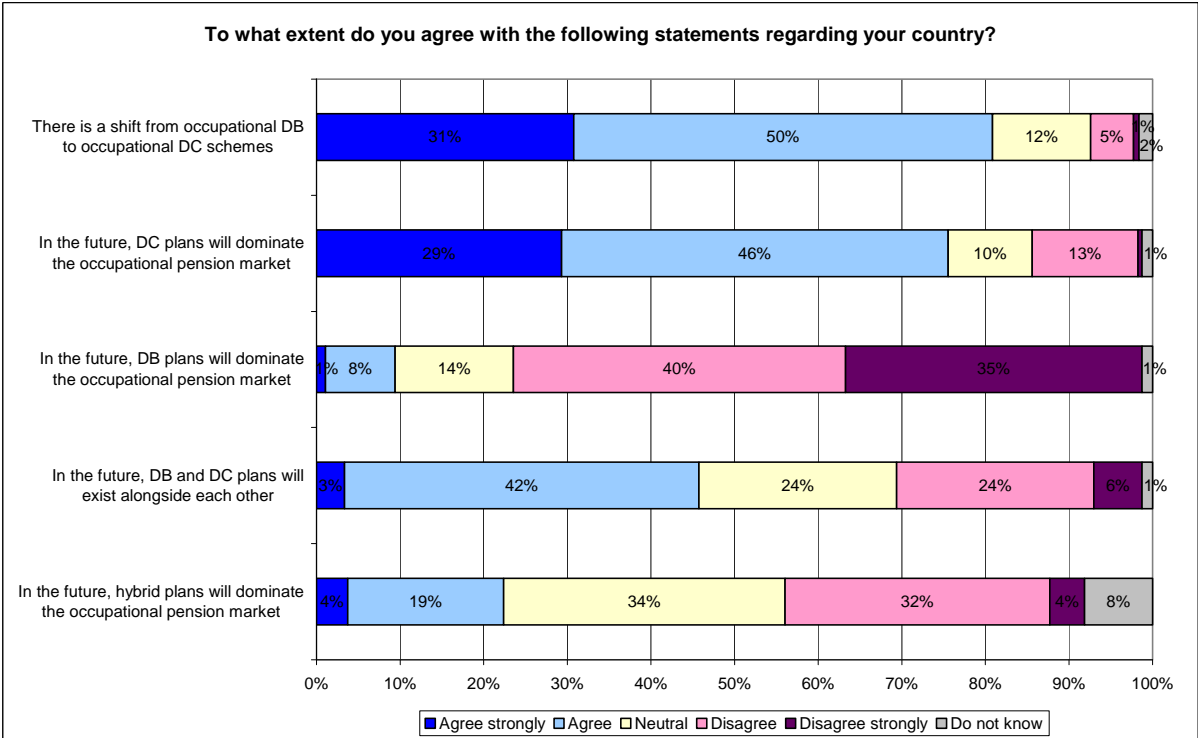


Figure 109: Motivation of employers to choose an occupational DC plan (Western European average)

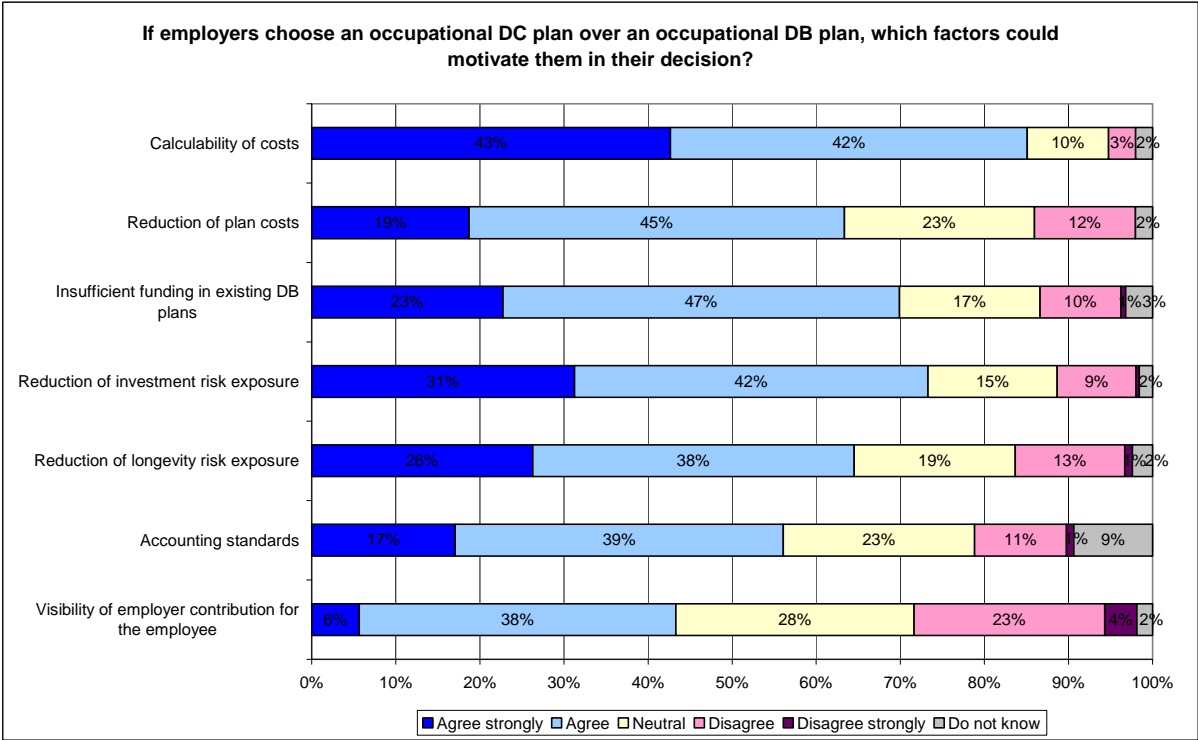


Figure 110: Obstacles for the development of the occupational DC market (Western European average)

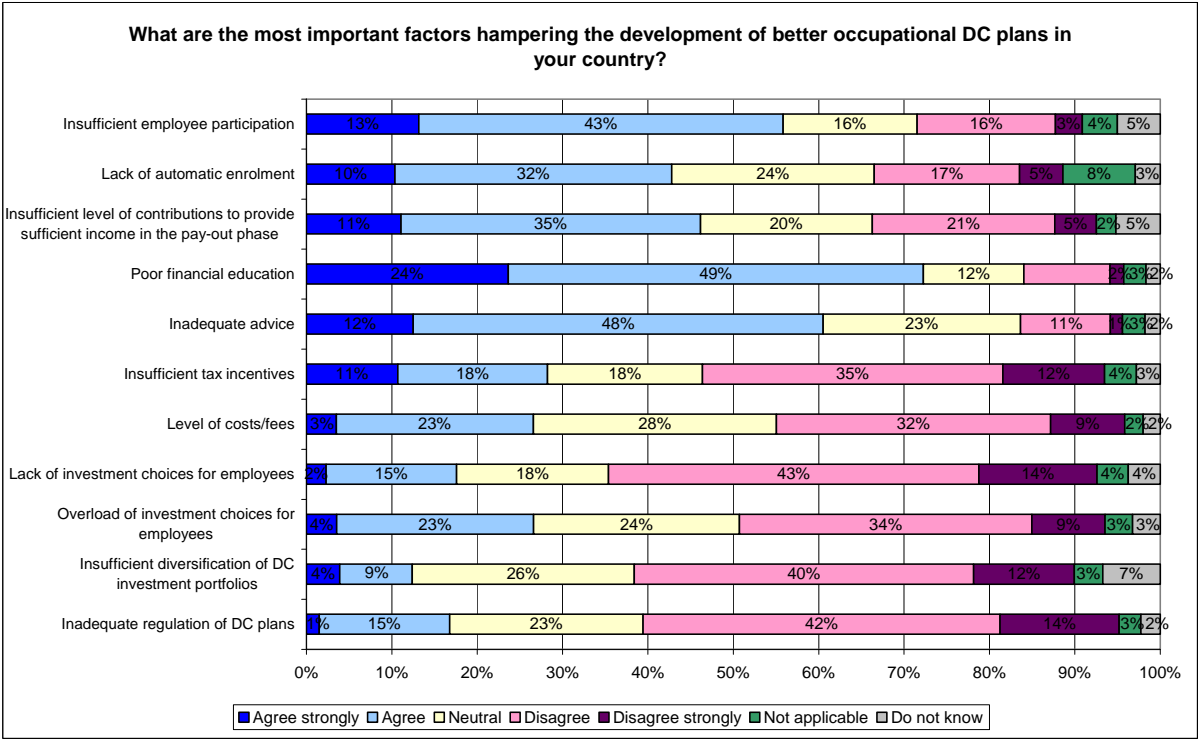


Figure 111: Future regulation of the occupational DC market I (Western European average)

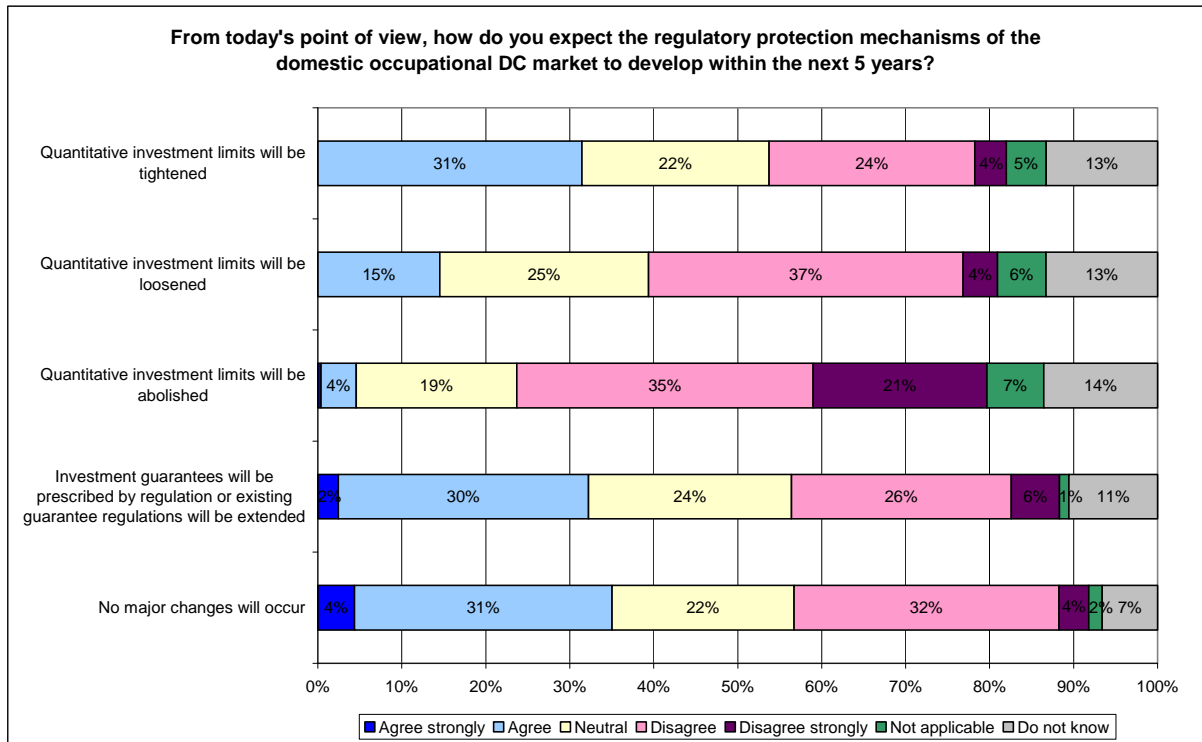


Figure 112: Future regulation of the occupational DC market II (Western European average)

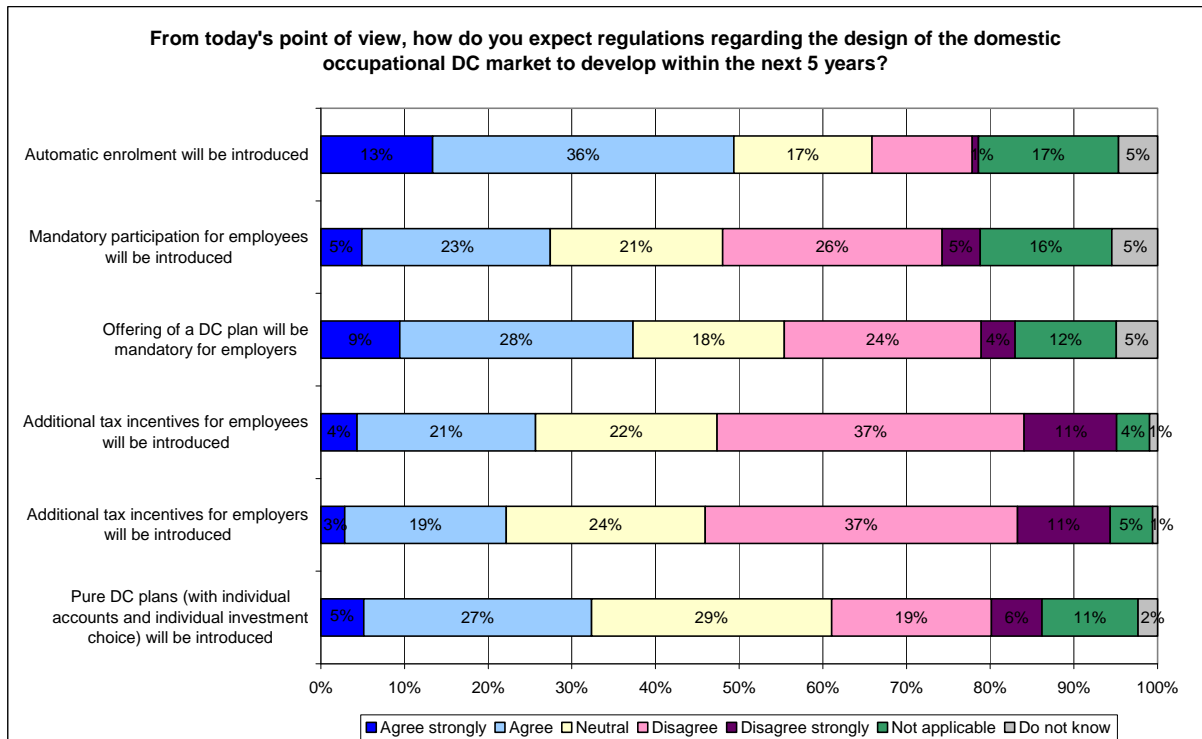


Figure 113: Optimal pay-out phase design of occupational DC products (Western European average)

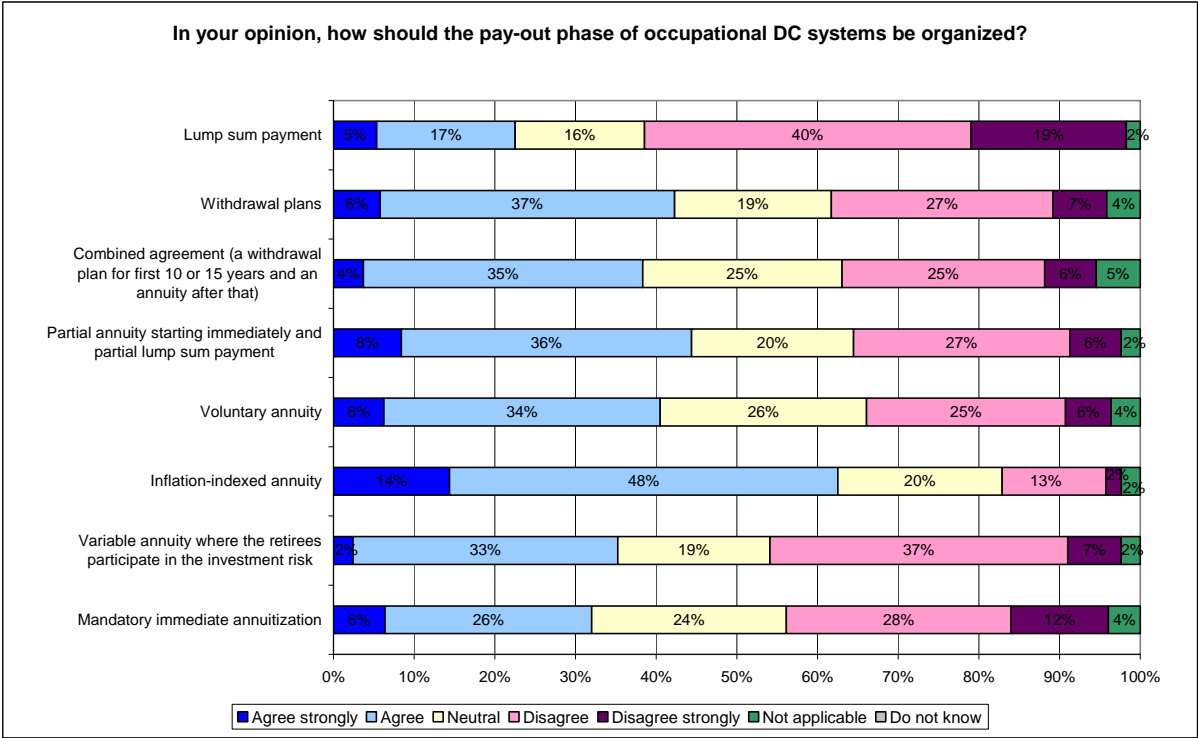


Figure 114: Impact of the financial crisis on the pension market (Western European average)

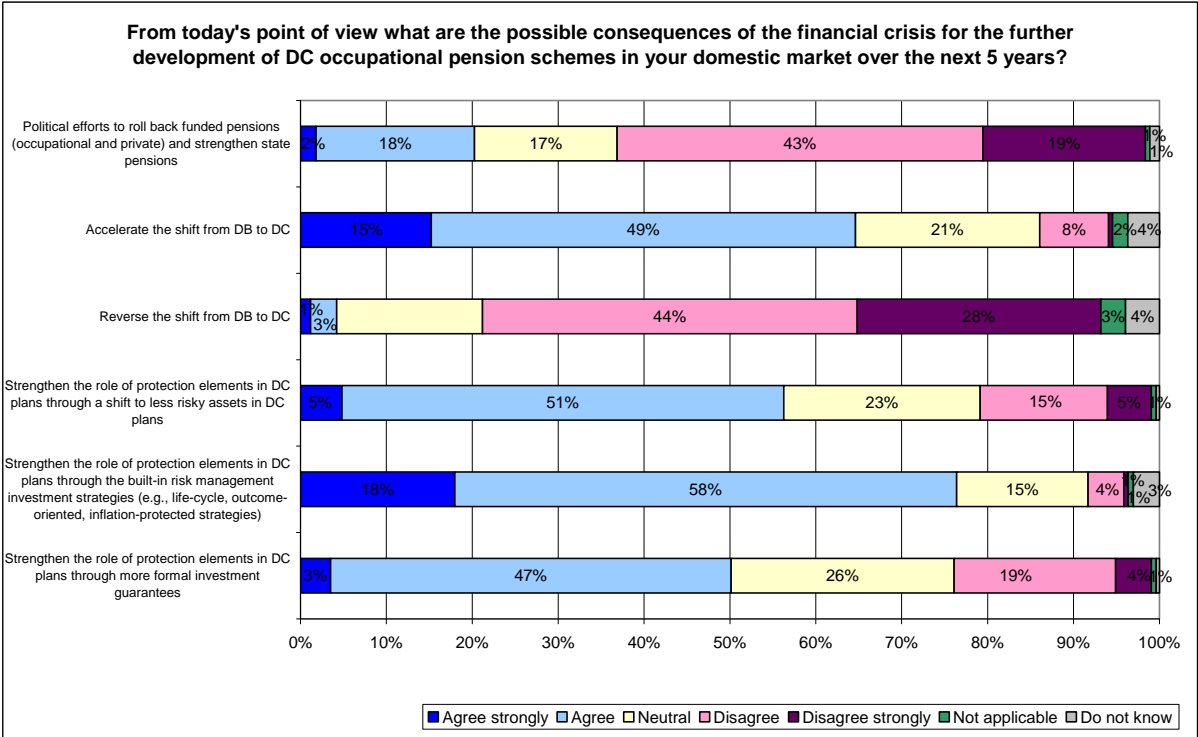


Figure 115: Socially Responsible Investment (SRI) (Western European average)

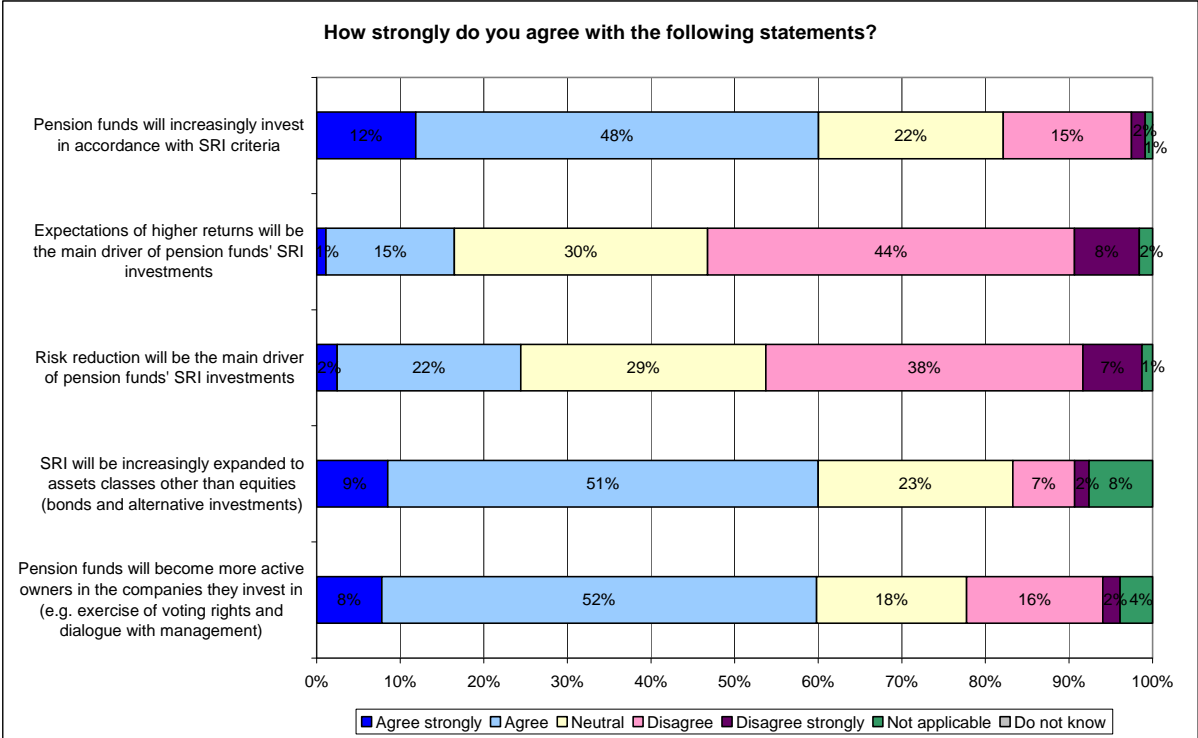


Figure 116: Stakeholders affecting demand for SRI (Western European average)

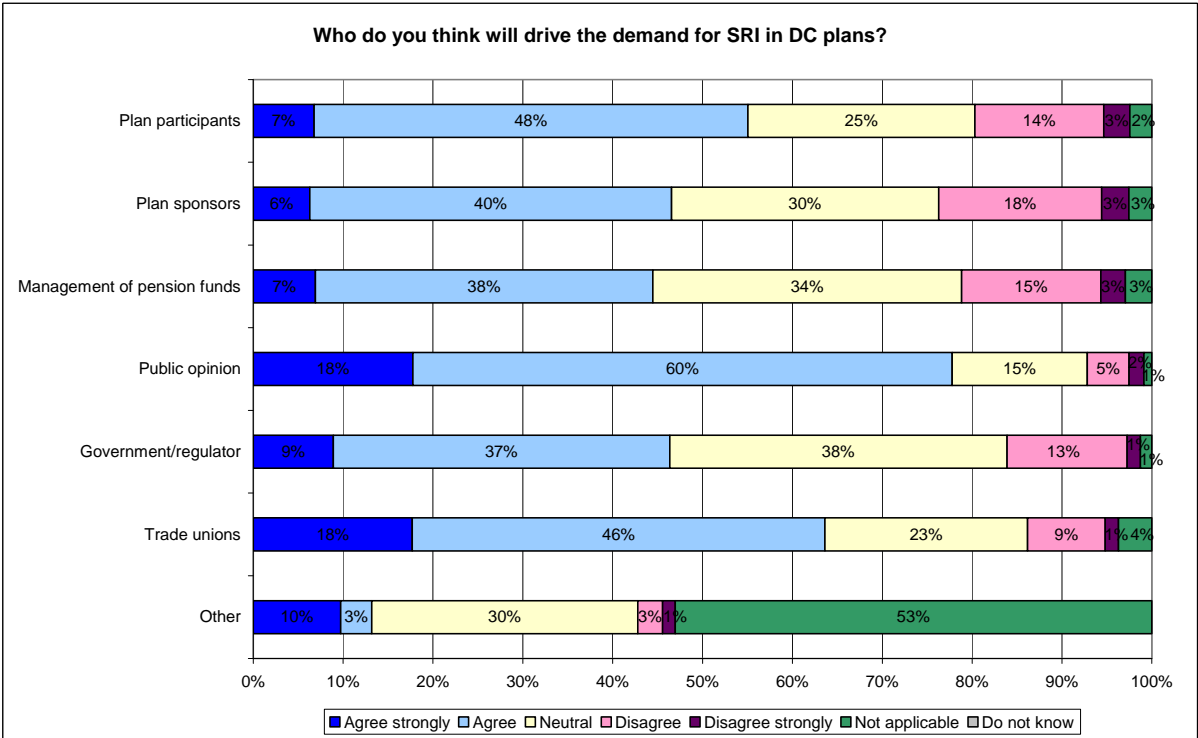


Figure 117: SRI criteria (Western European average)

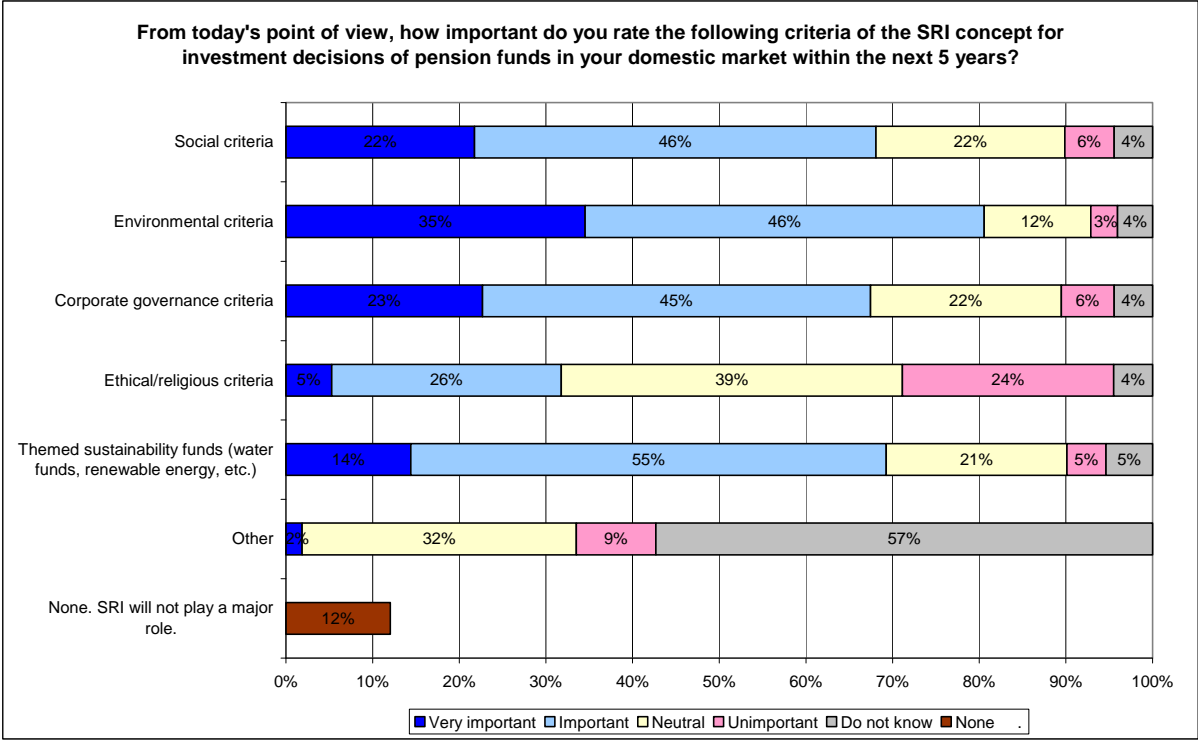


Figure 118: Pan-European pension market (Western European average)

