

BRIDGING PENSION PLANS WORLD WIDE



A Global Pensions Survey
by LIMRA International
December 2006

FULL REPORT

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Table of Contents

- About the study	3
- AEGON Pension Network	3
- Key findings	4
- Region summaries	5
o World view	5
o North America view	5
o Europe view	6
o Latin America view	7
o Asia view	7
1. Complexity of pension regulations affects European competitiveness	8
1.1. Government reform	8
1.2. Cross-border pensions	11
1.3. Workforce mobility	14
2. Multinational firms will lead the way	15
2.1. Global integration	15
2.2. Benefits of convergence	17
2.3. Pan-European plan	20
2.4. Providers	22
3. Clear shift of risk from company to individual	25
3.1. Shift from defined benefit to defined contribution plans	25
3.2. Investment trends	28
- Contact details	30
- Panel of experts	31

About the study

AEGON's study presents the global market insight of high-level pension experts in 16 countries around the world. The 115 experts include representatives of 44 multinational firms and 31 consultants or financial professionals who personally advise 1,700 multinational corporations. The survey's respondents provide advice to or directly control company pension assets totalling approximately €1 trillion for a combined global workforce of over 18 million.

The primary aim of the study was to gain a clearer understanding among multinational companies of the key issues they face in providing employees with pension plans in their varied geographical contexts. It was also intended to present executives responsible for the global management of multinational firms' retirement plans insights into the future of the pensions industry assist them in developing and evaluating their organisations' options and strategies.

The study was conducted in the third quarter of 2006 as a Delphi study by LIMRA International, a global research firm for the financial services industry. A Delphi study seeks to build consensus among respondents by conducting several rounds of interviews. The AEGON study is the first worldwide Delphi study on pension plans of multinational firms.

AEGON Pension Network

AEGON is one of the world's largest life insurance and pension companies and has its headquarters in The Hague, the Netherlands. With 27,000 employees worldwide, AEGON operates in the United States, the Netherlands and the United Kingdom and also has a presence in Canada, China, the Czech Republic, Hungary, Poland, Slovakia, Spain and Taiwan.

The AEGON Pension Network is the first international network dedicated to pension solutions for multinational companies. AEGON and La Mondiale co-operated to start the AEGON Pension Network which has a global reach supported by experienced international pension and employee risk benefit providers across Europe, North America and the Far East.

Through effective cross-border co-ordination and a multi-domestic approach to pension benefits, the AEGON Pension Network offers a range of products and services to help multinational clients customise pension solutions for their local objectives. These solutions can then be integrated into the client's global pension and employee risk benefits strategy.

Key findings

1) Complexity of pension regulations affects European competitiveness

Dealing with disparate national regulations of pension plans is especially difficult in Europe, affecting all multinationals with sizable operations there. Three out of four experts surveyed consider the complexity of pension regulation in Europe as a factor affecting labour competitiveness. According to the study, this has resulted in increasing the determination of multinationals to seek a greater level of consolidation of pension affairs in Europe.

2) Multinational firms will lead the way

The survey shows that although pension systems currently remain country-specific, multinational firms have taken the lead in driving cross-border pension integration. They have influenced the direction of the market into designing and implementing pragmatic solutions for the management of global pension arrangements.

3) Clear shift of risk from company to individual

Although there are differences between countries regarding the relative use of defined benefit and defined contribution plans, there is broad consensus among experts surveyed that the global trend of shifting risk and choice from a company's balance sheet to individual employees will continue.

Region summaries

World view

This study emphasises the fact that business is becoming increasingly global and pension solutions must be found to integrate corporate pension arrangements of multinational organisations. This can be done using consolidated reports, techniques for assets and risk, and a global view of asset liability management.

The challenge is to find solutions that help overcome inconsistent tax codes, national budget constraints and regulations to fund a comfortable retirement income for large numbers of employees while preserving the preferences when it comes to investment and retirement choices. Multinational firms are currently finding pragmatic solutions to these problems.

Free of the fiscal and political constraints that paralyse national governments, pension boards of progressive multinational firms are best placed to lead the initiative that will develop global solutions for an increasingly mobile workforce seeking to fund an adequate retirement income. Based on the opinions of some of the world's leading experts on retirement benefits of multinational firms, this study estimates that by 2011, more than 22% of the world's top 500 firms in terms of global employment will have established an integrated global pension solution. These solutions will help reduce the administrative cost of providing retirement benefits to the workforce by an average of 7.5%.

Seventy-two per cent of panellists agree that the emergence of specialised firms to which multinationals can outsource their retirement plans around the world will cause a major increase in the number of firms that integrate their plan. Eighty-nine per cent say multinationals will seek to provide seamless retirement benefits for expatriates working in large emerging countries like China and India. At the same time, cross-border solutions will help reduce the administrative cost of providing retirement income solutions in Europe, improving the competitiveness of European labour in world markets, slowing the trend toward off-shoring, and softening the impact of the impending crisis that massive boomer retirements would otherwise bring about.

North America view

The number of multinational firms based in the United States, the size of retirement plan assets that these firms hold there, and the historical prevalence of defined benefit plans among these firms indicate major changes in retirement plans of multinational firms between now and 2011.

'Diversified's Report on Retirement Plans – 2006' recently released by Diversified Investment Advisors, a member of the AEGON Pension Network in the United States, found that the incidence of 401(a) defined contribution plans, often implemented by employers that freeze their defined benefit plan, are now offered by 36% of large firms, up from 19% in 2005 and 12% in 2004. While many of these plans are implemented to help contain the risk inherent to defined benefit plans, employers continue to commit major amounts to fund retirement benefits for their employees. As an example, the study found that 42% of firms with 25,000 employees or more contribute at least \$50 million to their 401(a) money purchase or profit-sharing plan.

Equally interesting is the projected rise in popularity of other automatic account management features. For instance, the study finds that 39% of employers are considering implementing automatic deferral increases, which would more than triple the number of employers who currently use such a feature. Similarly, 37% of employers are considering implementing an automatic rebalancing tool and 38% are considering implementing a managed account service or another investment option designed to simplify participant decision-making that automatically rebalances each participant's investment mix of funds to a more conservative allocation as the participant nears retirement or retires.

Today, about 55% of large firms in the United States offer a defined benefit plan. A Delphi study *'Prescience: Expert Opinions on the Future of Retirement Plans'*, conducted last year among US-based experts in the retirement plans business found that only 36% will still offer a defined benefit plan in 2010. It is expected that 30% of the plans in existence today will be frozen and 15% will be terminated. Results from this study go beyond these estimates.

Indeed, there is a broad consensus among experts surveyed about the US (90% agree) that fewer than 50% of employers with 5,000 or more employees will offer a defined benefit plan in 2011.

As more multinationals drop their defined benefit plan in the United States, they will be tempted to also adopt a defined contribution plan approach in other countries for consistency across the organisation. It comes as no surprise that 96% of the experts based in the US project that defined contribution plans will increase around the globe.

In spite of major changes, the United States remains the country of free choice and 83% of the experts who were asked about it did not believe that the US would mandate an employer-provided retirement program by the year 2011. That means retirees will be expected to continue relying on the current state pension system as well as their own personal savings.

Ninety-three per cent of US-based experts expect that by 2011, multinationals will seek to offer seamless retirement benefits for expatriates from the US and Europe working in large emerging countries such as China or India. In the study, 89% of US-based respondents agree that multinationals that succeed in containing the cost of retirement benefits will significantly improve their competitive position.

Sixty-eight per cent of US-based respondents agree that the emergence of specialised firms to which they can outsource their retirement plans around the world will cause a major increase in the number of multinational firms that integrate their retirement plans. Nearly three-quarters expect that by 2011, global organisations will strive to consolidate as many pension plans as possible into one efficient arrangement, coordinating investment management and record-keeping functions across borders. Asset-liability management and reporting systems for plan liabilities and plan assets are the two biggest benefits that experts who know the US market see as the two biggest benefits of plan convergence.

Europe view

Ninety-one per cent of the experts surveyed agree that the complexity of pension plan regulations across European countries affects the cost of providing retirement benefits in the European Union (EU).

In spite of the adoption of the Pensions Directive in 2005, the EU has been slow to harmonise its diverse national pension systems, and this is pushing up costs for multinationals with sizable operations in Europe. According to more than three-quarters of those surveyed, the difference in the cost of providing pension plans between Europe and other parts of the world affects the competitiveness of European labour in the global economy and nearly two-thirds (64%) agree that the impact of pension administration costs in the EU feeds the trend toward outsourcing and off-shoring.

National budget constraints and a political reluctance to reform national tax laws are what experts have identified as the number one and number two obstacles to the development of pension plans. Seventy-two per cent of experts do not believe that their country's public retirement programme will introduce a notional or virtual defined contribution account similar to that implemented in Sweden. Outside of the UK and France, a majority does not expect that their country will support mandated employer-provided retirement plans.

As a result, the real momentum in harmonising European pension systems will likely come from multinational firms. Indeed, 61% of experts surveyed agreed that companies operating cross-borders within the EU would be harmonising their occupational pension schemes across countries.

Based on the study's results, it is projected that within five years, 22% of the world's largest 500 multinational corporations will have implemented integrated global pension solutions. Some multinationals surveyed have already taken the lead in streamlining pension systems, seeking to take advantage of consolidated investment reporting, consolidated asset and liability modeling, asset pooling, and streamlined administration contracts for defined contribution and defined benefit plans.

Latin America view

Latin American countries have led the way in reforming public retirement systems using individually funded defined contribution accounts as early as 1981. If they are structured properly, public retirement programmes that use a defined contribution approach lessen the need for employer-funded retirement solutions for the local workers. Multinational employers seeking to attract expatriates to work in these countries find themselves unable to rely on a local pension solution to provide retirement benefits for cross-border workers.

Mexico is an interesting case within the group of Latin American countries that have switched to a defined contribution approach to retirement funding. Although Mexico introduced AFORES (Administradoras de Fondos para el Retiro) in 1997, employer-provided termination indemnities at retirement are still very prevalent and multinationals are subject to pension liabilities that support the existence of pension funds. This model might become more prevalent in other Latin American countries in the future as they face the consequences of a steep decline in birthrate and a fast increase in average life expectancy resulting in a sudden increase in retirement funding needs.

Within the next five years, employee mobility within Latin American countries is also expected to fuel the demand for portable solutions that compensate for the limitations of defined contribution public retirement programmes. Prospects for employer-funded solutions may also rise in countries such as Argentina where governments are tempted to leverage public defined contribution retirement systems to regulate the economy or to finance public deficits.

Asia view

Retirement programmes in Asia have reached various stages of maturity and there is little common ground between those in, for instance, Singapore and Japan and emerging retirement systems in, say, India and China. However, the promising pension industry in the latter two countries and developments in South Korea have been the focus of attention in recent years. The development of enterprise annuities in China over the next five years is poised to have a major impact on multinationals that have delocalised manufacturing operations to the mainland.

Seventy-one per cent of experts surveyed agree that multinational organisations with large off-shore manufacturing operations are most likely to implement a global pension solution. Having been in existence only since late 2005, enterprise annuities are only starting to emerge as a potential solution to the ageing of the Chinese population. While few companies have been licensed to sell enterprise annuities, those that do (China Life, Ping An, Tai Ping, China Pacific) have already dedicated thousands of employees to the sale and service of enterprise annuity contracts, demonstrating the growth potential of pension solutions in this booming market where retirement funding was until recently assumed by the work unit individuals were assigned to.

The experts surveyed about the future of enterprise annuities agreed they will be successful at providing sufficient benefit to adequately supplement other forms of pension and that current inconsistencies in the tax treatment of annuities will have been resolved by 2011. The experts surveyed also agreed that a solution would be found within the next five years to address the retirement coverage needs of Taiwan-based individuals who work on the mainland.

Nowhere in Asia is the retirement funding problem posed by the ageing of the population as acute as it is in Korea. While the age dependency level is greater in Japan, Korea still relies heavily on a pay-as-you-go retirement system and the amount of unfunded retirement liabilities is expected to have a major impact on fiscal policy at some future point. This situation may have a substantial impact on the large number of multinational firms that currently have their base in Korea. They may find themselves bearing a burden that slows their growth potential.

While India does not face an immediate problem with the ageing of its population, it is important for multinationals that move service operations to that country to keep in mind the long tradition of paying a gratuity to employees upon retirement. While some employers do not fund the provision of gratuities, many set up a dedicated fund that can be thought of as a pension plan. The Pension Fund Regulatory and Development Authority currently involved in negotiations with interested parties is expected to recommend new regulations for the industry that could have major implications for multinational employers based in India or those with sizable operations in the country.

Part 1: Complexity of pension regulations affects European competitiveness

1.1) Government reform

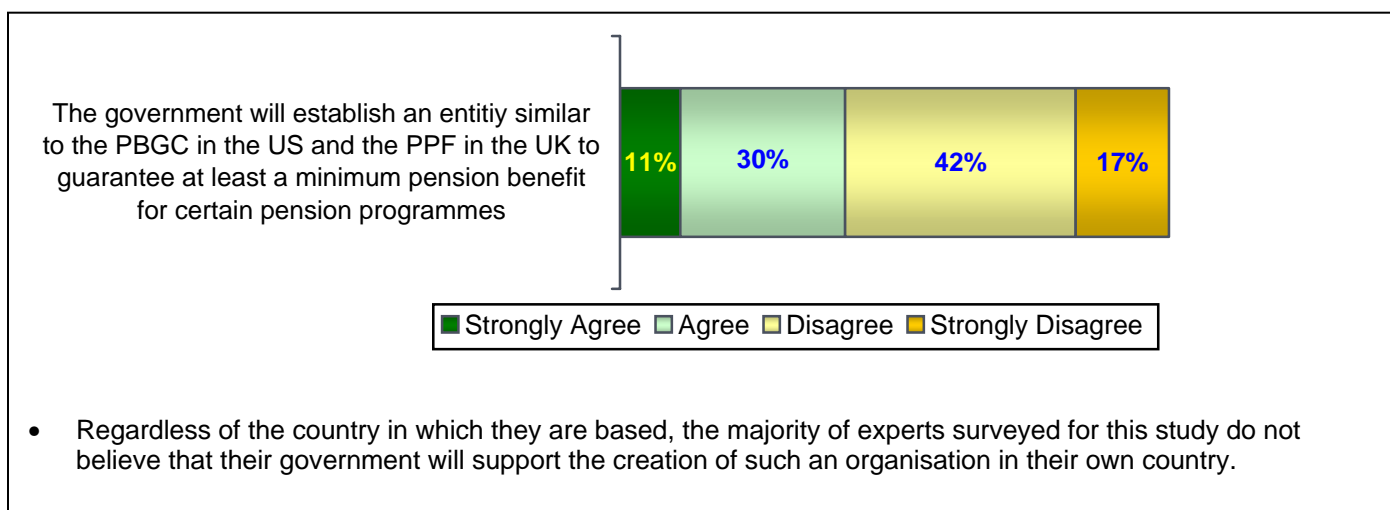
The strain that the growing number of retirees will place on government-funded retirement programmes (first pillar) is a key driver of pension reform.

According to the latest European statistical agency Eurostat, the working-age population is projected to decline by 20% between 2004 and 2050. At the same time, the population of the over-65s will increase by 80%. These developments are projected to cause a doubling of the EU's old-age dependency ratio by 2050 – from 24% today to over 50%. Nations will need to spend more on public pension payouts and health care, while labour supply and unemployment levels make it harder to maintain the economic growth needed to fund obligations.

To supplement public programmes and facilitate the development of employer-funded pensions, some governments have established guarantee funds to protect beneficiaries of plans that become underfunded or insolvent as a result of events such as market fluctuations or employer bankruptcy. For example, in the United States, the Pension Benefit Guaranty Corporation (PBGC) protects the pensions of 44.1 million American workers and retirees in 30,330 private single-employer and multi-employer defined benefit pension plans. The PBGC is funded by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusted by PBGC, and recoveries from the companies formerly responsible for the plans.

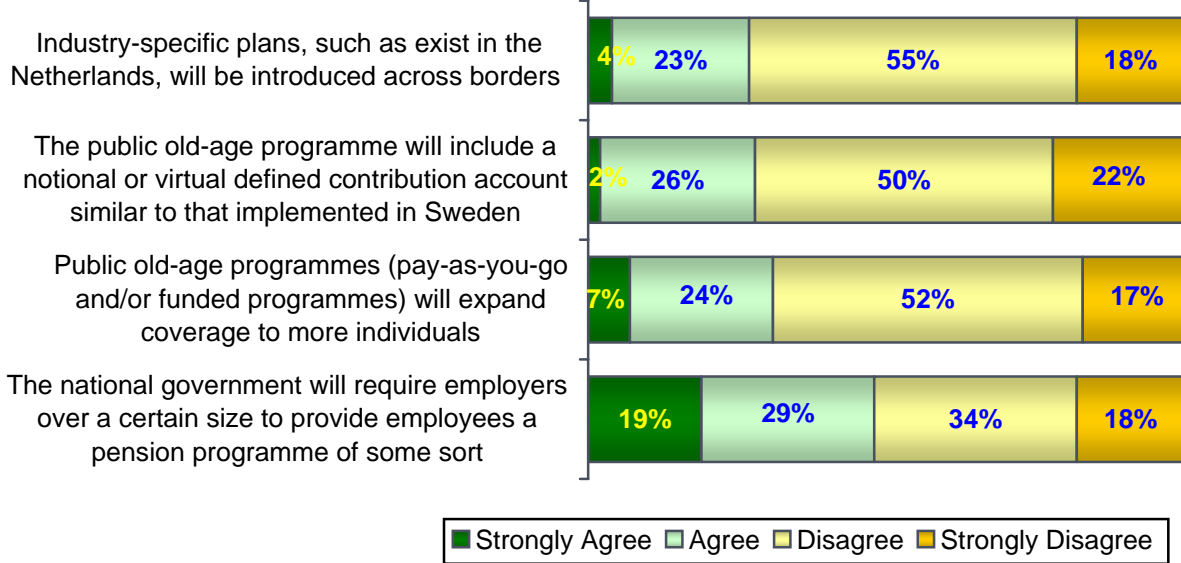
In the United Kingdom, the Pension Protection Fund (PPF) was established to pay compensation to members of eligible defined benefit pension arrangements, in the event of a qualifying insolvency by the employer. The PPF is a statutory fund run by the Board of the Pension Protection Fund established in 2004.

Market fluctuations and funding restrictions established by governments fearful of losing tax revenue have a major impact on the solvency of these national programmes, and some might question the actual value of the protection they provide. Still, setting up such a fund is one way to facilitate the creation of employer-funded retirement plans and a potential solution to ease the impending retirement funding crisis.



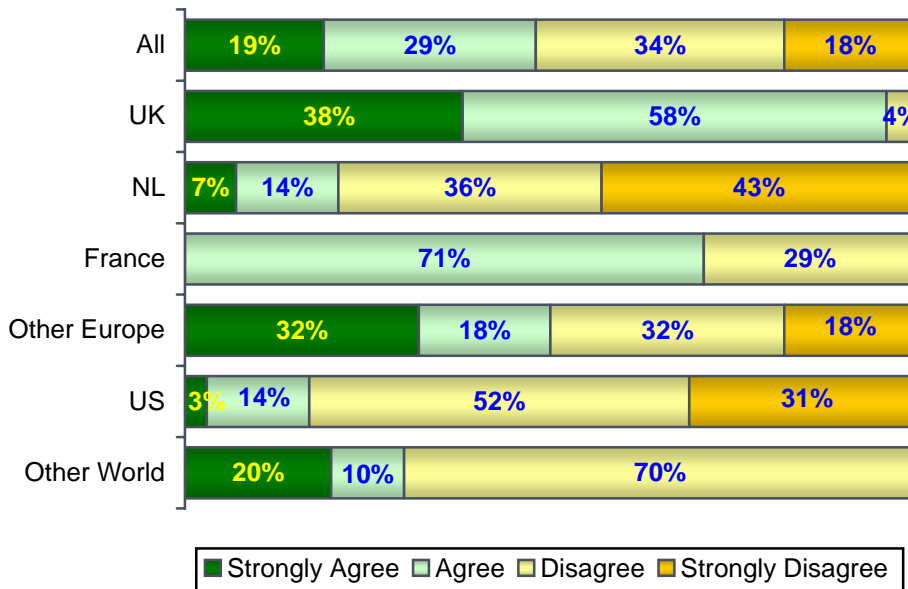
There is a range of other ideas that national governments might consider as they look for options to relieve the financial pressures of public retirement programmes. Many of these ideas involve the development of employer-funded or employee-funded solutions.

Reform of national public old-age programmes or mandatory employer-provided plans not likely
(Country specific)



- Concepts such as notional or virtual defined contribution accounts as exist in Sweden, industry-specific plans as exist in the Netherlands, or even mandated employer-provided pensions are predicted to not be that popular in most countries, according to the panellists surveyed.
- Consequently, it is likely that neither employer-funded nor publicly-funded retirement programs will expand their coverage in the foreseeable future.

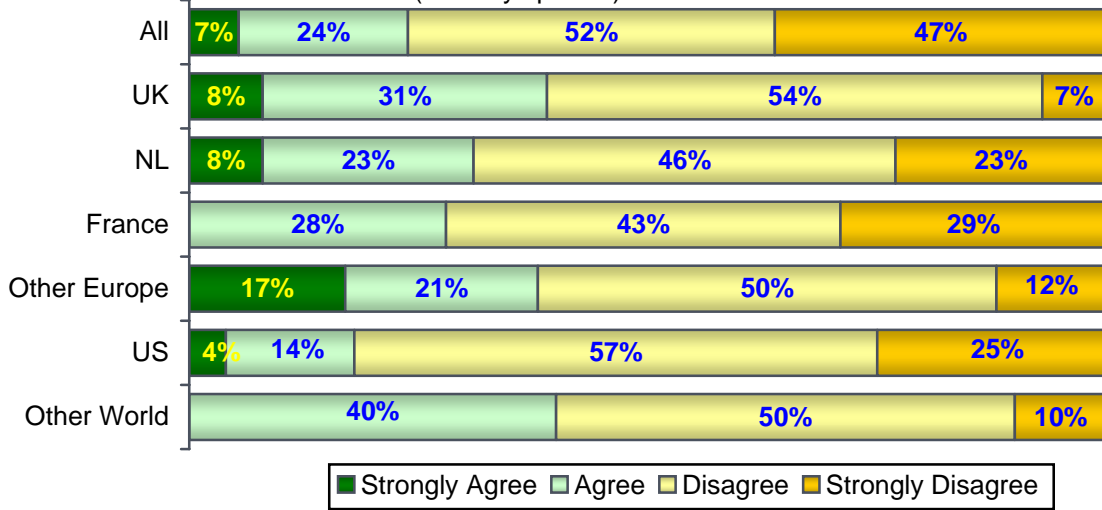
The national government will require employers over a certain size to provide employees a pension programme
(Country specific)



- Given the current reforms, it is not surprising to find that most panellists in Britain expect the government to mandate that employers over a certain size provide a pension programme to their employees.
- More interesting is that 71% of the panellists who know the French market agree that a similar trend will take hold there.

Public old-age programmes (pay-as-you-go and/or funded programmes) will expand coverage to more individuals

(Country specific)

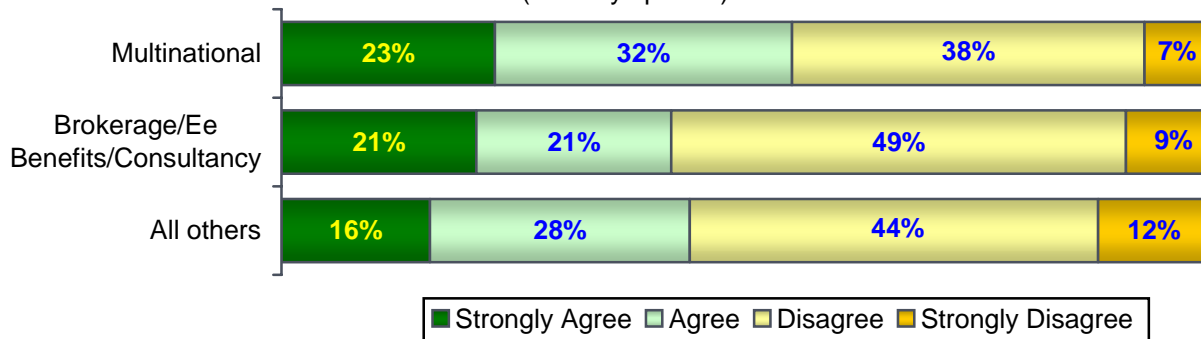


- It appears that no country is expected to expand public old-age programs to cover more individuals in the population.

Multinationals, many of them based in the United States where the tax benefits conferred by the Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRRA) were recently renewed by the Pension Protection Act, are somewhat more optimistic than others.

Within the next five years, additional tax incentives will be introduced to further encourage saving for retirement

(Country specific)



- Panellists are divided on the likelihood that their country will introduce additional fiscal incentives to encourage retirement savings.

1.2) Cross-border pensions

Study responses suggest that multinational companies are generally quite willing to provide solid retirement benefits to their employees. However there are obstacles.

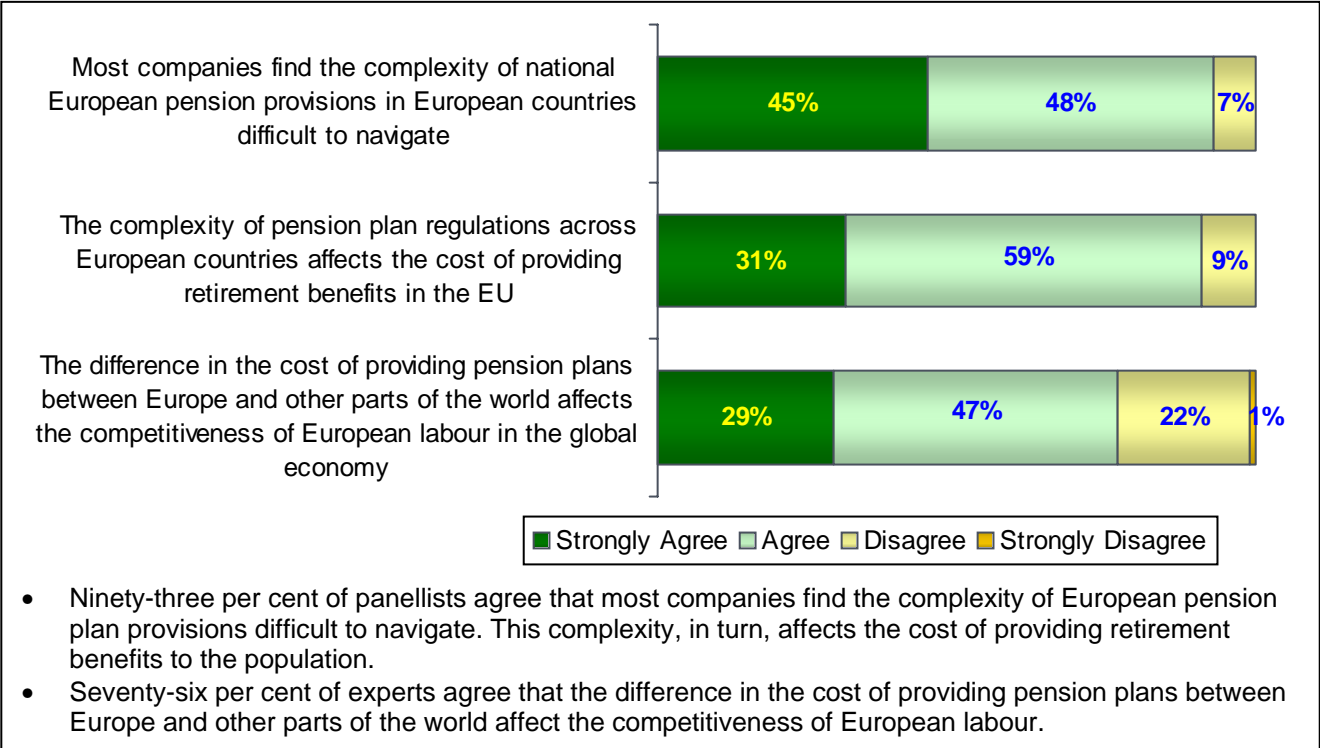
Obstacles to the development of cross-border pension plans

	Rank					
	1	2	3	4	5	6
Public's attitudes towards retirement planning	12%	7%	19%	22%	9%	31%
Budget constraints	26	17	20	18	13	6
Difficulty reforming tax laws	31	34	16	9	8	2
Lack of employer interest in funding	7	6	22	17	29	19
Cost of developing integrated pension administration systems	6	5	15	18	28	28
Differential tax treatment	27	37	11	12	8	5

- The primary obstacle to the development of pension plans around the world, according to the panel of experts, lies in the difficulty of reforming tax laws.
- Public attitude towards retirement planning, the lack of employer interest in funding plans, and the cost of developing pension administration systems are generally not major obstacles.

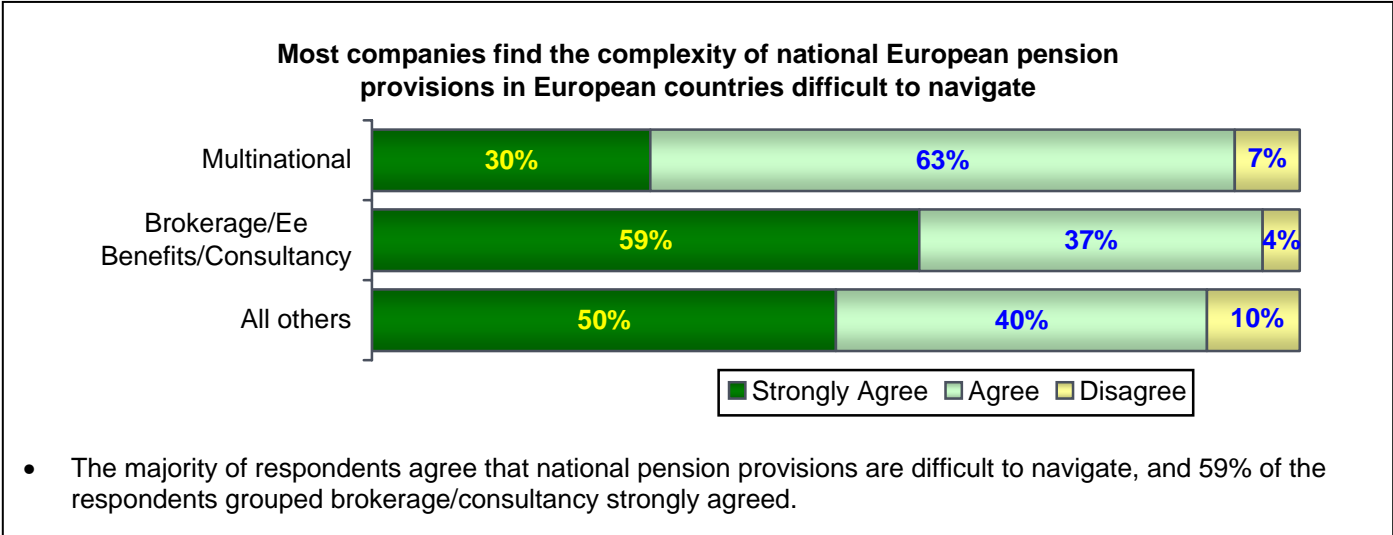
When it comes to offering cross-border pension arrangements to the workforce, multinational employers will need to weigh the benefits against the burden of complying with numerous sets of regulations. The adoption of a defined contribution approach to retirement benefits can facilitate the integrated management of pension management worldwide, as many rules and regulations on benefit funding and investment restrictions apply to defined benefit plans but not to defined contribution arrangements.

It would appear in the graph following that the vast majority of panellists find the patchwork of national regulations to be a hindrance to the development of retirement funding mechanisms. The development of pension arrangements within the EU is further dampened by the cost and complexity of national rules and regulations.



Paradoxically, the rapid ageing of the population in most European nations and the fiscal impact of the decline in the active-to-retiree ratio, lead the business community to expect governments to proactively encourage employer initiatives to fund retirement benefits. Making national pension provisions less difficult to navigate and seeking harmonisation of benefits are steps that the business community would like national governments to take.

National regulations of pension plans were designed to strengthen funding of retirement programmes, but ironically the complexity of regulations affect the cost of doing business and also affect the competitiveness of European labour in the global economy. A degree of harmonisation of regulations would help reduce the cost of providing benefits, lessen the looming crisis as boomers reach traditional retirement age, and also support the job creation necessary to sustain adequate funding for all.



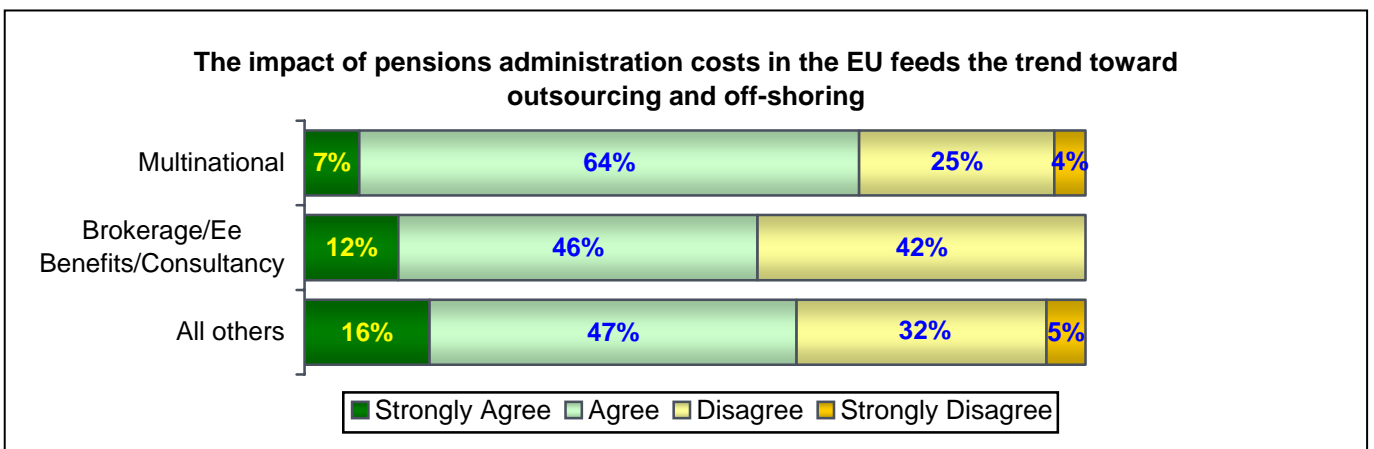
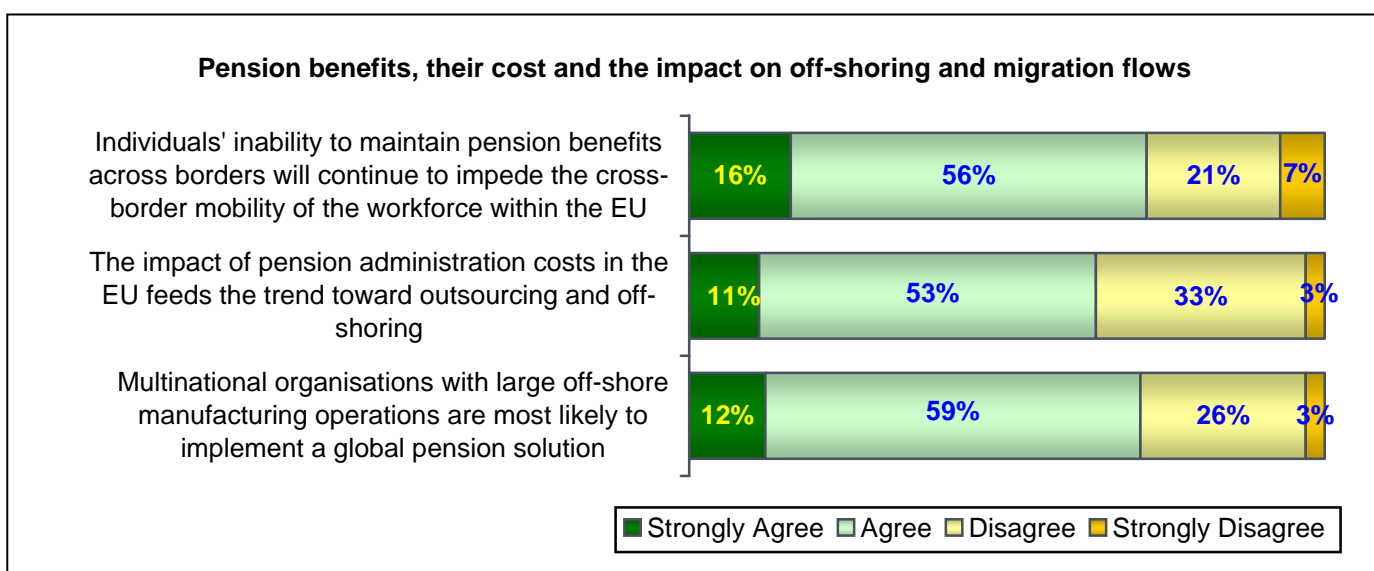
Brokers and consultants work with hundreds of multinational groups, each with its own network of pension plans across the EU, and with a unique approach to retirement benefit funding. Dealing with multiple clients compounds the difficulty of keeping up with an ever-changing patchwork of regulations that apply to plan designs. Acquiring and

maintaining the knowledge and the skill set necessary to service a multitude of clients with elaborate plan designs is a challenge for any firm. Only the largest firms are able to train, develop and support the large client-servicing teams needed to service multinational firms on a consolidated basis.

1.3) Workforce mobility

The collection of laws and regulations that affects the development of pensions around the world was created some time ago. Three decades ago, the model career was a lifelong career. But now many in the workforce want to have mobility – functional and geographic. The truth is that we live in a global economy, and to support a global economy, every person needs a global approach to retirement plans.

Because a large population is concentrated on a small territory divided into many countries, the problem is increased in Europe, but it is by no means a uniquely European phenomenon. An individual's inability to continue pension benefits across borders impedes the mobility of the workforce; it impacts the cost of providing benefits and the efficiency of the world economy. Inefficiencies contribute to the global trend toward outsourcing and off-shoring, facilitating the transfer of jobs to the low-cost countries of Central Europe, Asia, and Latin America, many of which have already adopted innovative approaches to retirement funding.



Out of necessity, manufacturing firms with large off-shore manufacturing operations need to create adequate retirement funding solutions to motivate a highly educated workforce who spend the better years of their careers working and moving from one country assignment to another. This moving about could affect their retirement unless their employer has a convenient solution to break the artificial barriers that national governments have to 'protect' their retirement systems.

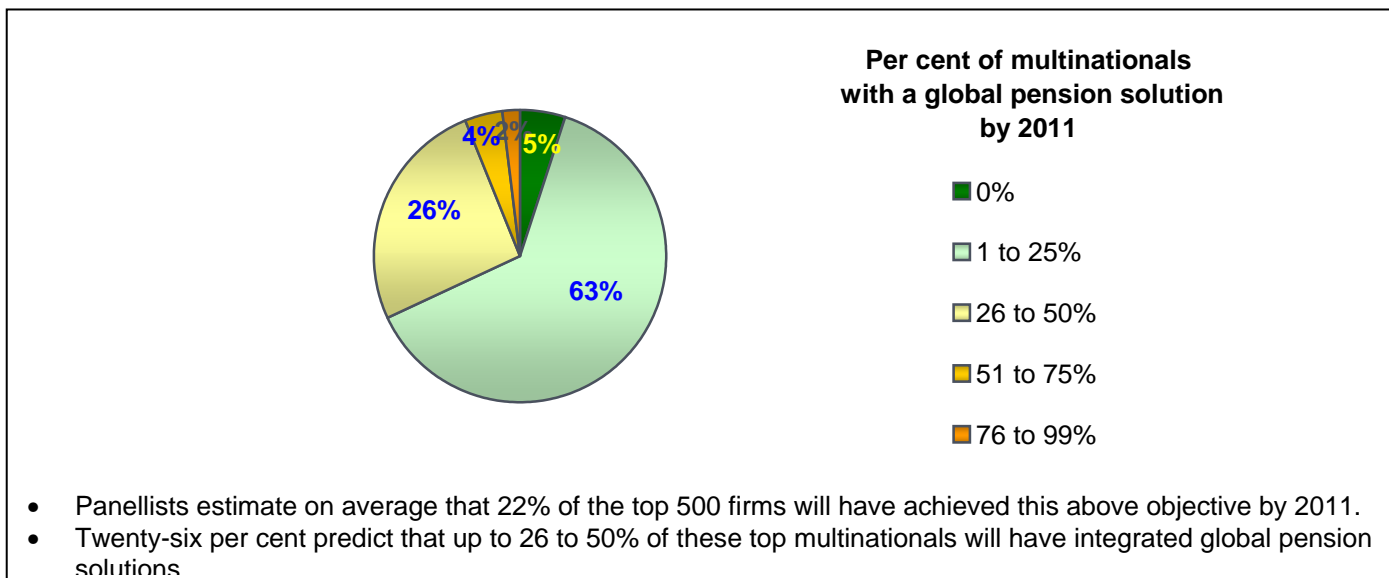
Part 2: Multinational firms will lead the way

2.1) Global integration

The market is progressing to a true global integration of pension plans that allows multinational firms to offer cost-effective and portable benefits to their employees wherever they are.

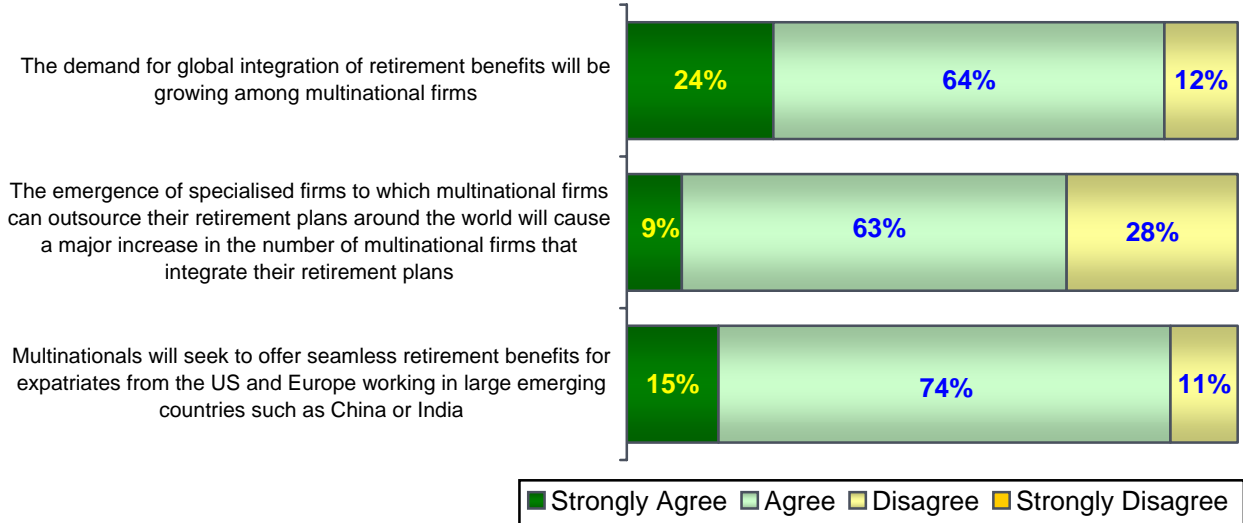


Today, very few organisations have started to integrate their plans into a single solution. Panel experts were asked to predict the incidence of integrated solution among the largest 500 global organisations in terms of global employment.



The study specifically estimates the demand for global integration of retirement plans.

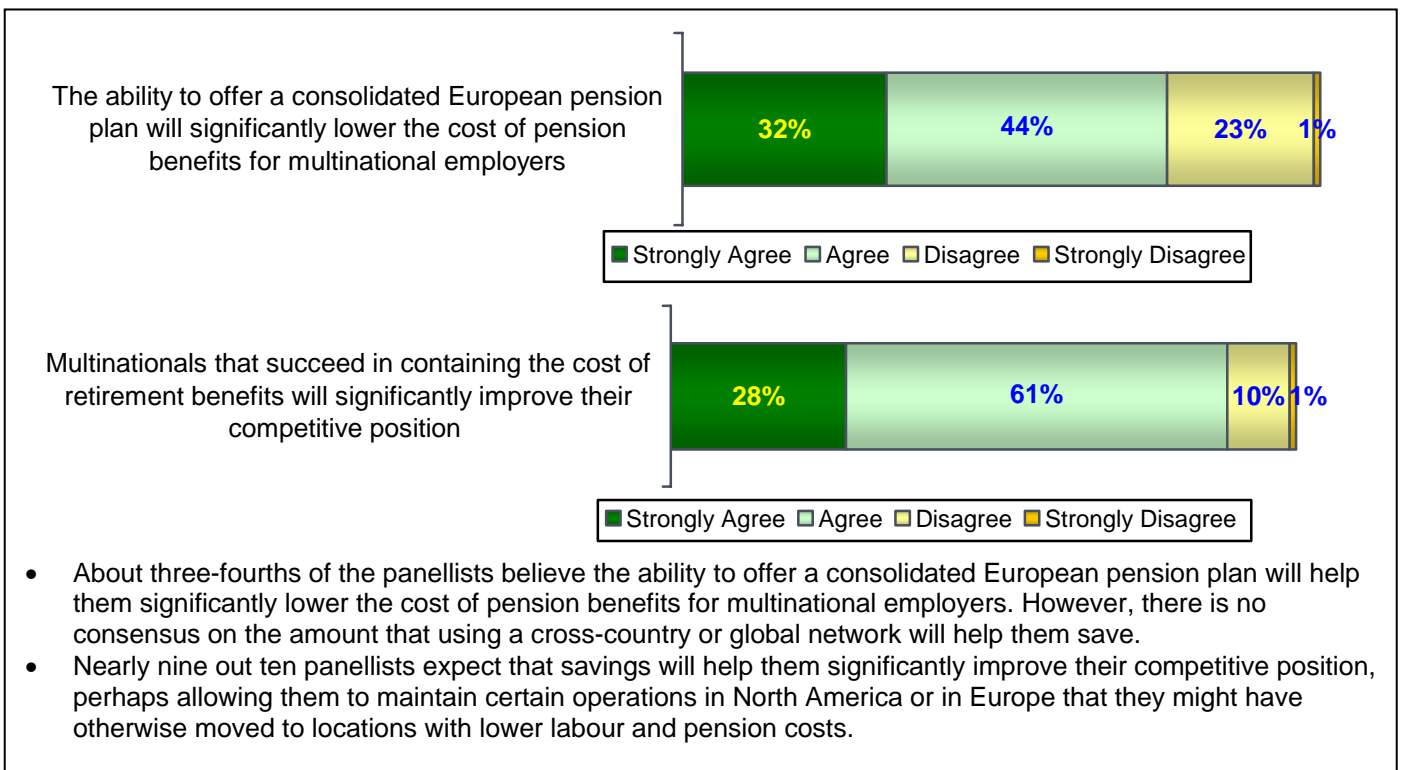
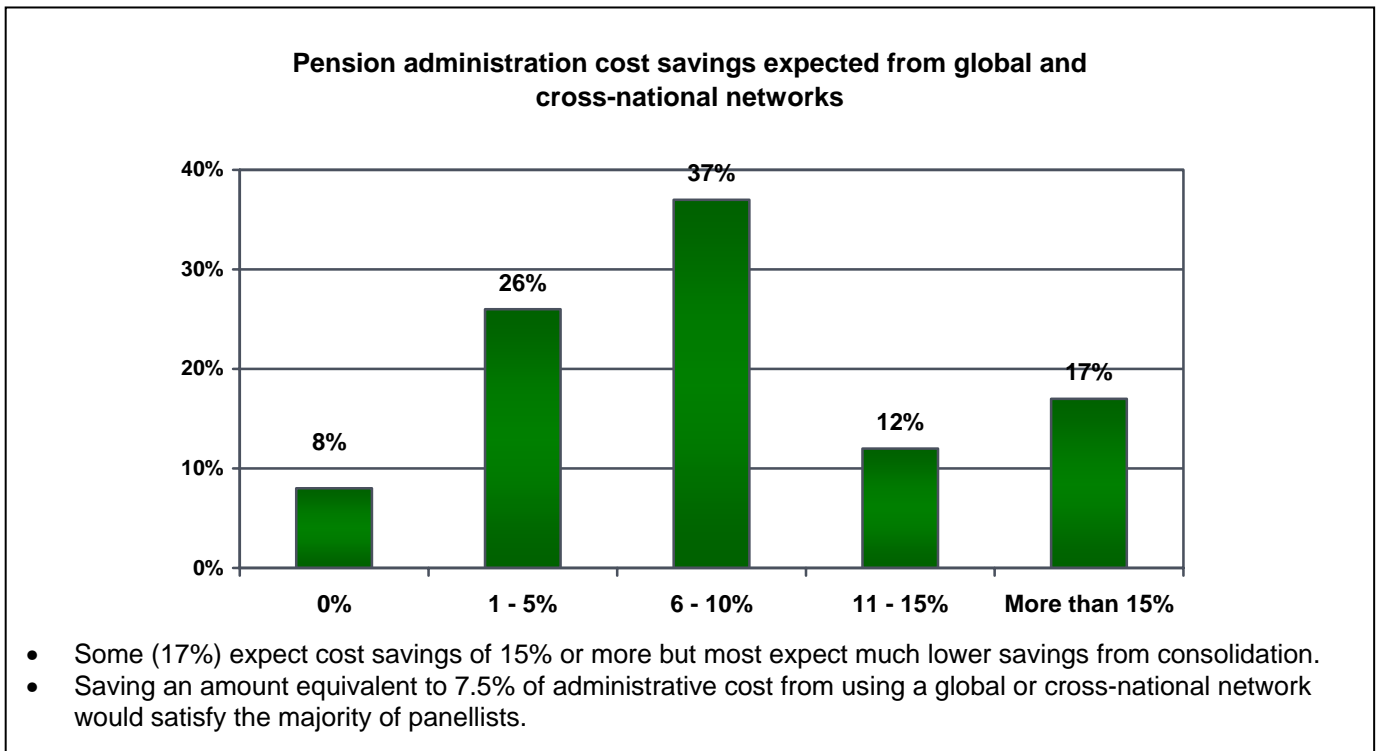
Global integration of retirement plans



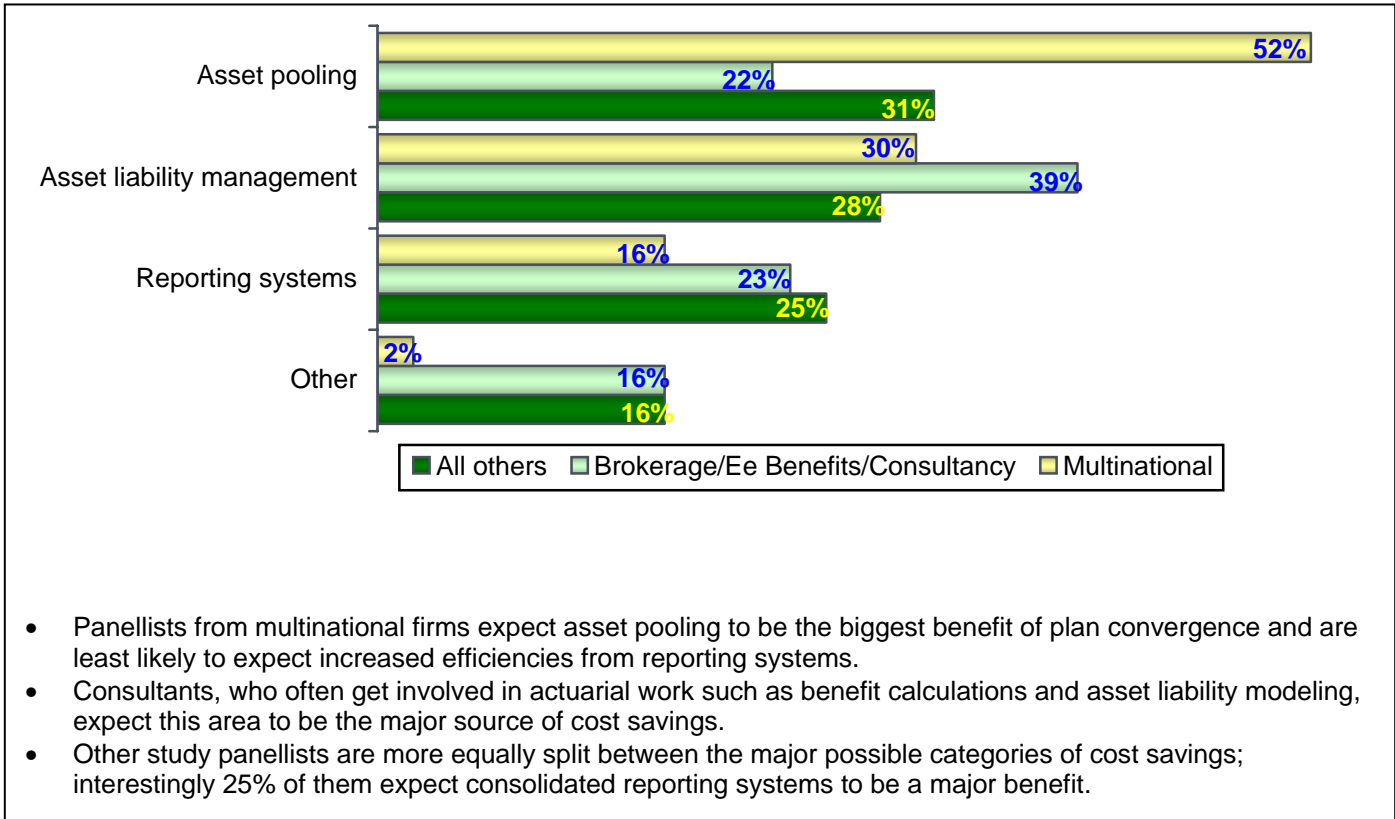
- Seventy-two per cent of panellists agree that the emergence of specialised firms to which multinationals can outsource their retirement plans around the world will cause a major increase in the number of firms that integrate their plan.
- Eighty-nine per cent say multinationals will be seeking to provide seamless retirement benefits for expatriates working in large emerging countries like China and India.

2.2) Benefits of convergence

There are a number of factors that drive the decision to consolidate plans, and cost is one of them.



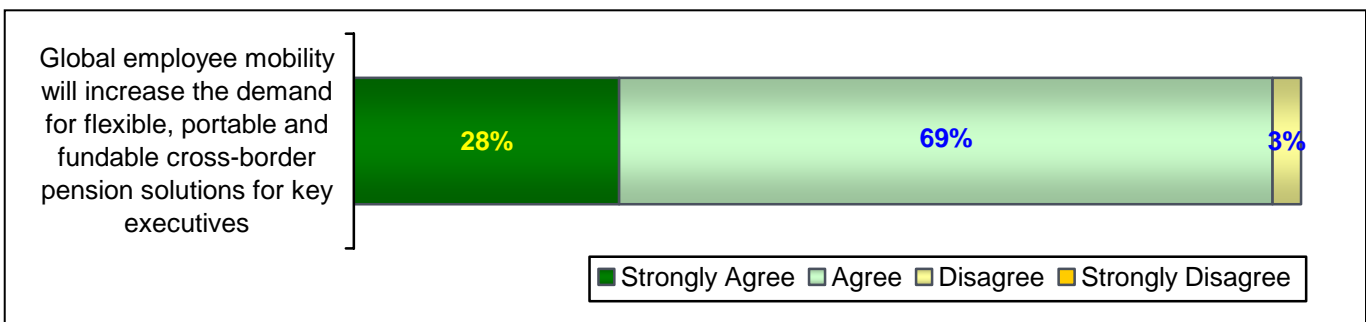
Where would these cost savings come from? Interestingly, multinational firms, consultancies, and other panellists have divergent views on the matter.



Consolidated reporting systems are a pre-requisite to the consolidated monitoring of multiple plans, and possibly to the consolidation of pension boards into a single entity that develops a master investment policy and monitors its implementation across plans. Naturally, the type of plans that multinational firms offer around the world will affect the relative importance of each potential source of savings.

In reality, however, a large multinational is likely to have a multitude of plan types as a result of mergers and acquisitions and there are benefits to be reaped from all three major areas and possibly others.

While providing benefits to expatriates or key executives is not the sole benefit or the main benefit of integration, experts agree that the need to provide expatriate benefits is an additional trigger for the decision to rationalise pension programmes into a single arrangement.



'We operate in 100 countries; the cost of pension doesn't drive the decision. Typically, we have the biggest operations where the costs are the highest: we look at it in terms of talent and motivation. Most of the time, executives ask for the right provider and the right benefits for the

population. I want to make sure that my talented population within each country is happy. So if I have to pay a premium for that, I will pay the premium. Sometimes, corporate thinking is too narrow.'

— Multinational firm based in the United States

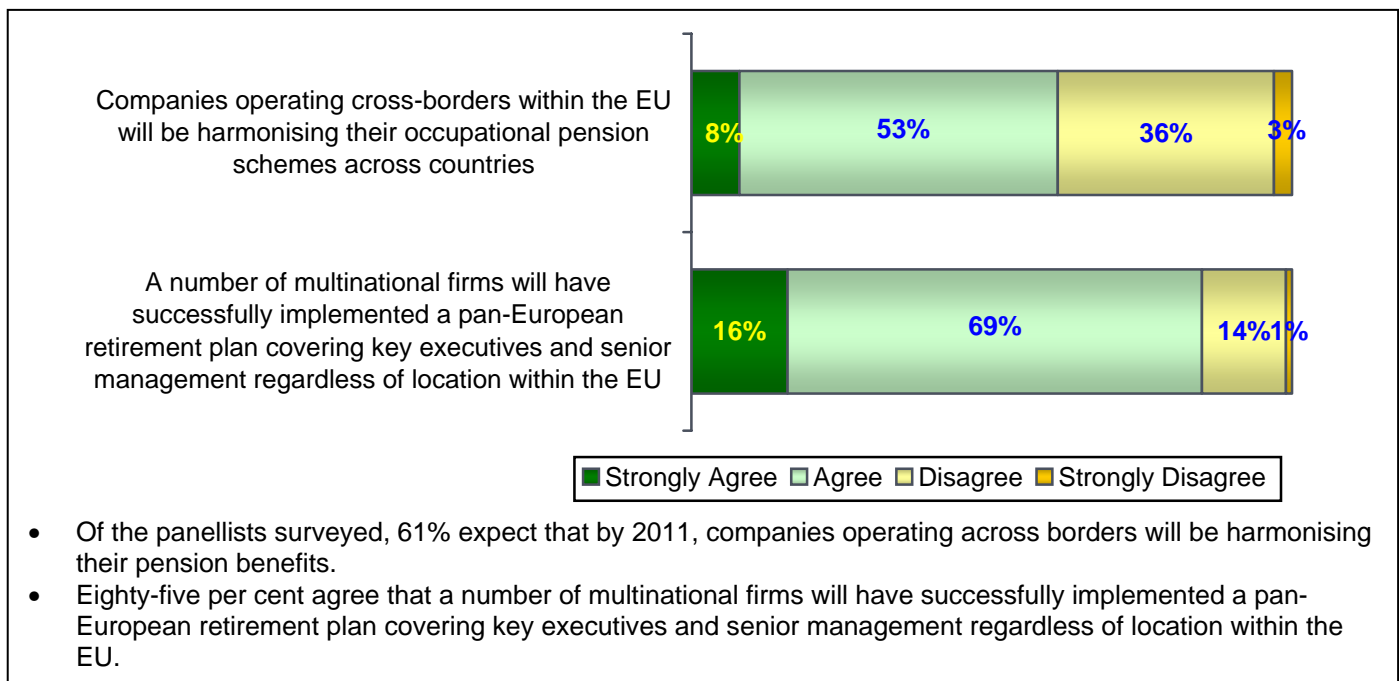
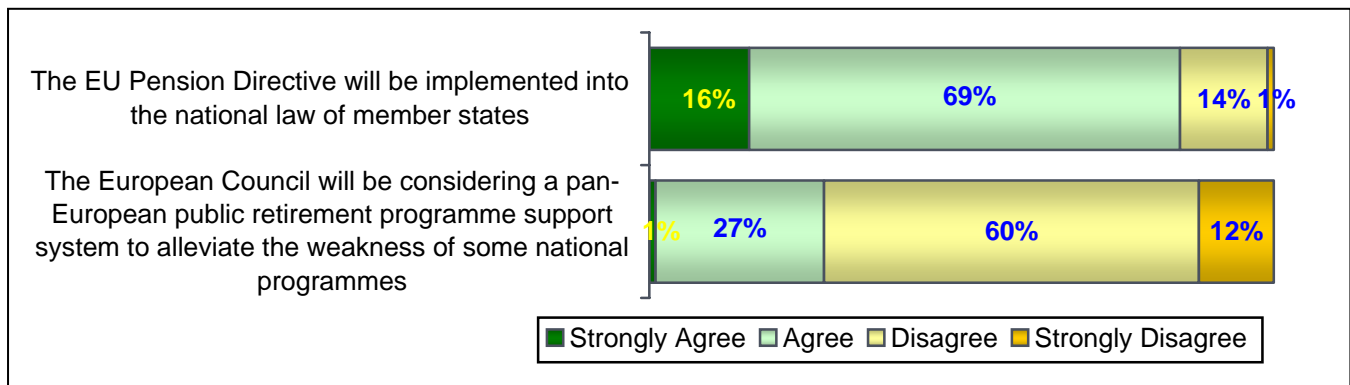
2.3) Pan-European plan

The European Council Directive on Institutions for Occupational Retirement Provision (IORP) was designed to create conditions that would enable European occupational pension funds to benefit from economies of scale. The development of a pan-European pension plan would have numerous benefits for a multinational organisation. While there is general consensus that consolidation may well generate cost savings, the implementation of the directive has been at a slow pace.

'We are working in implementing a pan-European pension by 2008 and we are already streamlining the number of providers with which we deal by consolidating two or three countries with a single provider.'

— Multinational firm based in the United States

Some European countries, in and outside the EU, believe that there is profit in pan-European and multinational pensions and are starting to take steps to facilitate their development. Belgium has passed legislation enabling pan-European pension funds to operate in and from the country. Ireland and Luxembourg have both introduced vehicles that enable the pooling of pension assets. The Netherlands has also now begun promoting itself as a centre of pension excellence for pan-European pensions.



While most find the patchwork of European legislation hard to navigate, a few individuals find regulations manageable in the short term, while the kinks are being worked out and desirable in the long run, particularly among those dealing primarily with defined contribution plans.

'In the US, there are many jurisdictions also but in Europe, any change in regulation happens at the European level through European directives. Over time, once you have implemented a pan-European pension, it will decrease the cost. In 10-15-20 years from now, cost will go down.'

— Multinational firm based in the United States

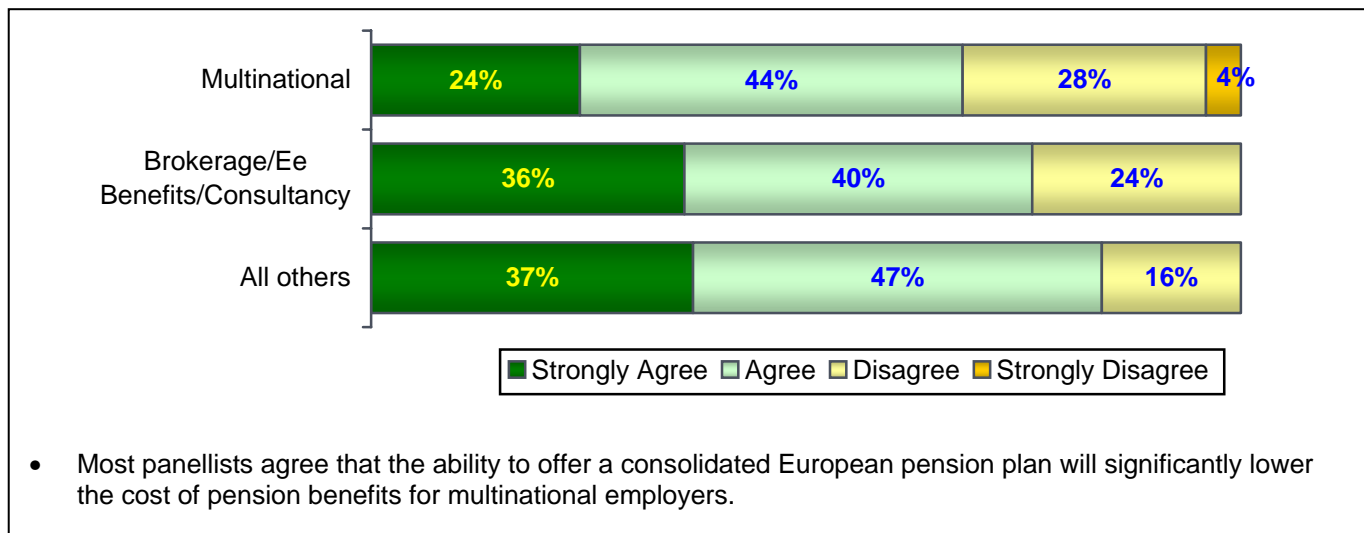
The growth stage of several EU members leads some panellists to be more skeptical of the prospects for pan-European plans.

'There are a lot of conflicts between member nations; ten new countries were just allowed in. Some of those countries need to work on a lot of other subjects before getting to a common pension system. I do not disregard the idea that it will happen; however, not in the near future and in order for this to happen, a lot of other things would have to come into play to create more stable economies.'

— Panellist based in Spain

'It is not so easy to establish a single platform because different entities are needed to accommodate tax laws. A trust is not possible. The more difficult it is, the more you have to establish a special purpose entity to manage the platforms.'

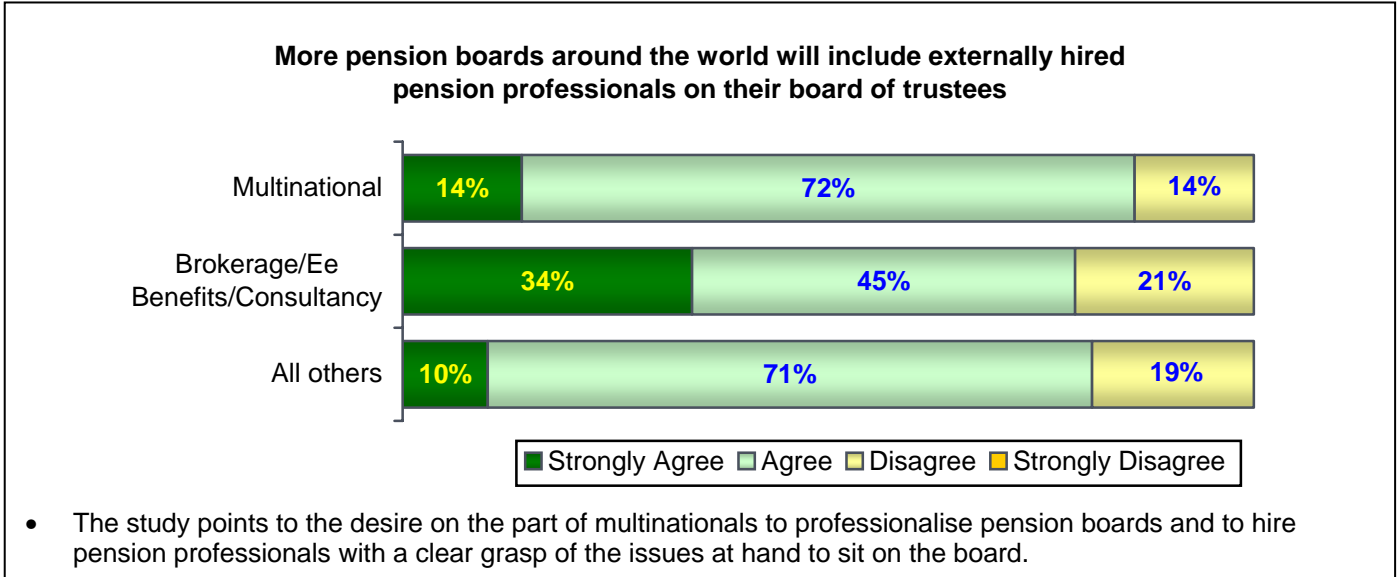
— Multinational firm in the Netherlands



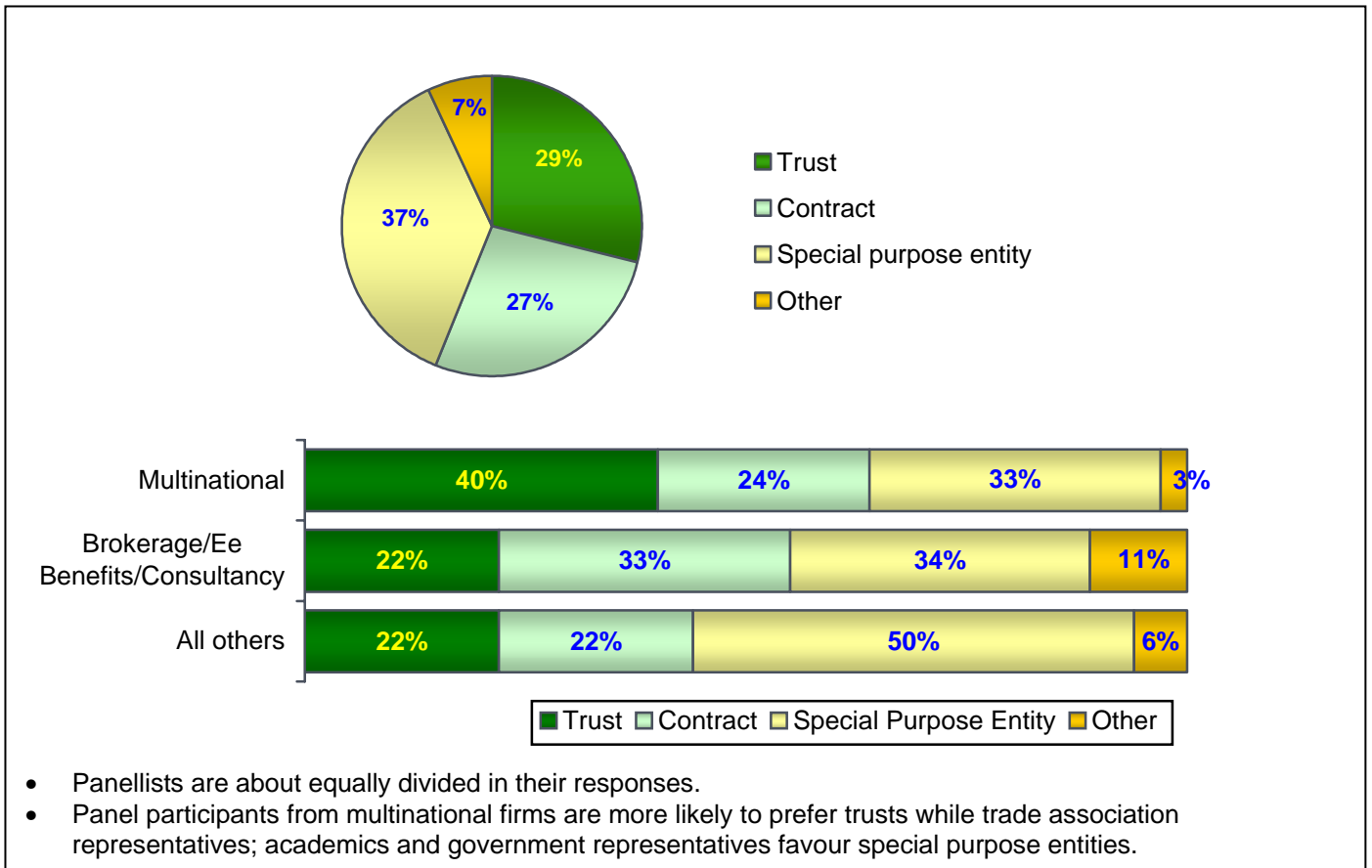
The above realisation could foreshadow a number of very positive outcomes for the EU such as a slowdown in the exodus of jobs, better adequacy of retirement funding, faster economic growth, and ultimately higher retirement incomes for all to enjoy.

2.4) Providers

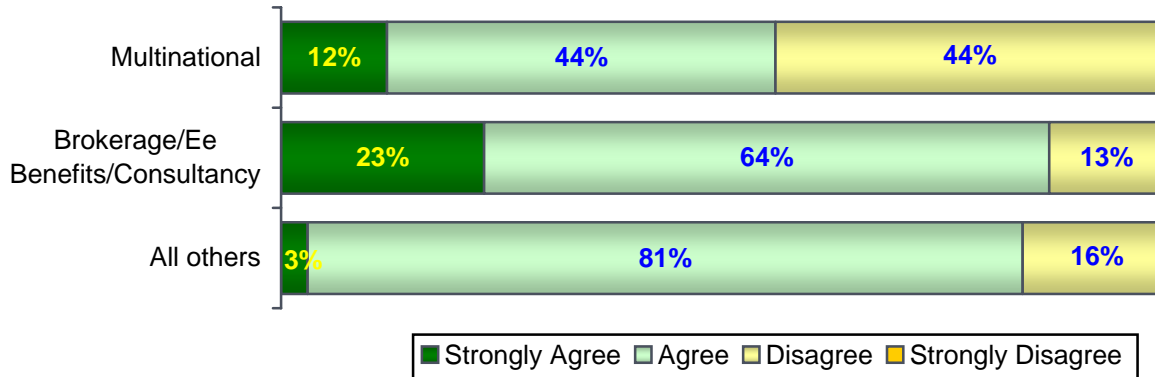
What functions will multinational firms seek from the third party they rely on to help plan convergence? Will companies be looking for this organisation to serve as a plan fiduciary? Will they expect that third party to play a role on the board of trustees or merely to provide services to the board of trustees? The evidence is not clear when it comes to complete outsourcing of fiduciary responsibility to a third party.



What will the preferred structure for a pan-European plan look like? Will multinationals choose to establish a trust? Will they direct their attention to a contract or rely on a special purpose entity?



Multinational companies will seek to turn over the fiduciary responsibility for managing pension plans to third party professionals

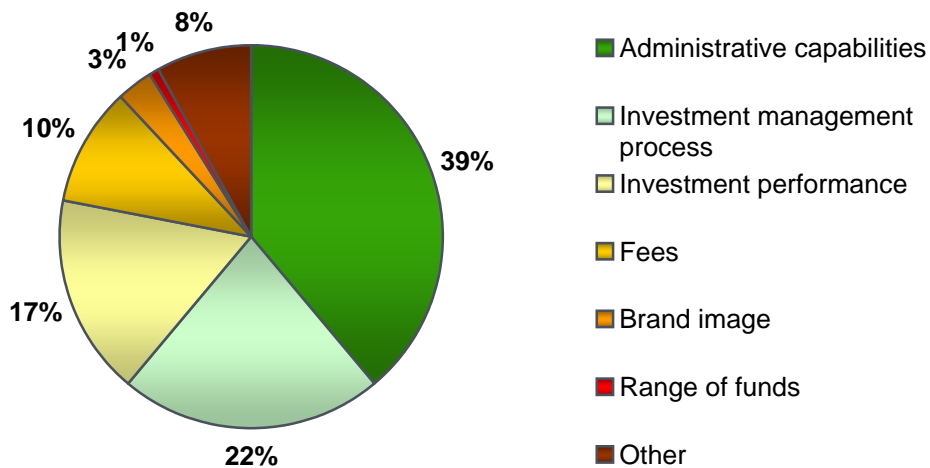


- 44% of the multinationals surveyed prefer to retain the fiduciary responsibility rather than turn it over to a third party.

Panellists in countries other than the United States and the United Kingdom, where fiduciary responsibilities are clear and hard to escape, are much more likely to be in full support of the complete outsourcing of fiduciary responsibilities.

What factors will be driving multinationals' selection of firms to help manage the network of pension plans?

Most important factor driving the selection of firms to manage transnational plan networks



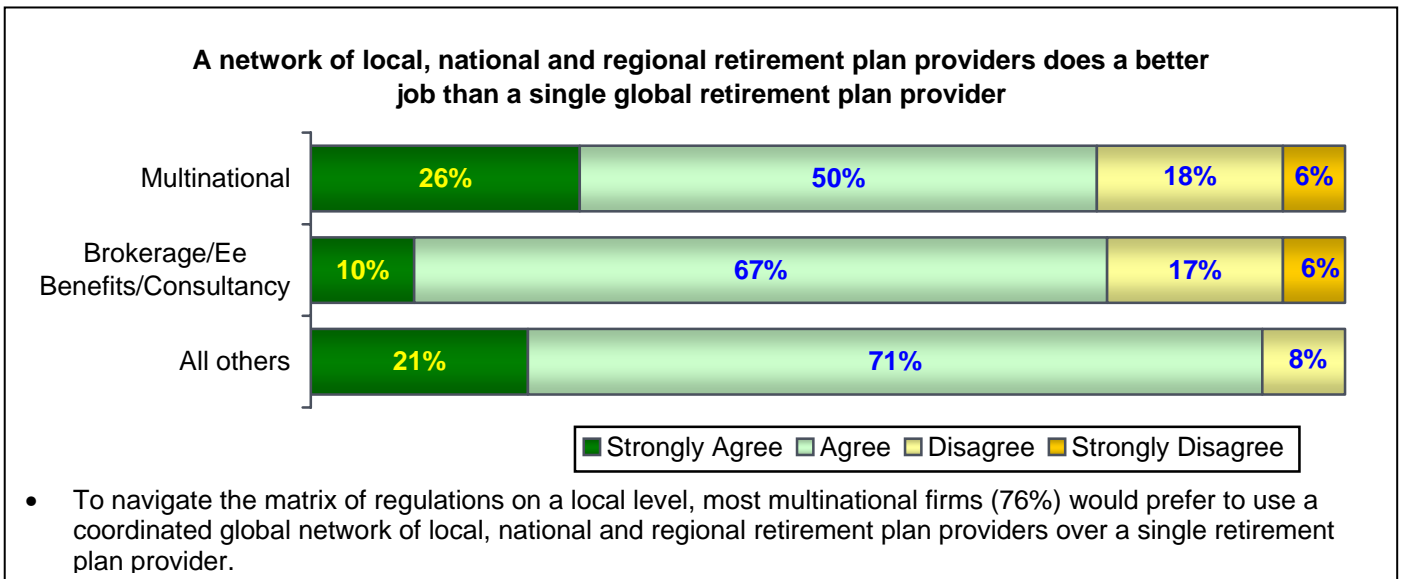
- Panellists chose administrative capabilities as the leading factor in the selection of firms to manage transnational plan networks.

Open-end responses and follow-up interviews point to the fact that good investment management process and solid investment performance are expected from all providers and don't set the better providers apart. However, there is a shortage of pension companies with even administrative capabilities across country lines.

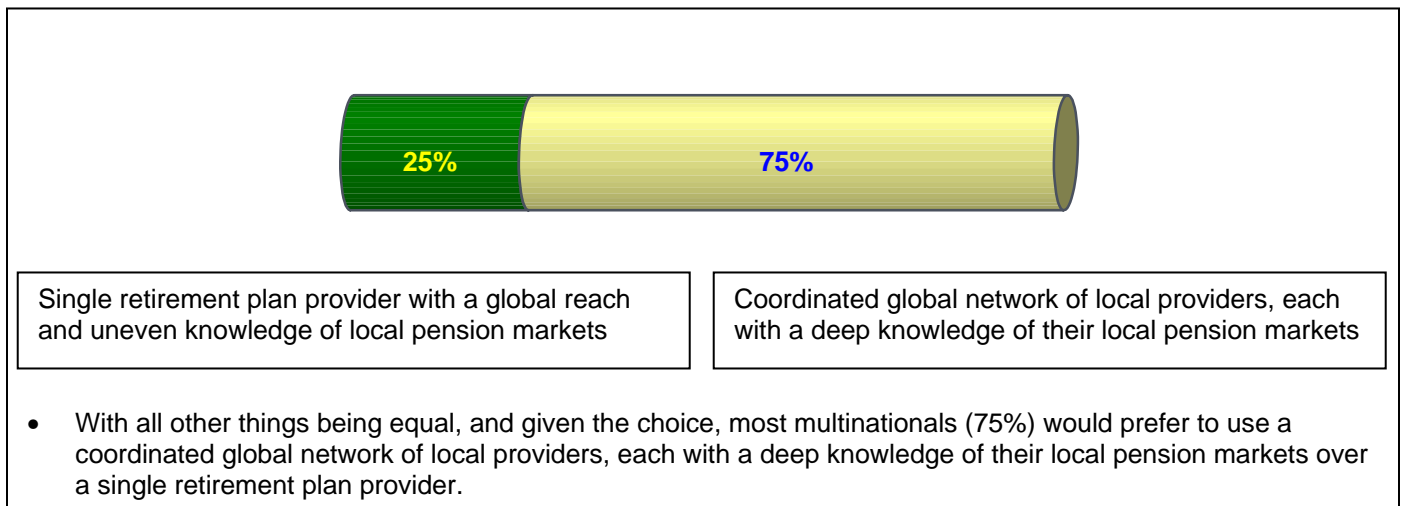
'All managers can already manage investments internationally today; the difference between providers is in the administrative capabilities. You need to have the administrative part to handle a transnational pension plan network. After that, it depends on what the corporation wants in terms of investment principles.'

— Multinational firm based in the United States

To what type of organisation will multinationals turn to provide assistance with the convergence process?



Multinationals will seek providers that can navigate the matrix of regulations on a local level.



Part 3: Clear shift of risk from company to individual

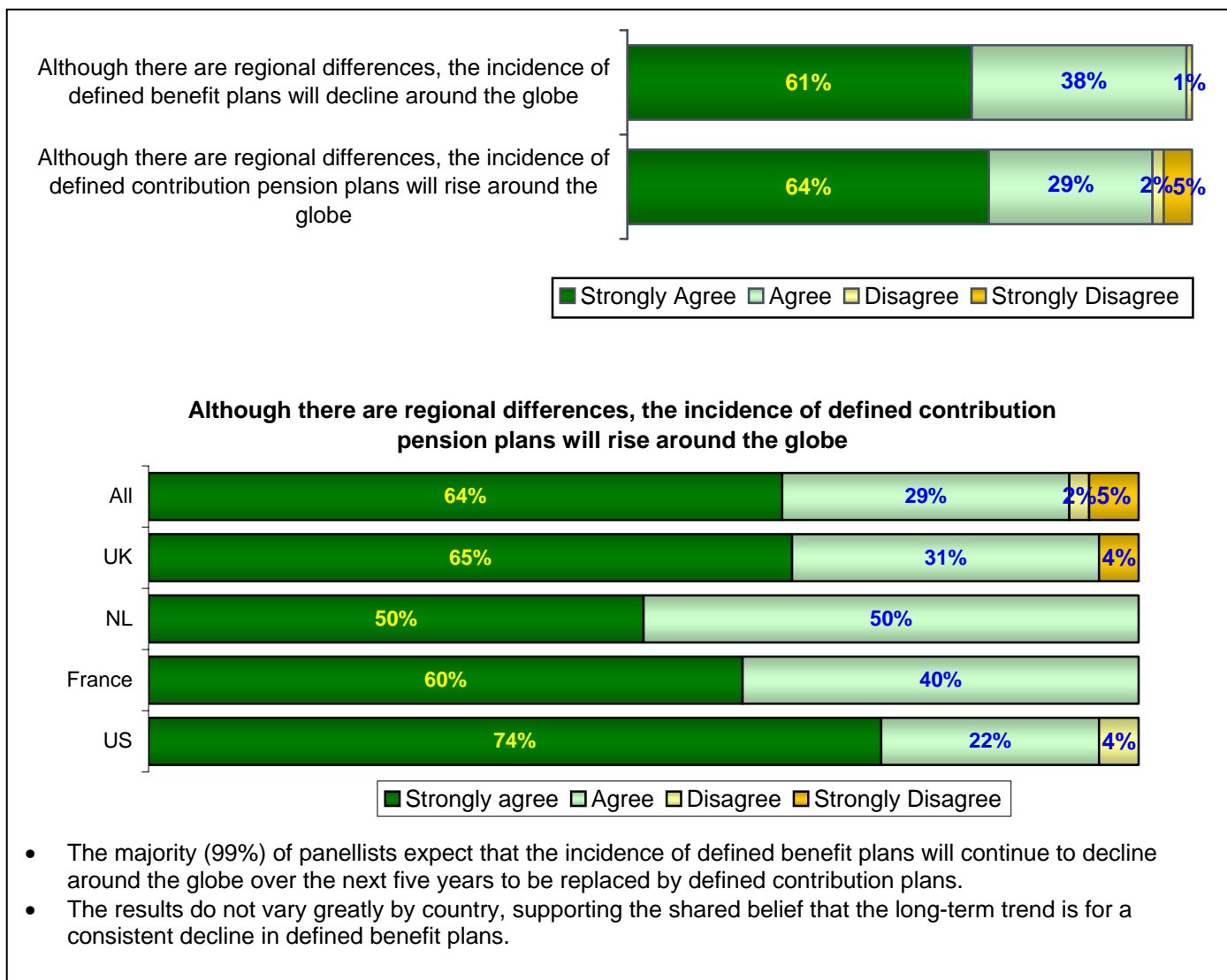
3.1) Shift from defined benefit to defined contribution plans

Historically, employers have been divided over their preferred approach to retirement benefit funding. While some clearly seek to provide employees with a specific level of retirement benefits, others prefer to give employees more latitude in designing a retirement funding arrangement that fits their needs and preferences.

The first approach, using a defined benefit plan design, limits employee exposure to risks such as inflation and longevity. Such a benefit approach rewards long service and employment stability. Defined benefit plans appeal to job applicants seeking employment stability and lesser risk.

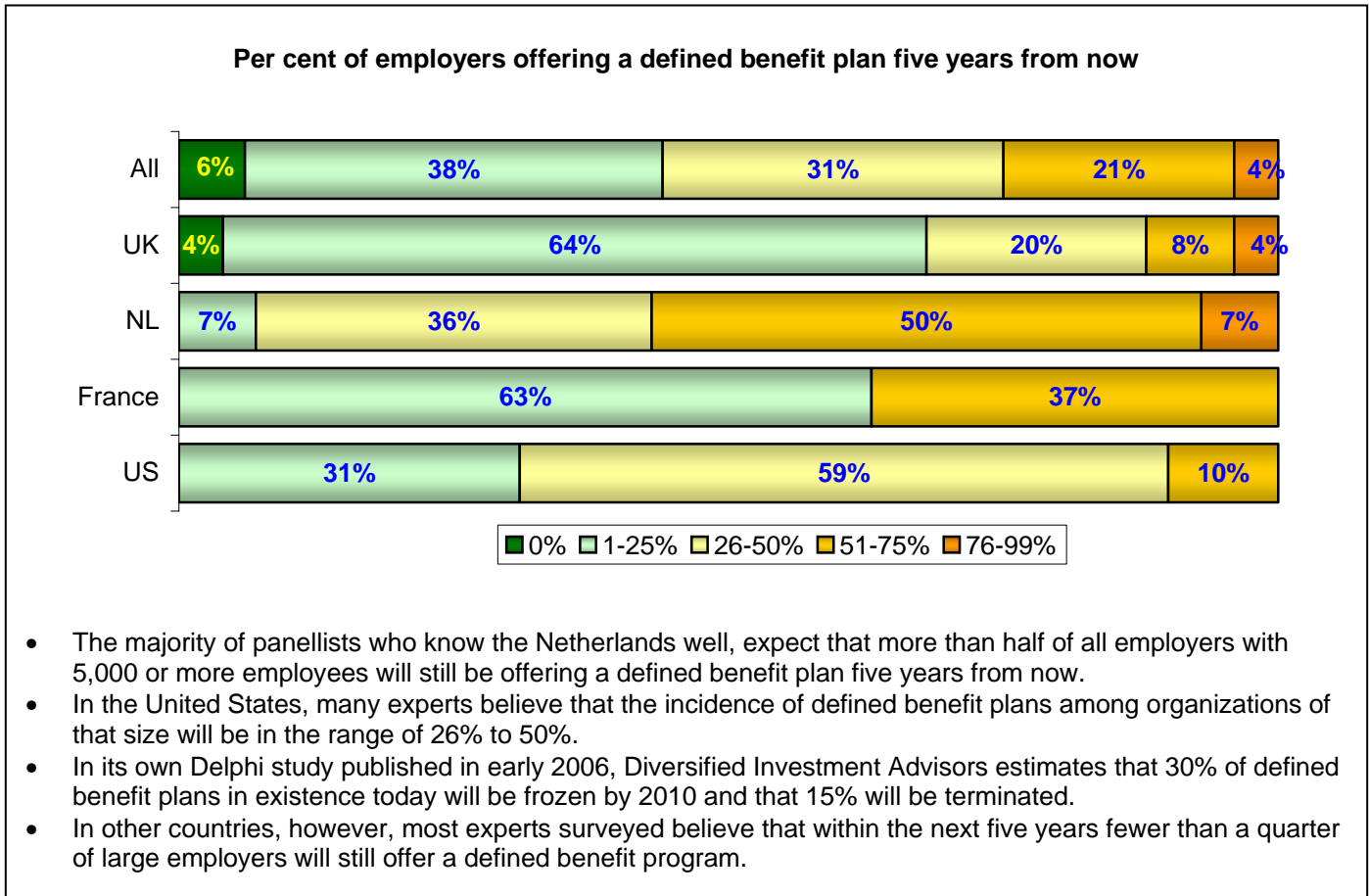
On the other hand, defined contribution plans appeal to risk takers, particularly those plans allowing participants to exercise discretion over investment selection and those with an employer contribution formula pegged on corporate or individual performance.

Over the course of history, most multinational firms have tended to favour a defined benefit approach to retirement plans. Because of their size, multinational firms are more able to shoulder the fluctuations in the level of contributions needed to fund defined benefit plans. However, in recent years there has been a gradual shift of preference to defined contribution, driven by factors such as pension fund underfunding, underperforming markets, new accounting reporting standards, and the decision by governments to move away from retirement provision.



Generalisations about the future prospects for defined benefit plans, however, mask differences between countries over the incidence of these plans.

Although the current trend is leaning towards an increase in defined contribution plans, defined benefit plans will continue to play a role in most countries. Notable differences are seen from one country to the next and the experts estimate that on average 24% of large UK companies will offer a defined benefit plan five years from now, the Netherlands 52%, and the US 32%.

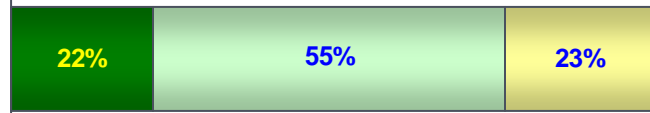


‘For new entrants, I agree, the UK is below 25%, but the cost for companies is still existent because participants who are already on the plan still accrue benefits. I can see 10 to 20% having open defined benefit plans in the UK five years from now. In Holland, I still expect a large number of defined benefit plans; they are very well funded. For the big companies, it is a choice for the company to go to defined contribution but they would have to pay cash contributions, but the defined benefit plans are well funded and there are contribution holidays.’

— Multinational in the Netherlands

The gradual shift to a defined contribution approach to retirement benefit funding on a global basis is increasing the visibility of investment decisions at the plan level.

The majority of the investment risk within occupation pension plans will be passed on to employees



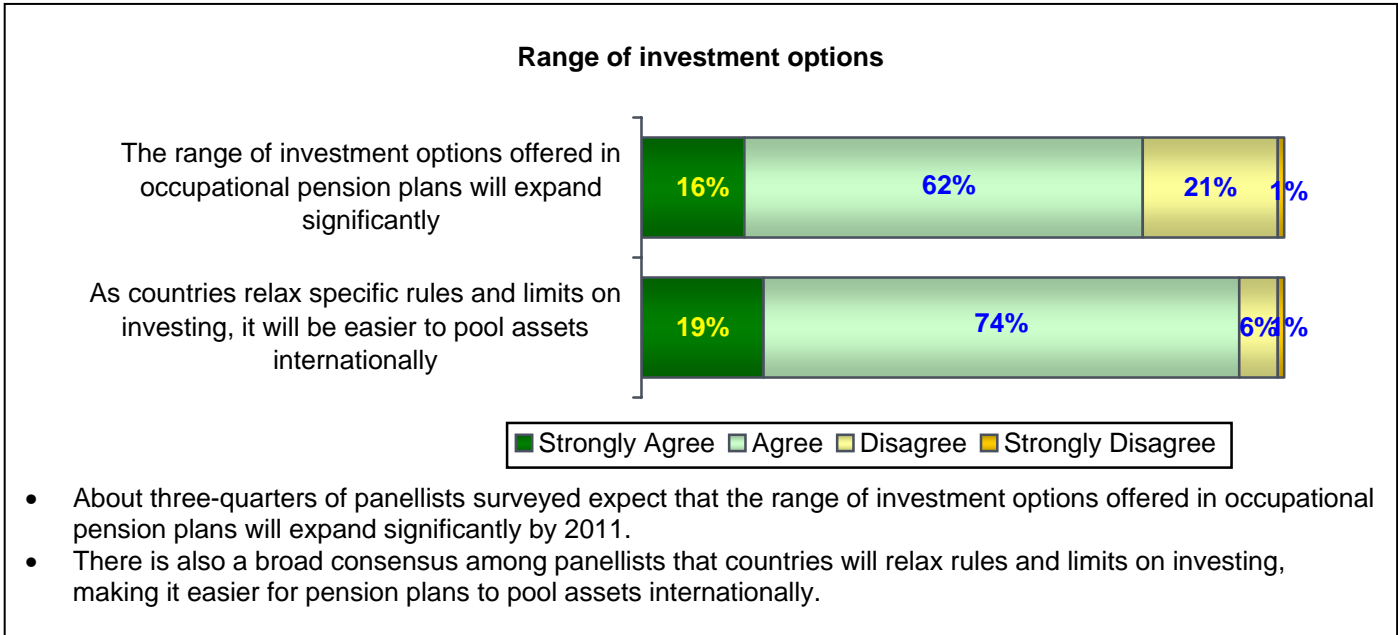
■ Strongly Agree ■ Agree ■ Disagree ■ Strongly Disagree

- 77% agree the majority of investment risks will be passed on to employees, increasing the need for investment education and investment advice in the employee population.

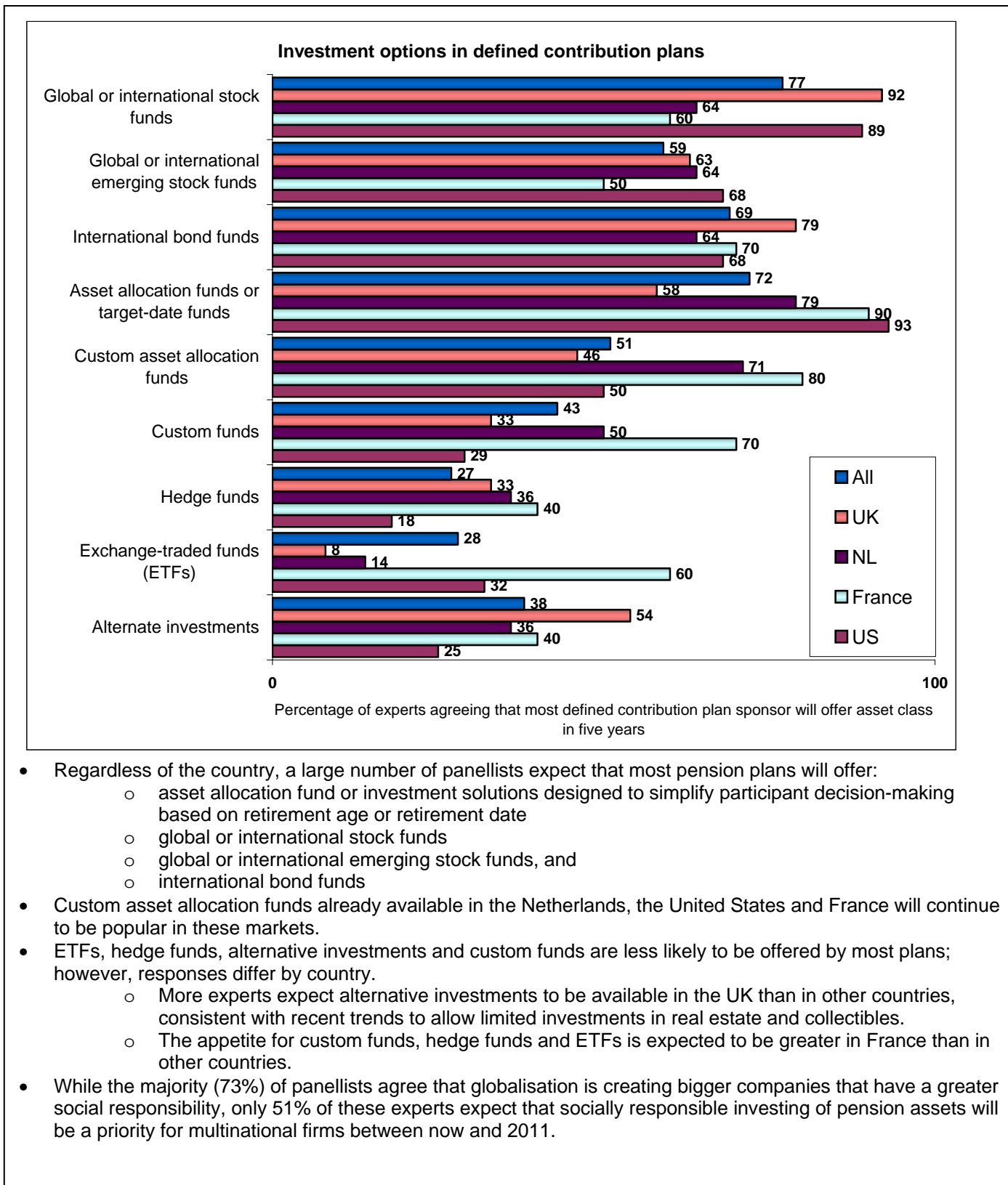
While the popularity of various asset classes and investment styles have always fluctuated with market cycles, the increased frequency of plans allowing participant-directed investing modifies the line-up of funds used in pension plans.

3.2) Investment trends

Also affecting fund line-up is the recent history of relatively flat equity market performance that spurs an interest in innovative investment strategies and more alternative asset classes.



Major fund types already commonly available in pension plans will continue to be popular over the next five years.



- Regardless of the country, a large number of panellists expect that most pension plans will offer:
 - asset allocation fund or investment solutions designed to simplify participant decision-making based on retirement age or retirement date
 - global or international stock funds
 - global or international emerging stock funds, and
 - international bond funds
- Custom asset allocation funds already available in the Netherlands, the United States and France will continue to be popular in these markets.
- ETFs, hedge funds, alternative investments and custom funds are less likely to be offered by most plans; however, responses differ by country.
 - More experts expect alternative investments to be available in the UK than in other countries, consistent with recent trends to allow limited investments in real estate and collectibles.
 - The appetite for custom funds, hedge funds and ETFs is expected to be greater in France than in other countries.
- While the majority (73%) of panellists agree that globalisation is creating bigger companies that have a greater social responsibility, only 51% of these experts expect that socially responsible investing of pension assets will be a priority for multinational firms between now and 2011.

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We would like to thank our panel of experts for participating in this study and for sharing their much-valued insight.

AEGON Pension Network is building a community of pension and employee risk benefit experts and providers. An open invitation is extended to interested parties who would like to participate in the next Global Pensions Survey: a Delphi study.

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