# Transition rules for occupational pension into new pension rules in Norway

Conference call in connection with release of NOU 2013:3
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# Key take aways

- The Banking Law Commission suggests transition rules for Defined Benefit products:
  - The report opens for conversion of DB schemes to new hybrid products
  - Proposal of increased saving rates in DC pension
  - Allows for more flexible guarantee structure and can allow for longer reservation plans for longevity. Detailed rules to be finalized by the Ministry of Finance

- Paid-up policies are proposed moved into pension certificates which are better adopted to longevity reservation and Solvency II, but are not fully adopted to Solvency II

- Storebrand expects that the report will be debated. The report will be send on hearing, and are expected to be treated by parliament during the autumn 2013

# Recap – occupational pension products in Norway

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| Paid-up policies | ▪ Annual interest guarantee<br>▪ Profit sharing<br>▪ Not adopted to Solvency II<br>▪ Storebrand reserves: ~70 bn |
| Fee based guarantedd business (DB) | ▪ Annual interest guarantee<br>▪ Fee for providing the interest rate guarantee<br>▪ Storebrand reserves: ~64 bn[1] |
| Hybrid products | ▪ New products well adapted to Solvency II and new public pension system<br>▪ Expected to be allowed into the market from 2014 |
| Defined Contribution | ▪ DC plans with investment choice<br>▪ Well adapted to Solvency II<br>▪ Storebrand reserves: ~19 bn |

[1] Private DB schemes



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# The report on the development of the DB fee based product

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| **General rule** | ▪ DB product will no longer exist<br>▪ New premiums to come in either new hybrid products or DC |
| **Transition period** | ▪ Will exist for a transition period of 3 years<br>▪ Transition period may be prolonged for employees born before 1962 |
| **What happens to the reserves?** | ▪ Earned pension rights are protected by the Constitution and will be managed separately<br>▪ The reserves (including the ASR and premium fund) in the DB pension plan will become individual pension certificates, a new version of paid-up policies<br>▪ If sponsors (employers) choose continuity into the new pension plan, the sponsor will continue to cover cost for the administration and risk in the product – sponsored pension certificate<br>▪ If sponsors choose no continuity, the reserves become a pension certificate (ie the cost must be covered by reserves and returns) – non-sponsored pension certificate |

# The report on the development of paid-up policies

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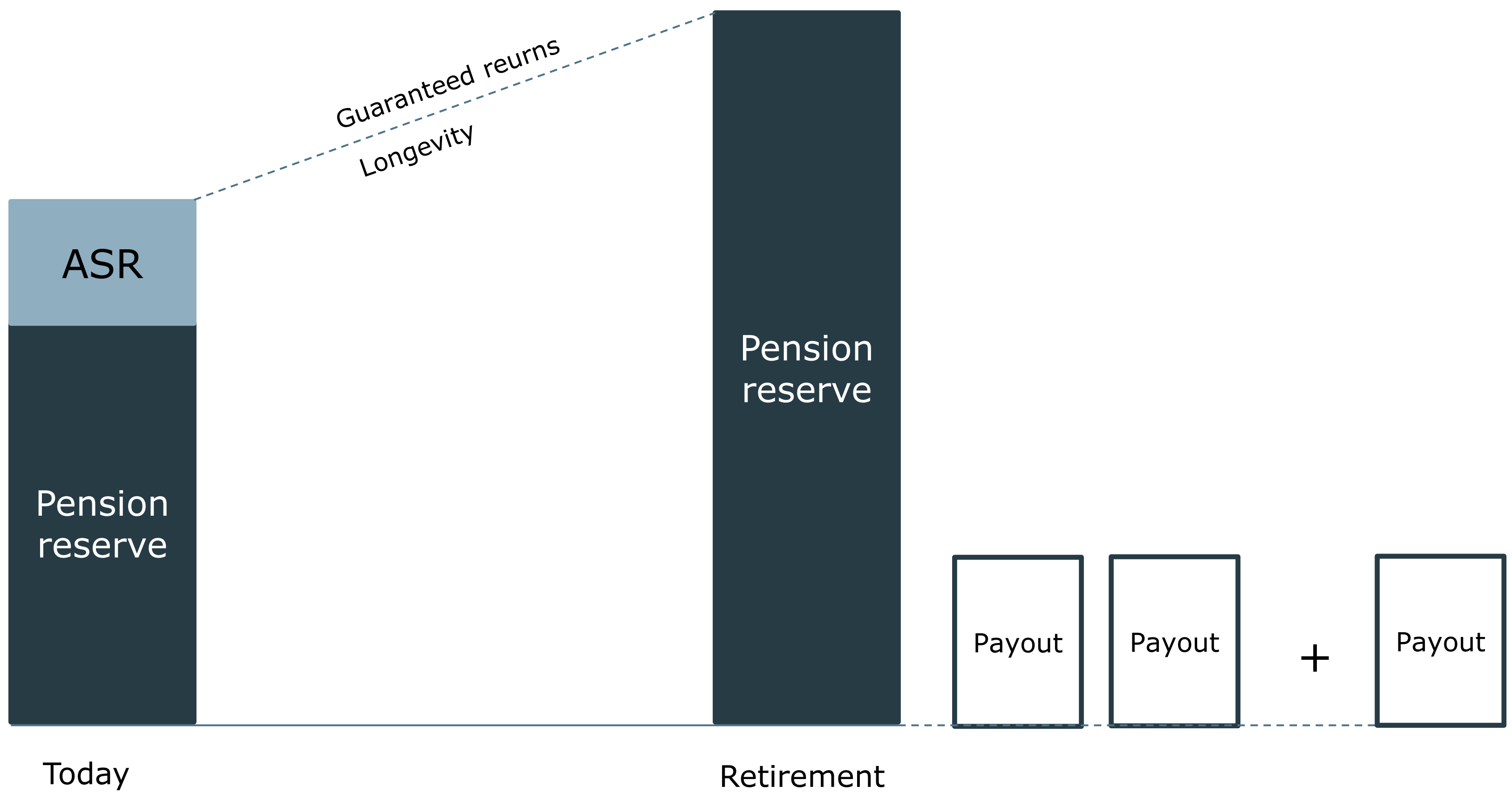
| **General rule** | ▪ Earned pension rights are protected by the Constitution<br>▪ Paid-up policies to be defined as pension certificates<br>▪ Pension certificates must be sufficient to cover the liabilities at the time of pension payment<br>▪ If underfunded during duration of contract, a step up plan will be presented. Ministry of Finance to come with detailed rules on step up plans |
| **Two sets of capital certificates** | 1. Non-sponsored pension certificate – costs must be covered by administration reserves and returns. Todays paid-up policies will be in this part, together with DB assets where employer choose no continuity<br>2. Sponsored pension certificate – Sponsor (employer) will be charged for administration and capital cost |
| **Implications** | ▪ Opens for more flexible guarantees<br>▪ Could allow for longer reservation plans for longevity<br>▪ From 2013, paid-up policies may be converted to investment choice (no guarantee)<br>▪ Pension certificates can be converted to pension certificates with investment choice(no guarantee)<br>▪ Paid-up policy income model from profit sharing to fee based |

# Pension certificates can give large flexibility in how to reach final paout[1]

Pension reserve need to be sufficient to fulfill future pension payouts




[1] Flexibility will depend on escalation plans decided by the Ministry of Finance

# The report on the development of Defined Contribution

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| **General comment** | • Proposal to increase in the maximum saving limits<br>• Maximum level to be set by Ministry of Finance, but the report suggest it should be on the same level as hybrid products (ie increase maximum from 8% to 26.1%)<br>• Both sponsored and non-sponsored capital certificates can voluntarily be moved to investment choice solutions |

# Further process to changes in Norwegian regulations on occupational pensions

| Reports | Important implication | Status |
|---|---|---|
| **January 2012** **NOU 2012:3** – Paid-up polices and capital requirements | ▪ Highlights the Solvency II challenge for Norwegian Life Industry<br>▪ Opening for transfers of Paid-up policies to investment choice | ▪ Approved by Parliament in December 2012<br>▪ Transfers of paid-up policies to investment choice to be allowed during 2013 |
| **June 2012** **NOU 2012:13** – New product models for private occupational pensions | ▪ Introduction of Hybrid products<br>– Well adapted to Solvency II<br>– Longevity risk to be carried by individuals/corporates<br>– Maximum premiums (up to 26,1% of salary) | ▪ Hearing to end by March 2013<br>▪ Treatment in Parliament during the autumn 2013<br>▪ Important work to be completed by Ministry of Finance in amendments to the law |
| **January 2013** **NOU 2013:3 -** Continuity of existing business into new product models | ▪ Conversion rules for DB products<br>▪ Increased saving rates for DC pension<br>▪ More flexible guarantee structure and reservation time for longevity for paid-up policies | |
| *2013e* – How to treat bundled risk products into the new pension plans | ▪ Will find solutions on how to handle risk coverage products (widow and orphan, disability) into the new pension regime | ▪ Work to be started by Banking Law Commission<br>▪ To hand over new report to the Ministry of Finance during 2013 |



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# Storebrand response to changing regulatory framework

# Summary

- All new premiums will be earned in products well adapted to low interest rates, longevity and solvency II
- All present guaranteed products will be open for conversion to non-guaranteed products with investment choice
- Proposal of increased maximum saving rates in DC pension
- Storebrand expects that the report will be debated. The report will be send on hearing, and are expected to be treated by parliament during the autumn 2013
- Storebrand is developing the business to new regulations to remain profitable and solid

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