

# New Norwegian occupational pension products

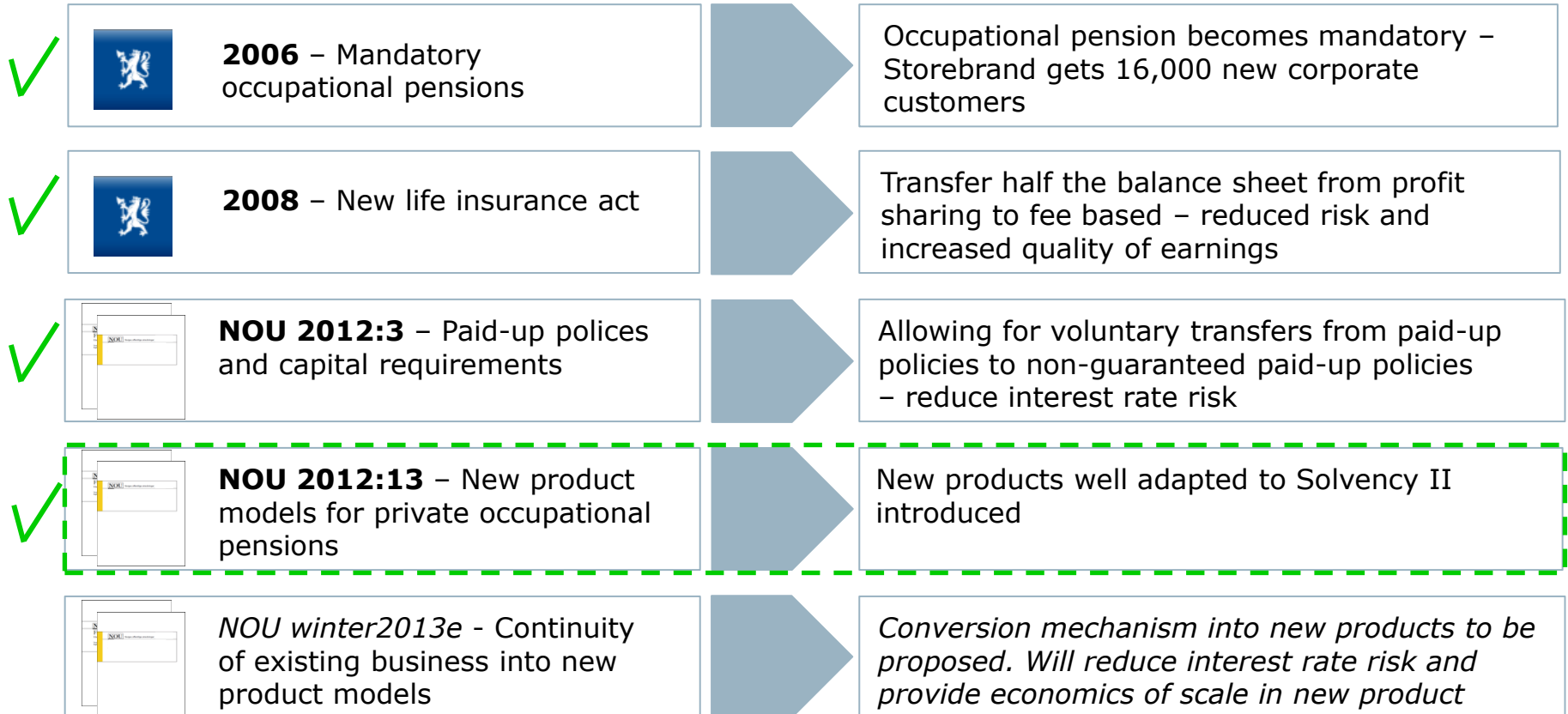
Conference call in connection with release of NOU 2012:13  
28 June 2012

Odd Arild Grefstad – acting CEO  
Lars Aa. Løddesøl – CFO / COO

## Key take aways

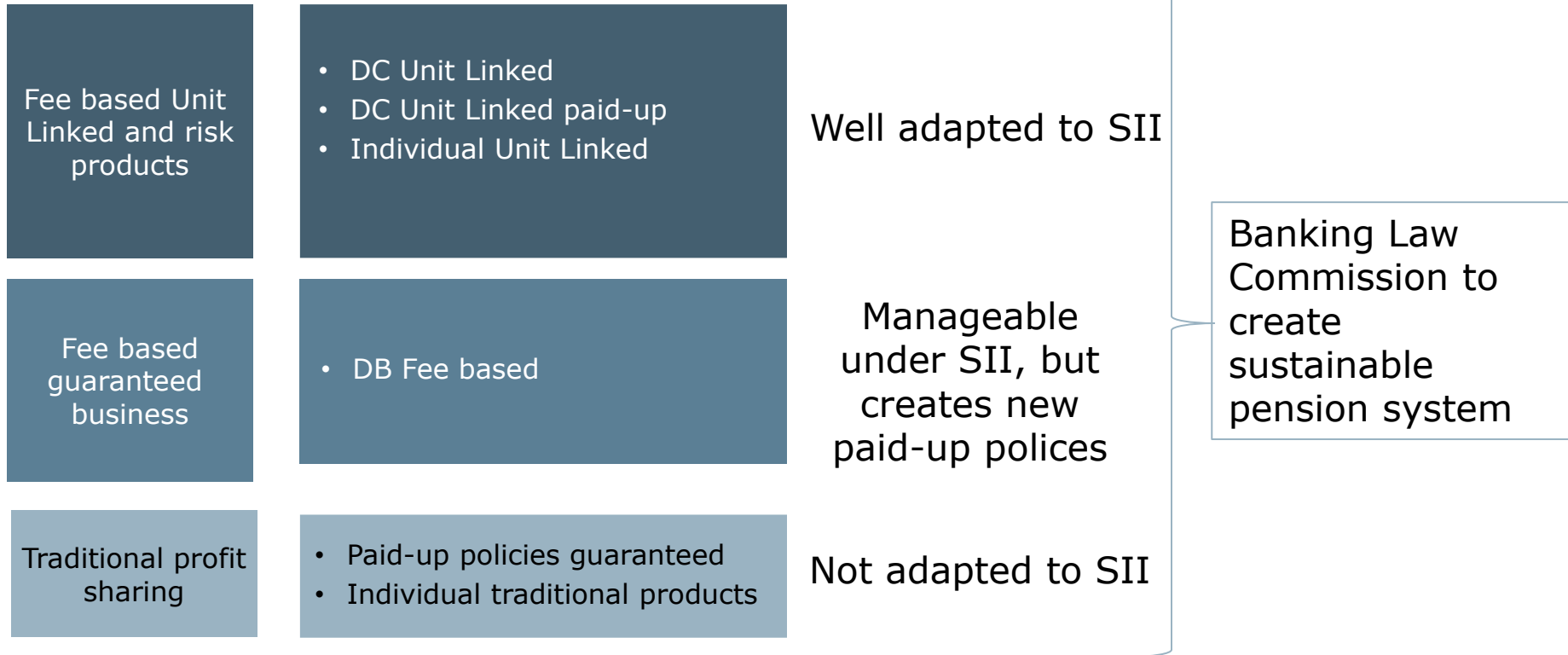
- New occupational pension products suggested in report from the Banking Law Commission
- Storebrand views the products attractive:
  - Well adapted to Solvency II
  - Ability to price and hedge risk
  - Longevity risk to be carried by individuals/corporates
  - Commercially attractive products
  - Generous maximum premiums (up to 26,1% of salary)
- Products modeled so transfer mechanisms from today's DB schemes should be possible – the Banking Law Commission to launch a new report during the winter

# Important changes to occupational pension legislation:

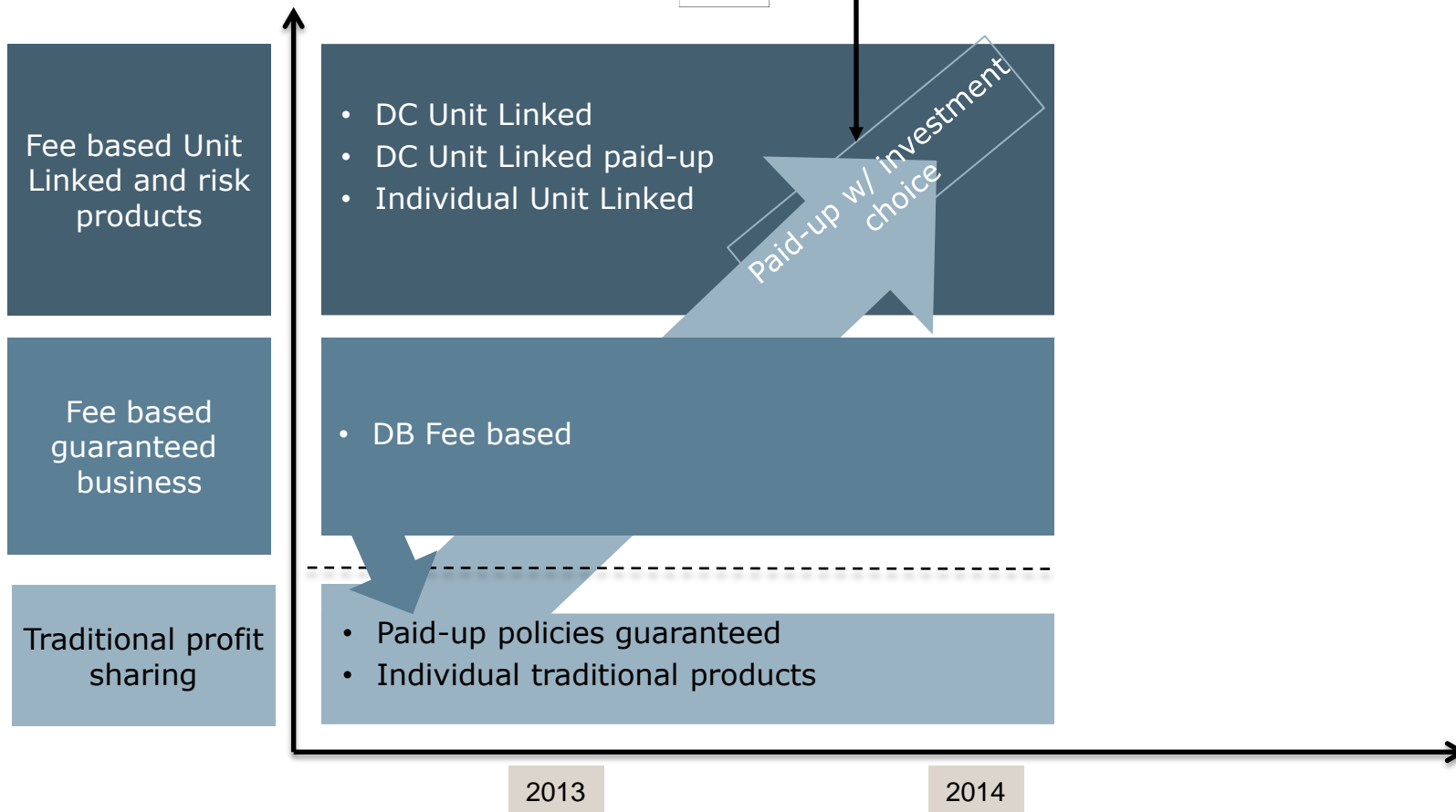


# Defined contribution: tomorrow's pension platform

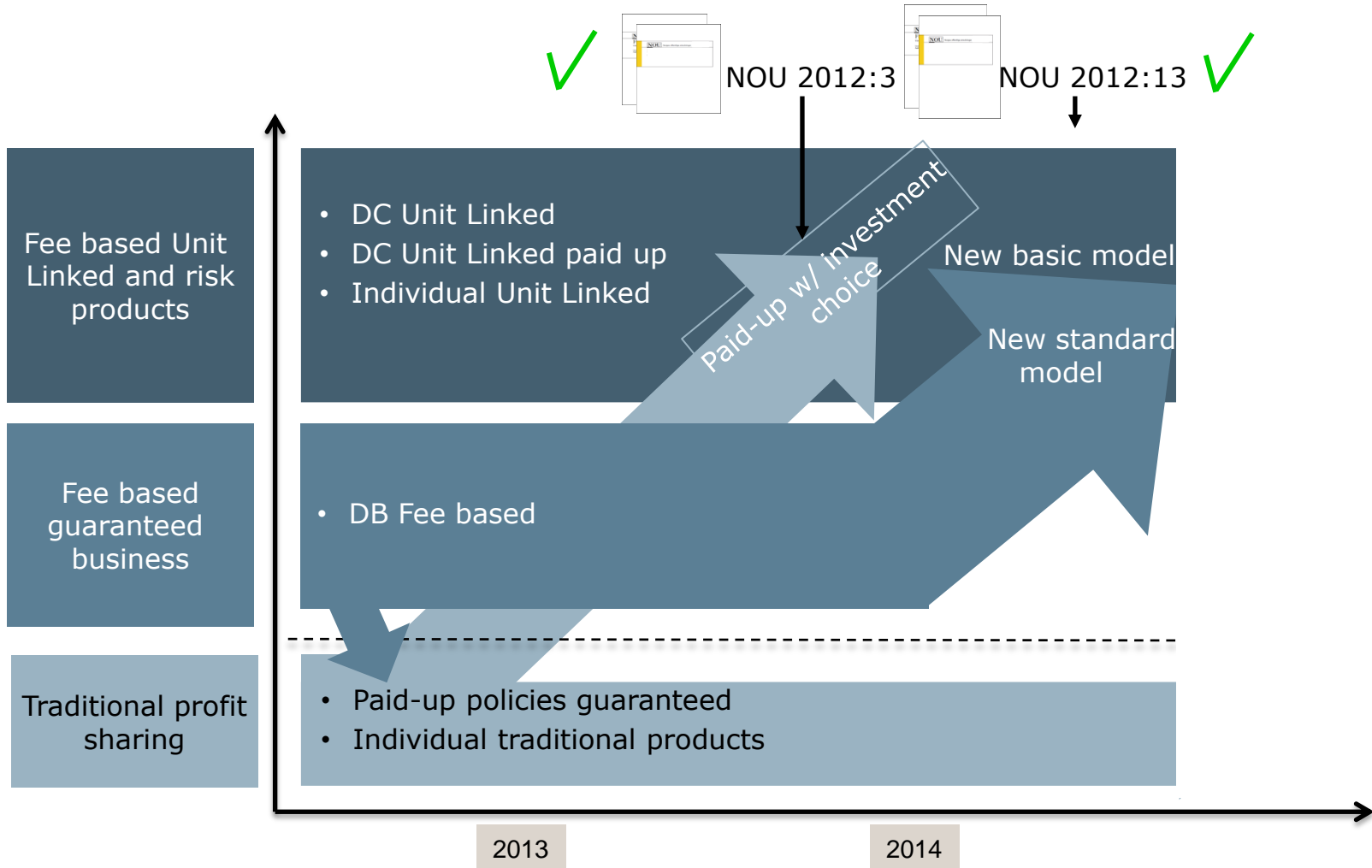
## Current Norwegian occupational pension products



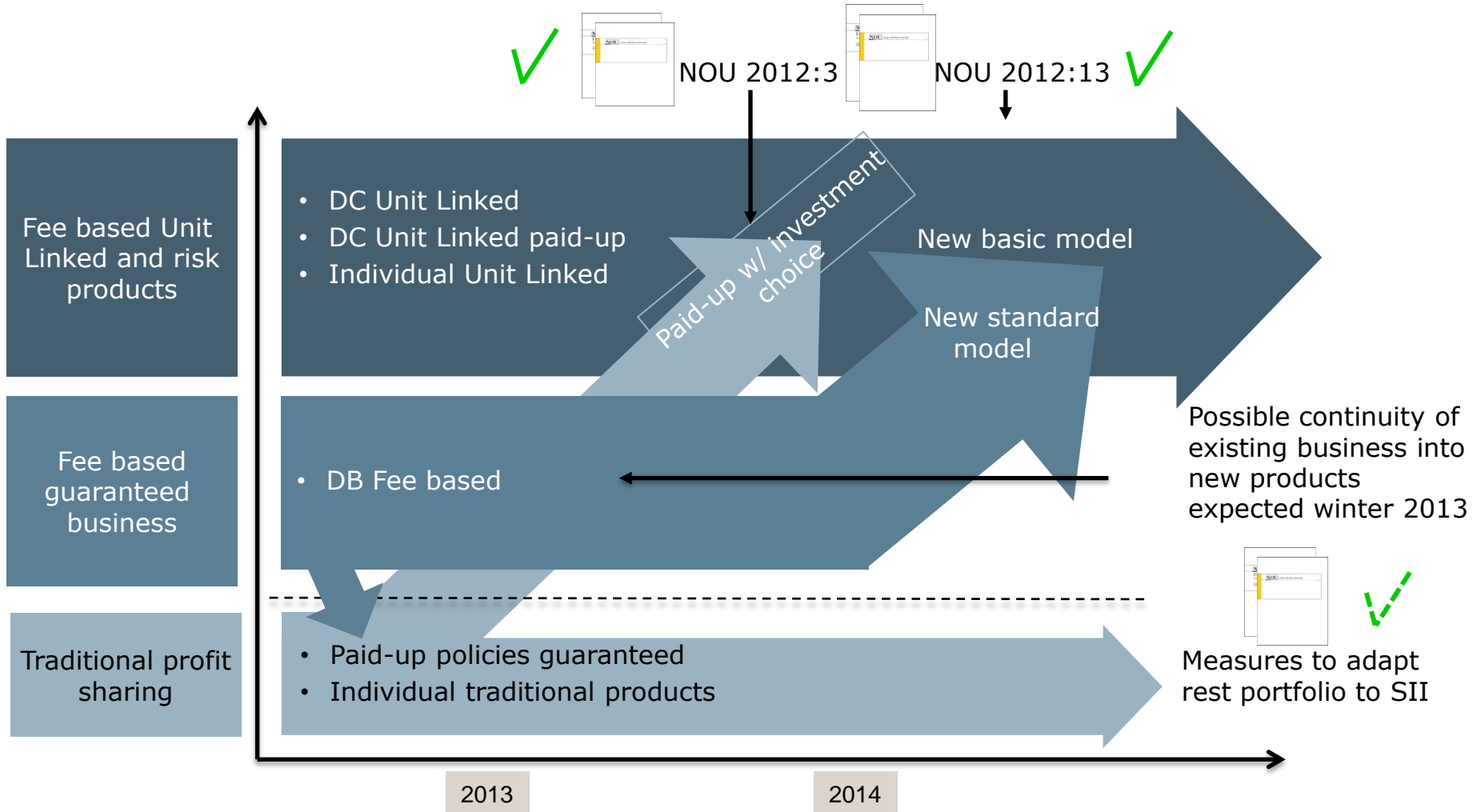
# Banking Law Commission phase I: - dealing with existing book of paid-up policies



# Banking Law Commission phase II: - creating new products adapted to pension reform and SII



# Banking Law Commission phase III: - transfer mechanisms and transition to new system



## Main features proposed products

### **Standard product**

- Premiums: 2 -25,1% of wage
- Pensions regulated with wage inflation (by the employer)

### **Basic product**

- Premiums: 2 -26,1% of wage
- Pensions regulated with investment return

### **Common features**

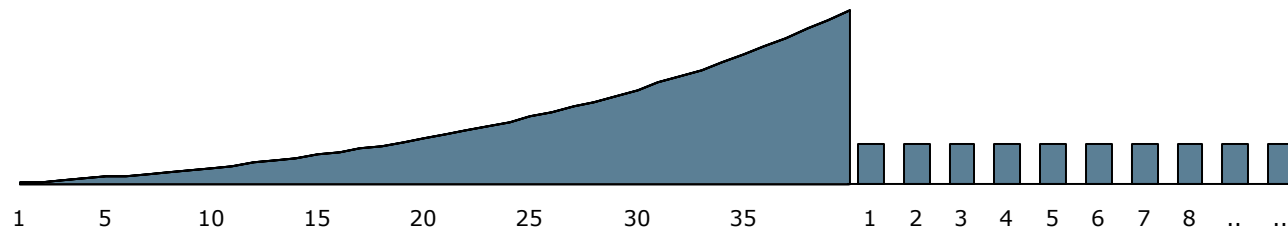
- Zero annual guarantee (can agree investment choice instead)
- Guarantees above zero can be agreed, for a maximum of 5 year up to a guarantee set by the regulator
- Life expectancy adjustments



# Norwegian public pension

## Contribution phase

## Pay-out phase

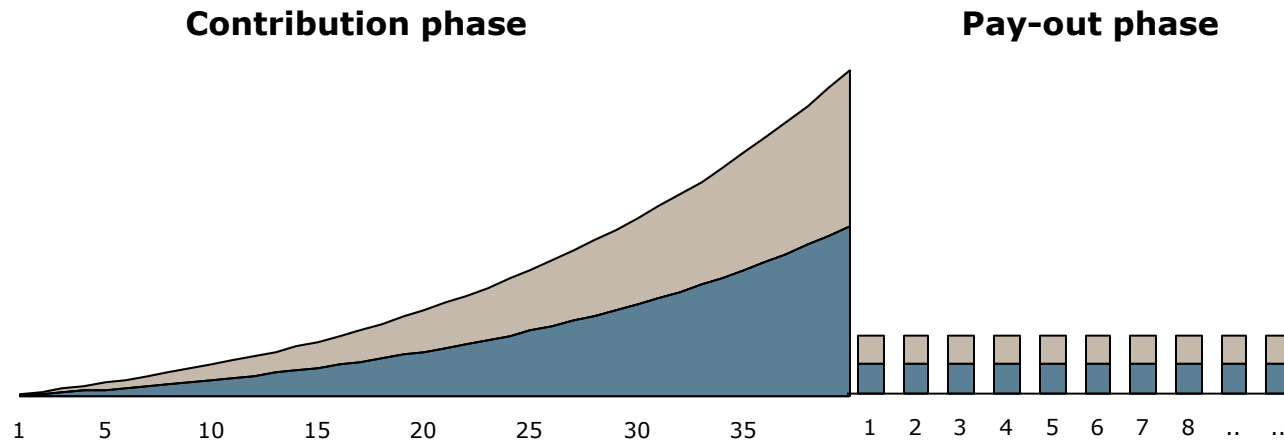


### Public pension - Key elements

- 18,1% of salary up to 7,1G
- Longevity risk carried by individual
- Capital regulated with annual salary growth
- 40y max contribution equals ~50-55% of salary up to 7,1G

- Annuity calculation at point of retirement
- Annual pension based on expected longevity of individuals born in a given year
- Flexible retirement age between 62-75y

# Norwegian public pension and the new 'standard' product



**Public pension  
- Key elements**

- 18,1% of salary up to 7,1G
- Longevity risk carried by individual
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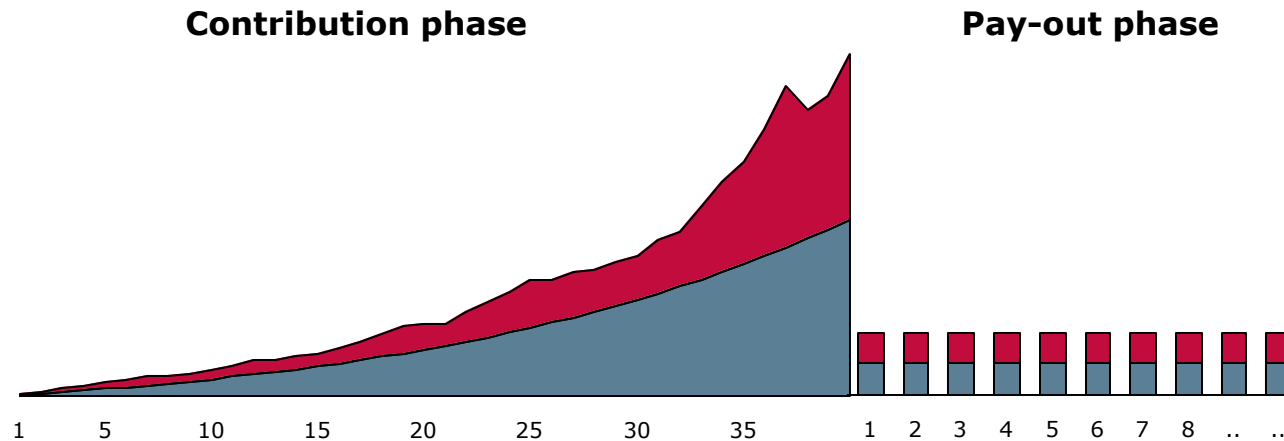
- Annuity calculation on point of retirement
- Annual pension based on expected longevity of individuals born in a given year
- Flexible retirement age between 62-75y

**New 'standard'  
product  
- Key elements**

- 0% guarantee or higher based on contract or investment choice made by the corporation
- Max 5y duration, no longevity risk
- Annual salary inflation regulation of funds
- Return finances regulation and buffer fund
- On corporations balance sheet (but less than DB)
- Tax deductible for the sponsor (corporation)

- Annuity calculation on point of retirement
- Annual pension based on expected longevity of individuals born in a given year, limited longevity risk
- Mortality inheritance
- Remaining longevity risk to be charged plan sponsor
- Annual salary inflation regulation of funds

# Norwegian public pension and the new 'basic' product



**Public pension  
- Key elements**

- 18,1% of salary up to 7,1G<sup>1</sup>
- Longevity risk carried by individual
- Capital regulated with annual salary growth
- 40y max contribution equals ~50-55% of salary up to 7,1G

- Annuity calculation on point of retirement
- Annual pension based on expected longevity of individuals born in a given year
- Flexible retirement age between 62-75y

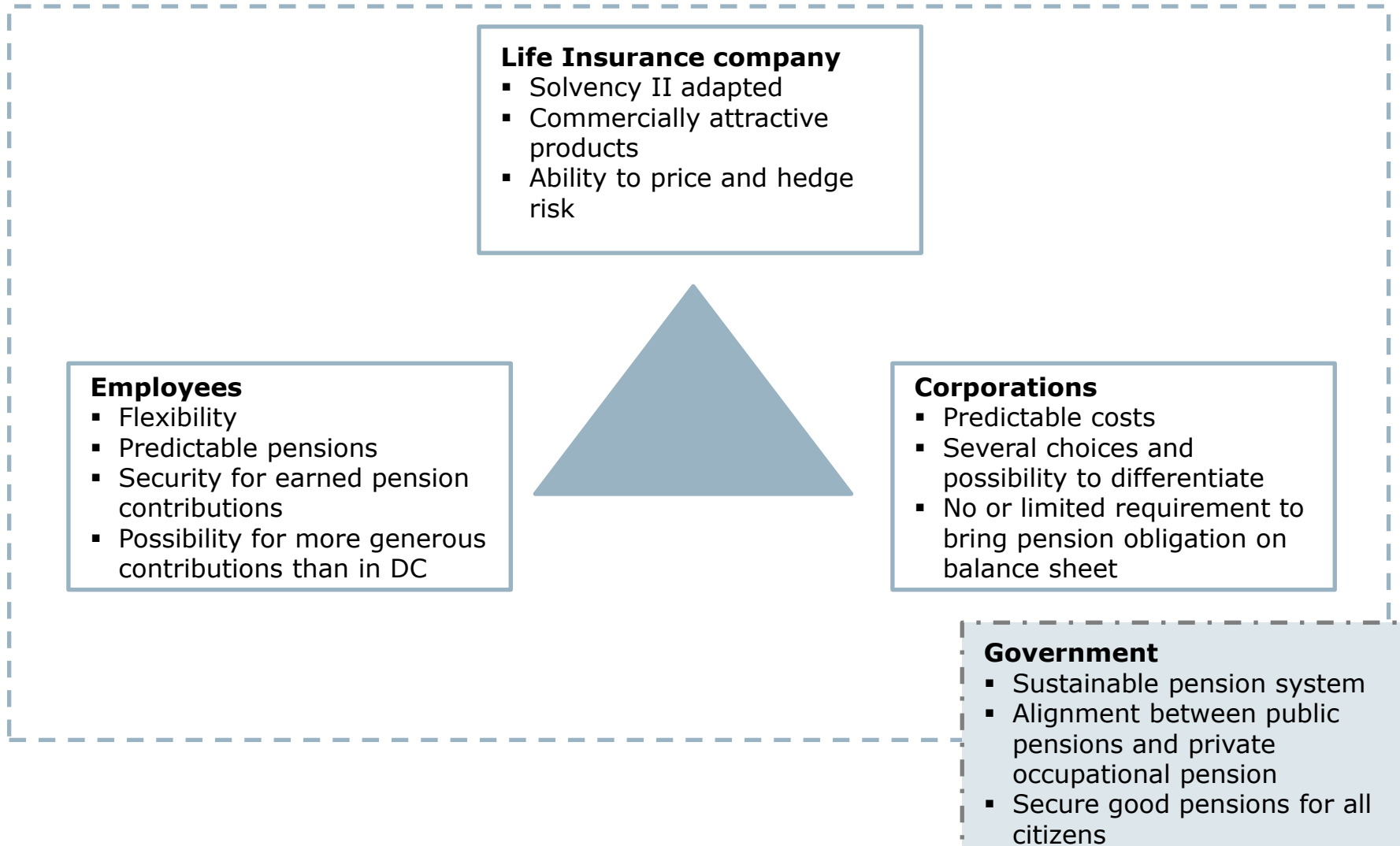
**New 'basic'  
product  
- Key elements**

- 0% guarantee or higher based on contract or investment choice made by the individual
- Max 5y duration, no longevity risk
- All returns to policyholder
- Individual can influence asset allocation
- Not on corporations balance sheet
- Tax deductible for the sponsor (corporation)

- Annuity calculation on point of retirement
- Annual pension based on expected longevity of individuals born in a given year, limited longevity risk
- Mortality inheritance
- Remaining longevity risk to be charged plan sponsor
- Regulation of funds based on return of portfolio

# An attractive product for all parties

## - solid platform for finding transfer mechanisms



## Summary

- Storebrand positive to the proposed product alternatives
- Well adapted to Solvency II
- The proposed products are well adapted for transfers from DB
- Phase III of the Banking Law Commission's work to be completed winter 2013

# Appendix:

# Product characteristics

	<b>Traditional DB</b>	<b>New product 'standard'</b>	<b>New product 'basic'</b>	<b>Current DC/UL</b>
<b>Market risk</b>	<ul style="list-style-type: none"> <li>Insurance company - annual guarantee rate ~3,5%</li> </ul>	<ul style="list-style-type: none"> <li>Insurance company to deliver annual guarantee rate of min 0% or investment choice for the corporation (no guarantee)</li> <li>Corporations – CPI adjustm.</li> </ul>	<ul style="list-style-type: none"> <li>Insurance company to deliver annual guarantee rate of min 0% or investment choice for the individual (no guarantee)</li> </ul>	<ul style="list-style-type: none"> <li>Individuals decide asset allocation and have all market risk</li> </ul>
<b>Longevity risk</b>	<ul style="list-style-type: none"> <li>Insurance company - longevity risk in contribution and pay out phase</li> </ul>	<ul style="list-style-type: none"> <li>Individuals – longevity risk during contribution phase</li> <li>Corporation – Longevity risk during pay out phase</li> </ul>	<ul style="list-style-type: none"> <li>Individuals – longevity risk during contribution phase and during pay out phase</li> </ul>	<ul style="list-style-type: none"> <li>Individuals - longevity risk in contribution and pay out phase</li> </ul>
<b>Guarantee structure</b>	<ul style="list-style-type: none"> <li>End guarantee combined with annual guarantee</li> </ul>	<ul style="list-style-type: none"> <li>Guarantee between 1-5y by contractual agreement</li> </ul>	<ul style="list-style-type: none"> <li>Guarantee between 1-5y by contractual agreement</li> </ul>	<ul style="list-style-type: none"> <li>No guarantees</li> </ul>
<b>Premiums</b>	<ul style="list-style-type: none"> <li>Depends on prem. calc. rate guarantee rate and expected longevity</li> </ul>	<ul style="list-style-type: none"> <li>7% of salary 0-7,1G</li> <li>7%+18,1% of salary 7,1-12 G</li> </ul>	<ul style="list-style-type: none"> <li>8% of salary 0-7,1G</li> <li>8%+18,1% of salary 7,1-12 G</li> </ul>	<ul style="list-style-type: none"> <li>2-5% of salary 1-6 G</li> <li>2-8% of salary 6-12 G</li> </ul>
<b>Fee structure</b>	<ul style="list-style-type: none"> <li>Admin result to owner</li> <li>Risk result 50/50 split</li> <li>Price of interest rate guarantee and risk margin fee calculated as share of insurance reserves</li> </ul>	<ul style="list-style-type: none"> <li>Admin result to owner</li> <li>Risk result to owner</li> <li>Price of interest rate guarantee and risk margin fee calculated as share of insurance reserves</li> </ul>	<ul style="list-style-type: none"> <li>Admin result to owner</li> <li>Risk result to owner</li> <li>Price of interest rate guarantee and risk margin fee calculated as share of insurance reserves</li> </ul>	<ul style="list-style-type: none"> <li>Admin result to owner</li> <li>Risk result to owner</li> </ul>
<b>Paid up business</b>	<ul style="list-style-type: none"> <li>Transferred to pre paid profit split product (20/80) w/guarantee</li> </ul>	<ul style="list-style-type: none"> <li>Stays in insurance collective</li> </ul>	<ul style="list-style-type: none"> <li>Stays in insurance collective</li> </ul>	<ul style="list-style-type: none"> <li>Non guaranteed paid-up policies</li> </ul>
<b>SII adapted</b>	<ul style="list-style-type: none"> <li>Product itself manageable under SII, but creates new paid up polices which is unsustainable</li> </ul>	<ul style="list-style-type: none"> <li>Yes - pension certificates with 0% guarantee or investment choice</li> </ul>	<ul style="list-style-type: none"> <li>Yes - pension certificates with 0% guarantee or investment choice</li> </ul>	<ul style="list-style-type: none"> <li>Yes</li> </ul>