

Regional Pension & Social Insurance

- Role of the Insurance Company-

The Three Pillars of Pensions System



1st Pillar
State, Mandatory



2nd Pillar
Private, Mandatory



3rd Pillar
Private, Voluntary

Government

Provides retirement benefits financed with tax revenues	Provides tax incentives for employer and/or employee
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Employers

Payroll Social Security Taxes	Mandatory employer contributions & sets up occupational pensions	Plans with specific objectives
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Employees and/or Individuals

Pays retirement taxes (social security)	Makes mandatory salary contributions	Makes voluntary additional savings
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Public Strain



Governments may:

- Raise taxes
- Raise retirement ages
- Decrease benefits
- Privatize
- Create incentives for individual & corporate pension plans

3rd Pillar (Private, Voluntary)

Characteristics

- Voluntary and Privately managed
- Mostly Defined Contribution plans when employers participate
- Contributions are generally tax deductible both for employer and employees
- Variety of investment choices: stocks and bonds, mutual funds, universal life, etc
- Individuals/employees assumes the investment risks
- In place in many European, Asian and Latin American countries

Objectives

- Supplement 1st and 2nd Pillars
- Increase savings for retirement
- Promote individual savings through tax incentives
- Provide effective employee benefit and talent retention

Global Pensions Trends

- Private Plans (Corporate & Individual)
- Advantages

- **Employer:** Tax Advantages
Attract, retain and reward employees

- **Employees:** Tax Advantages
Investment diversification
Safeguard retirement income

- Shift to Defined Contribution plans
- Retention Tools (matching & vesting)
- Cafeteria Plans
- Worksite Marketing / Voluntary Programs



Insurance companies and the 2nd & 3rd Pillars

Life insurance companies are one of the financial services that are key to providing efficiency and well function of the private pension system (2nd and 3rd pillars). They generally undertake the following functions:

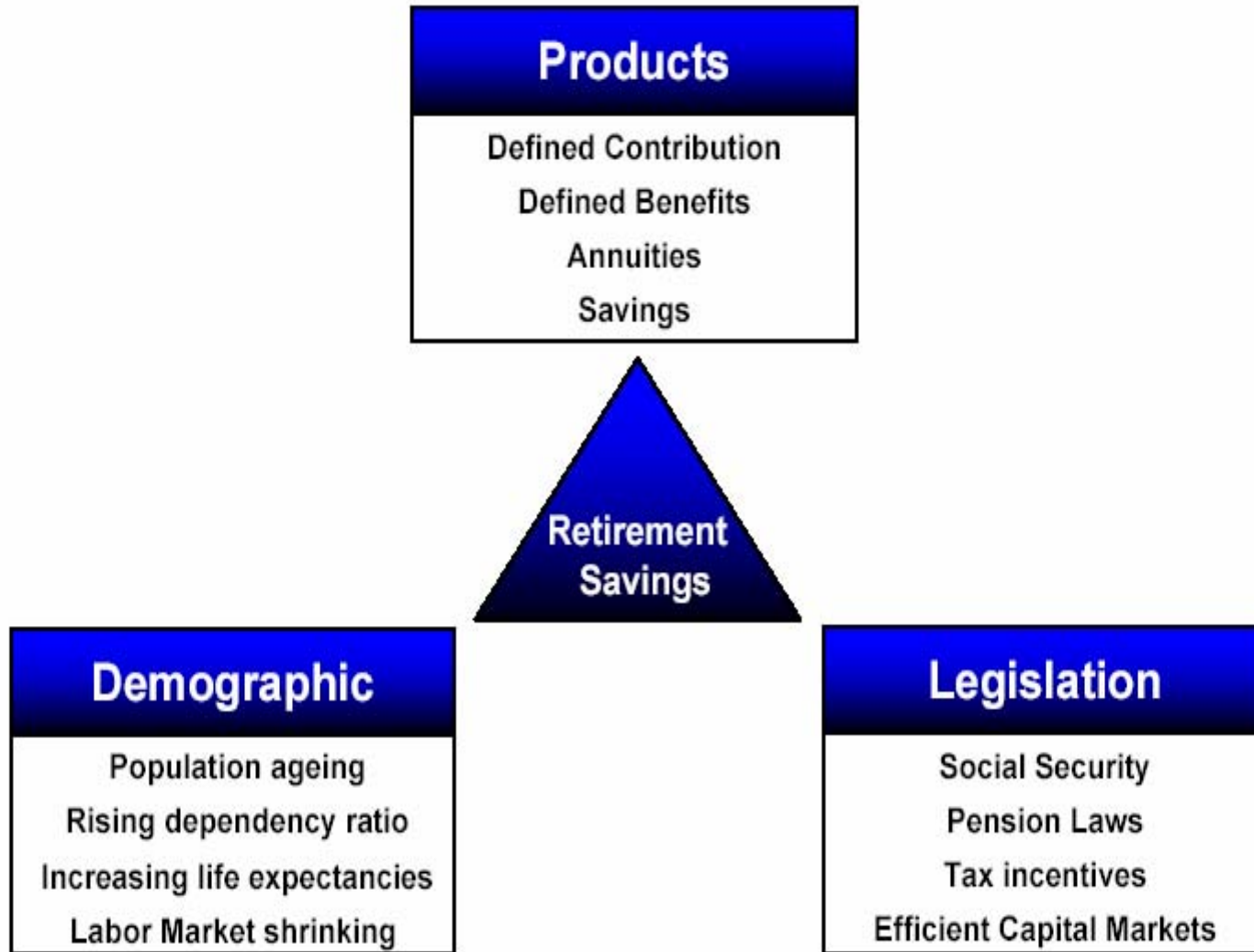
Administration: With their financial strength and operations capability, life insurance companies have the expertise to service private pensions accounts and offer a broad range of pension solutions for employers and employees

Asset management: Provide professional long term investment solutions through multiple investment choices and funds

Trustee/Custodian: Assets in pension funds are often held in a separate legal entity set up by life insurance companies

Retirement: as part of a complete retirement solution, a variety of payout annuities are provided by life insurance companies to assist retirees to better prepare for their retirement

The Retirement Savings Triangle



Individual Policies

Separate individual contracts for each participating employee

Life Insurance Contract

- Conventional/unit-linked/universal life type
- Builds up cash value over the term of the policy
- Death Benefit
- Disability Benefit
- Waiver of premium
- Critical Illness Benefits
- Cash Value at maturity used to buy an annuity
- Addresses risks of longevity, death, unexpected healthcare need and costs

Annuity Contracts

- 1) **Immediate Annuities** : A single premium is used to purchase an annuity which starts immediately.
- 2) **Deferred Annuities**: Accumulation Phase – Payout Phase
 - a) Single Premium Deferred Annuities
 - b) Flexible Premium Deferred Annuities
- 3) **Traditional Annuities** Offer a fixed guaranteed income, protect against interest rate risks, are not suitable in an inflationary environment.
- 4) **Variable Annuities** is the protection of retirement income from inflation, Investment risk passed on to the contract holder, Amount of annuity is linked to the value of the underlying assets.

Group Pension Products

- Defined Contribution and Defined Benefit
- Corporate Allocated Annuities
- Terminal Funding Annuities
- Deposit Administration
- Pensions Plans