

Press Release
For immediate release
Brussels, 23 January 2008

EFAMA PUBLISHES REPORT ON DC PENSION SCHEMES

Brussels, 23 January 2008 – EFAMA, the European Fund and Asset Management Association, today presented at a conference in Brussels the report "*Defined-Contribution Pension Schemes – Risks and Advantages for Occupational Retirement Provision*". The report confirms that public authorities should broaden the availability of DC schemes in order to encourage households to save more to ensure an adequate level of retirement income.

The report, prepared by the independent economic consultancy firm Oxera Ltd, was motivated by the need for impartial research on DC schemes. "*DC pension schemes have been subject to much commentary and criticisms*", says Mathias Bauer, President of EFAMA, "*but the report shows that risks are often overstated whilst the advantages are downplayed. With this report, EFAMA wishes to reassure policymakers on the suitability of DC schemes as broad-based pension arrangements*".

As a growing number of defined-benefit schemes are closed to new members, and the generosity of public pension systems is decreasing, the report represents an important contribution to the search for alternative and sustainable pension arrangements.

The findings of the report lead to two key policy messages:

- DC schemes are in essence long-term savings vehicles. Asset managers can structure DC investment to meet the preferences and needs of individuals and to maximize the risk-return performance of the retirement wealth. Solutions exist to reduce or even eliminate investment risk. However, they can impose a significant cost in terms of forgone returns. Consequently, regulations that ask for such risk mitigation and thus strictly limit investment in certain asset classes, can have a highly negative impact on retirement wealth for the majority of participants in DC plans.
- Sound governance and risk management practices can easily be implemented in DC schemes to ensure the safeguarding and investment of pension assets in the best interests of scheme members. And solutions are available to help individuals in making the right choices when it comes to deciding how to invest their DC pensions, e.g. pre-selection of the range of investment options, specification of a default option, or provision of targeted information and advice.

Given the strengths of DC schemes, and the ease with which they could be offered on a cross-border basis, EFAMA believes that DC schemes are the single most appropriate arrangements around which to build a single market for occupational pension products. A single market would not merely increase individuals' welfare by allowing them to enjoy portable occupational pension arrangements tailored to their specific needs – it would also stimulate competition and

reduce the cost of saving for retirement. EFAMA President Bauer stresses: “*We therefore urge the European Commission to develop an appropriate regulatory framework that could support the creation of DC-type pension products, fully portable and mutually recognized within the European Union.*”

In the coming months, EFAMA will take other initiatives to underline the role that asset managers can play as providers of cost-efficient pension saving solutions for both the accumulation phase and pay-out phases. EFAMA will also continue to call for a level playing field across the occupational pension markets in the context of the forthcoming review of the IORP Directive.¹

The report can be downloaded directly from www.efama.org.

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Notes to the editors:

EFAMA is the representative association for the European investment management industry. Through its member associations from 20 EU Member States, Liechtenstein, Norway, Switzerland and Turkey, as well as its corporate members, EFAMA represented at end September 2007 over €16.5 trillion in assets under management, of which €8.2 trillion through over 46,000 investment funds. For more information, please visit www.efama.org.

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¹ Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision.