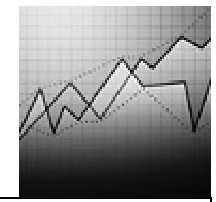
CURRENT PENSION TRENDS IN ASIA





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Bob Charles

7th Global Conference

Watson Wyatt
Worldwide

Pension reform in Asia

- **Aging populations**
- **Unsustainable social security costs**
- **Mandatory benefits not retirement focused**
- **Pension funding increases national investment**

Pensions in Asia

- **CPF/EPF:**
  - Singapore
  - Malaysia
  - Indonesia
  - India
  - China (Social Insurance individual accounts)

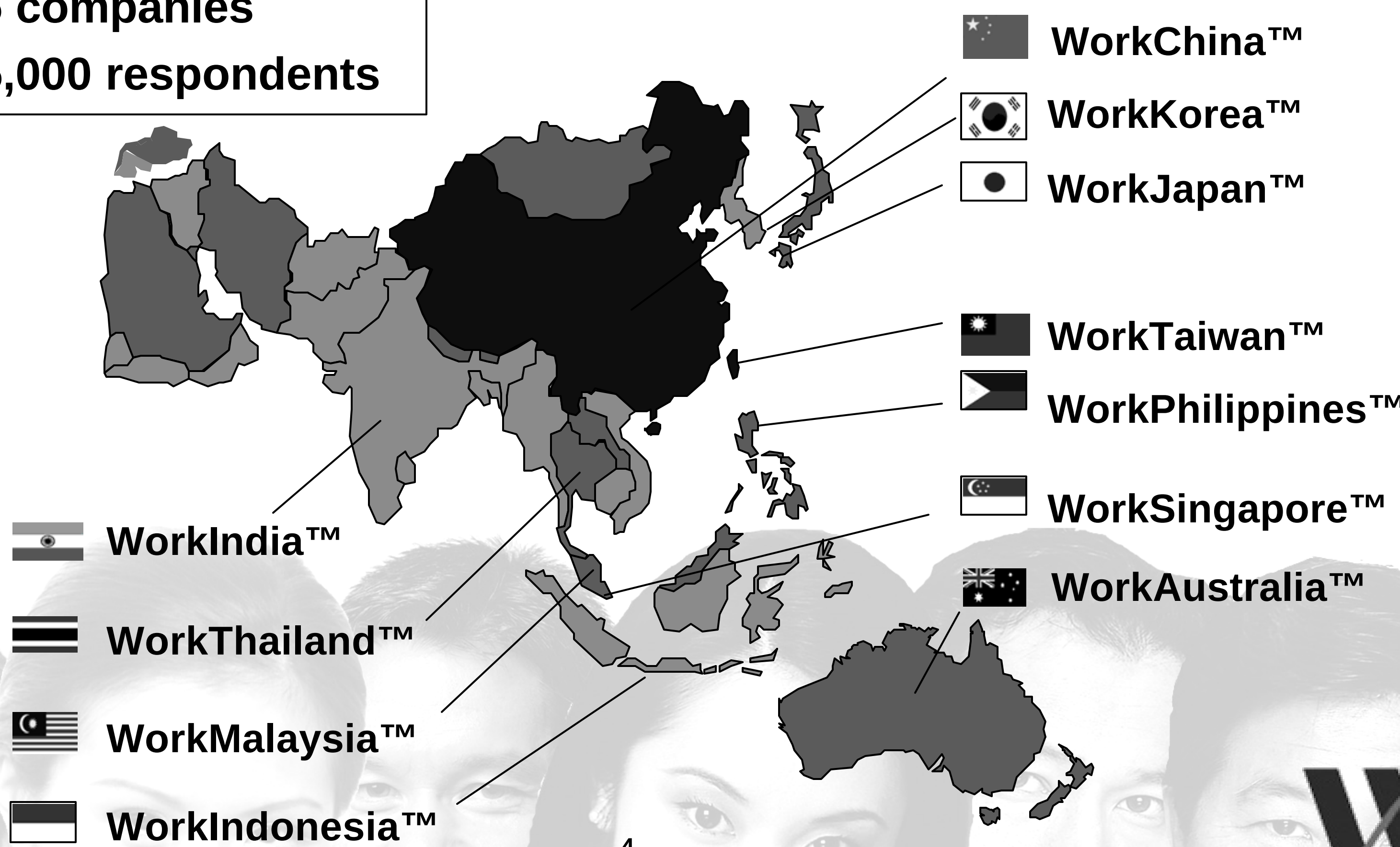
- **Mandatory funded:**
  - Hong Kong
  - Australia
  - Taiwan (2005)
  - Korea (2005)

- **Severance pay:**
  - Thailand
  - Indonesia
  - India (gratuity)
  - Taiwan
  - Korea

- **Voluntary funded:**
  - Japan
  - New Zealand
  - India (superannuation)
  - China (Enterprise Annuity)
  - Malaysia
  - Indonesia

WorkAsia™

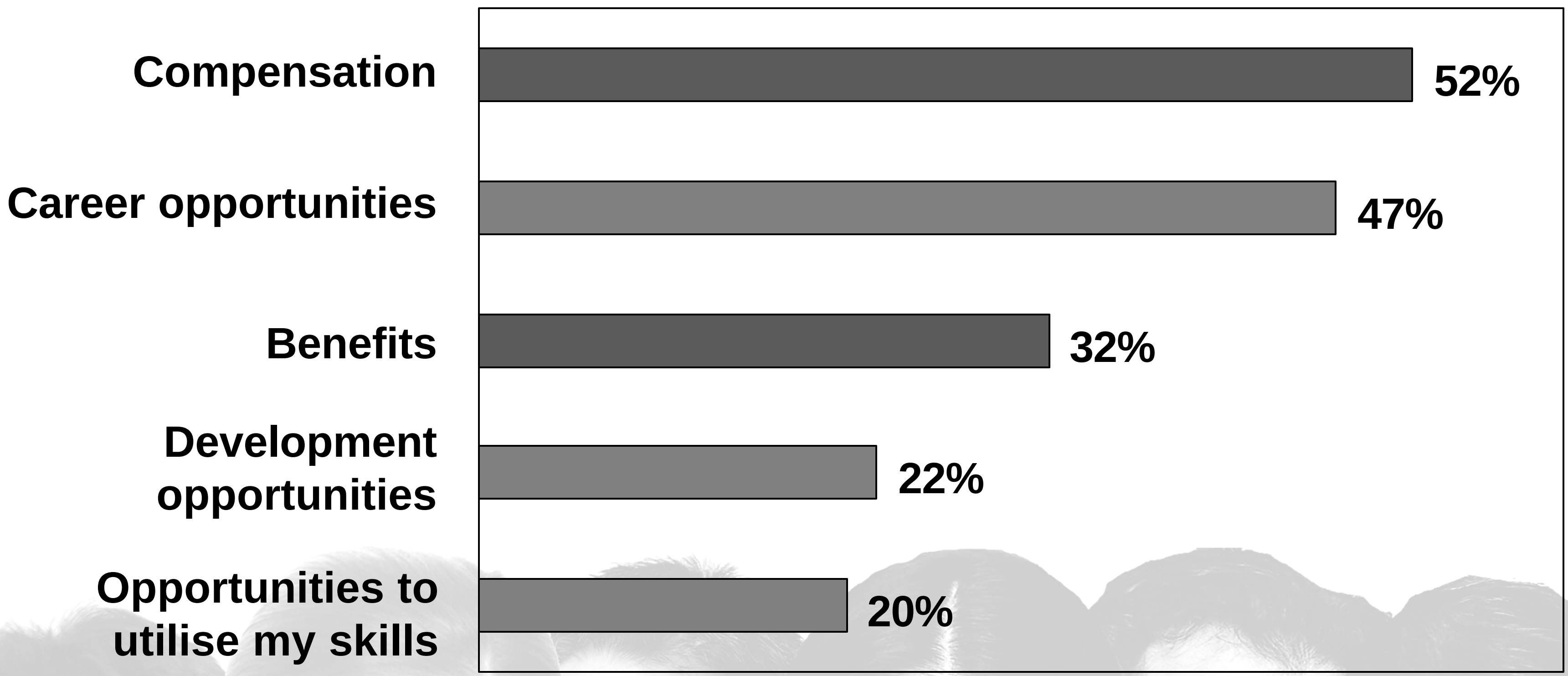
- 11 countries
- 515 companies
- 115,000 respondents



Satisfaction with Benefits?

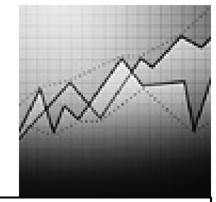
Favorable Rank	Category	Favorable Score
Low	Compensation and Benefits	30%
	Leadership and Management Effectiveness	40%
	Supervision	41%
	Training and Development	45%
Middle	Innovation	49%
	Performance Management	50%
	Teamwork	54%
	Communication	56%
High	Work Environment	60%
	Job Satisfaction	63%

Issues for likely leavers



LATEST PENSION TRENDS IN CHINA





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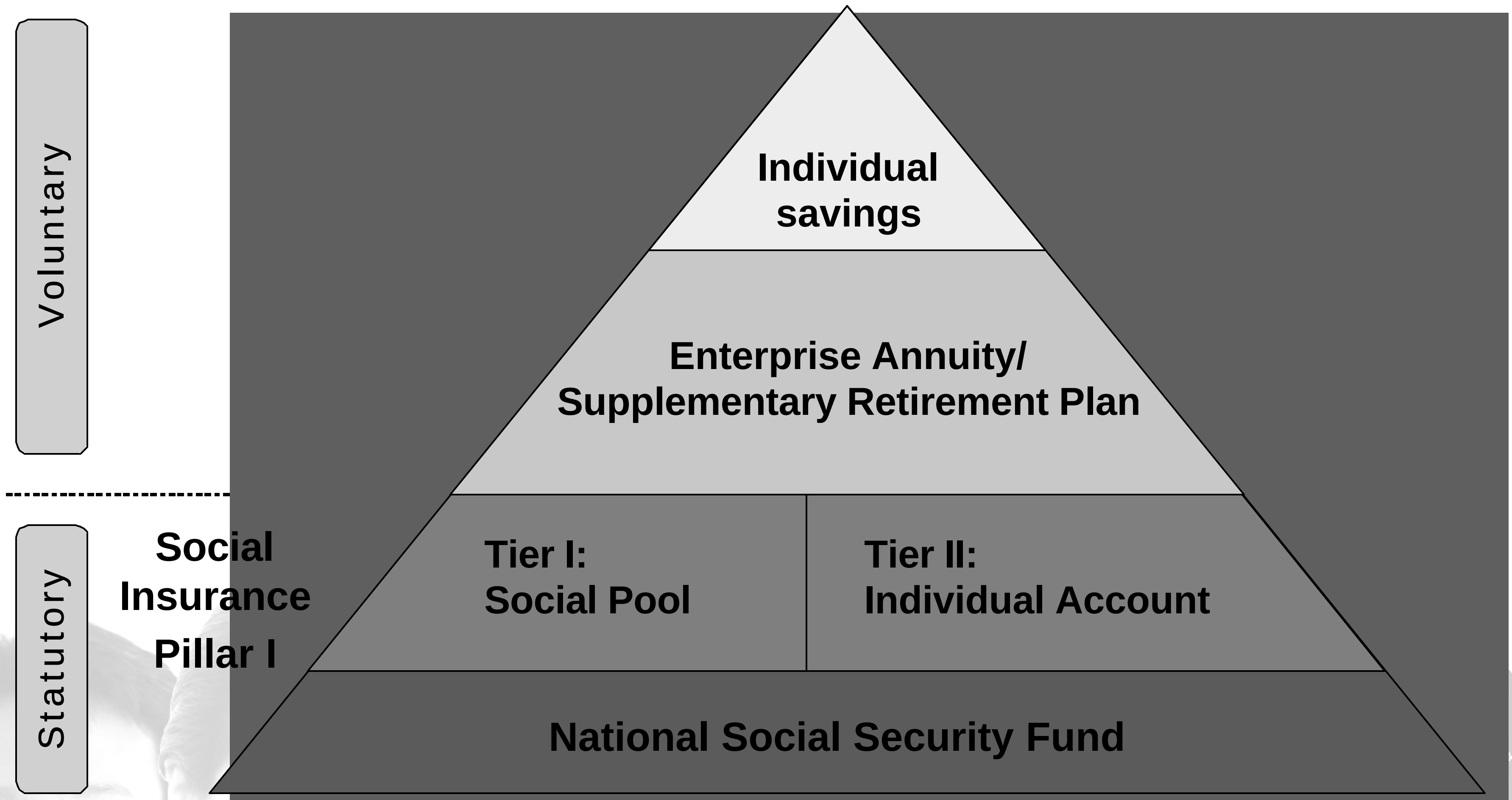
Retirement benefits in China



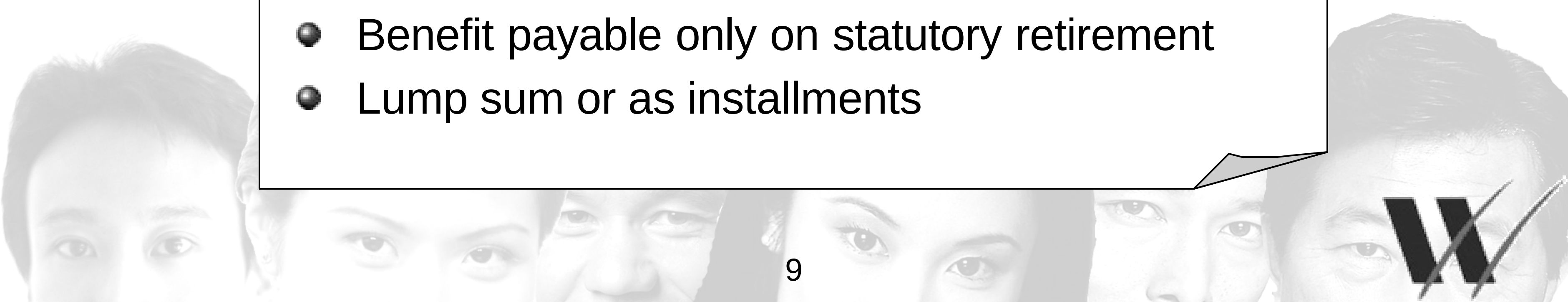
Enterprise Annuity highlights

Voluntary DC Arrangement

- Employer contributions up to 1/12 of total salary roll
- Employer plus employee contributions up to 1/6 of total salary roll
- Allow distribute contributions to individual accounts by ratio

Benefits

- Benefit payable only on statutory retirement
- Lump sum or as installments



Enterprise Annuity – Investment

Plan assets must be separate from employer

Investment restrictions:

- at least 20% in deposits/money market funds
- up to 50% in long term bonds
- up to 30% in equity funds
- no foreign investments

Current issues

Tax:

- Deductibility of contributions dependent on provincial rules
- Tax on investment return and benefit payments not clear

How to integrate with existing supplementary plan:

- Existing plan normally provided through insurance company or social insurance bureau

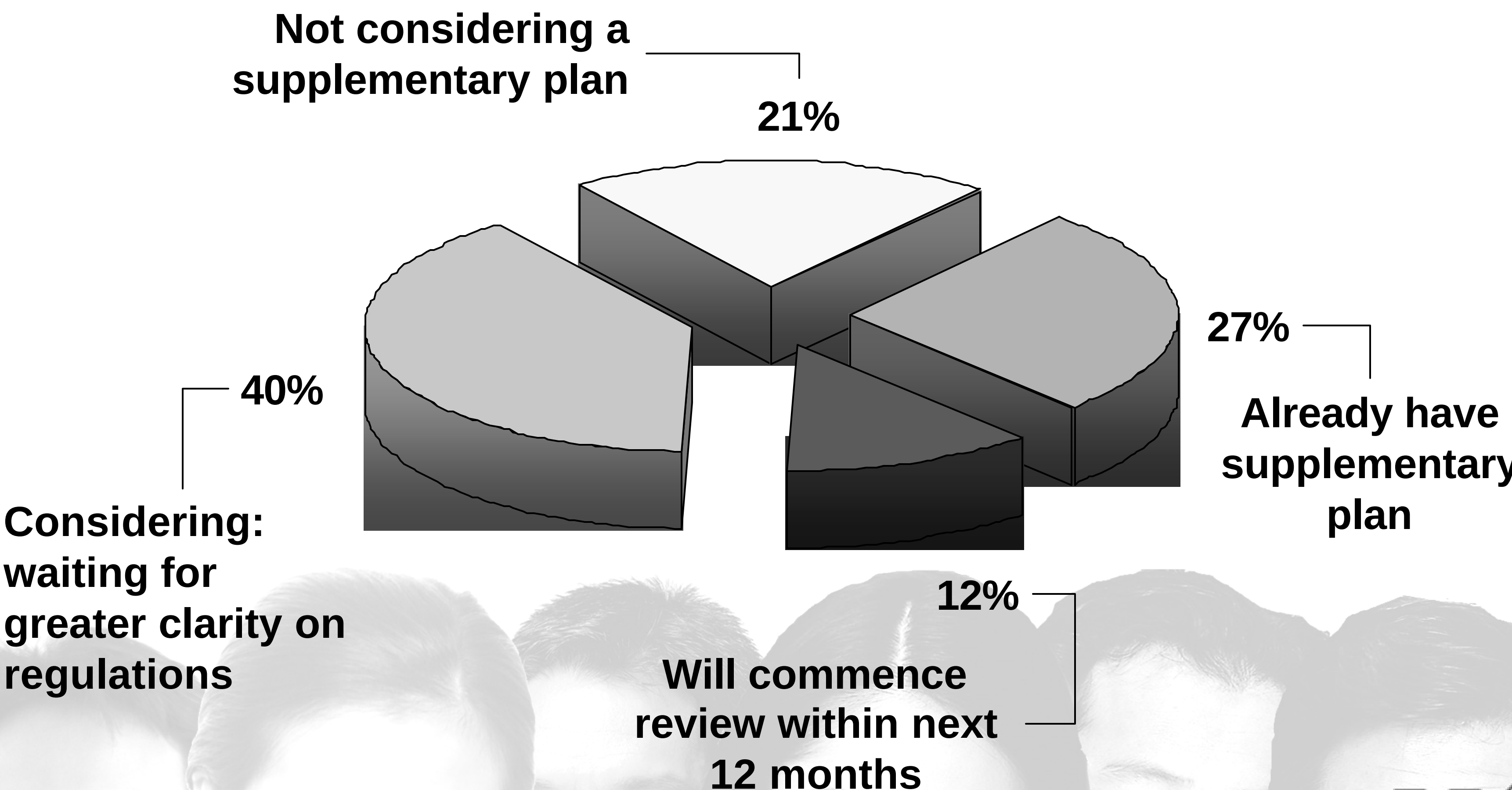
Customer protection:

- No specific responsibilities for losses due to misconduct of service providers
- Legal channels for seeking compensation from the provider are uncertain

Providers:

- Ping An and Tai Ping have preliminary approval from CIRC
- Foreign JV insurance companies from 14 Dec 2004

Current state



Reasons to set up a supplementary plan

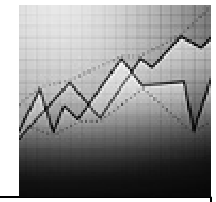
Reason	% of companies
Employee retention	83
Attraction	50
Employees' financial security	50
Other	4

2005 developments

- **New regulations expected in February**
- **More providers in the market will be approved:**
  - – fund managers and banks as well as more insurers
- **SOEs to use Enterprise Annuity framework for their supplementary plans:**
  - – will speed up development of market

LATEST PENSION TRENDS IN TAIWAN





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New pension system

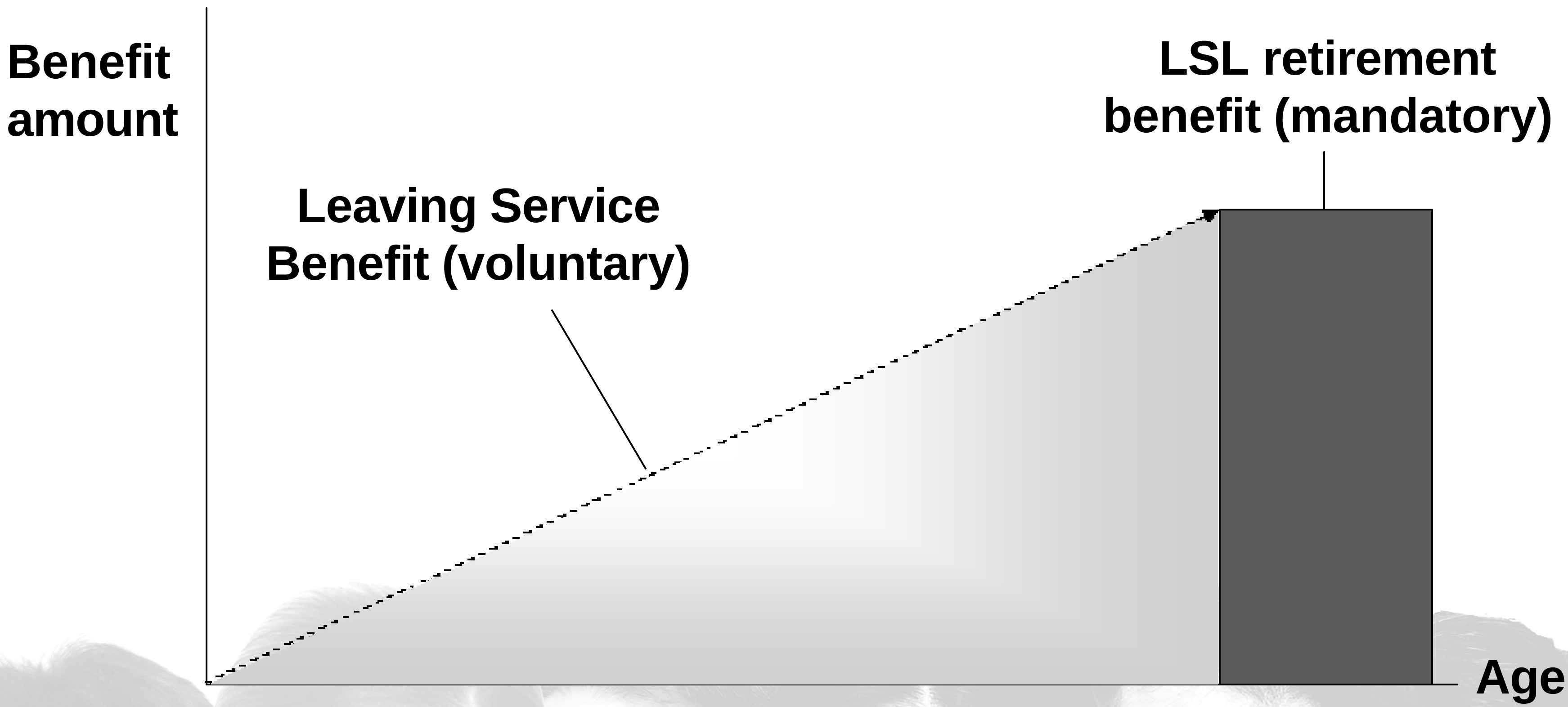
- **Labor Standards Law (LSL)**

  Labor Pension Act (LPA)

- **What does it mean:**
  – for employers?
  – for employees?

- **1 July 2005 deadline:**
  – How do I get ready?

Current System



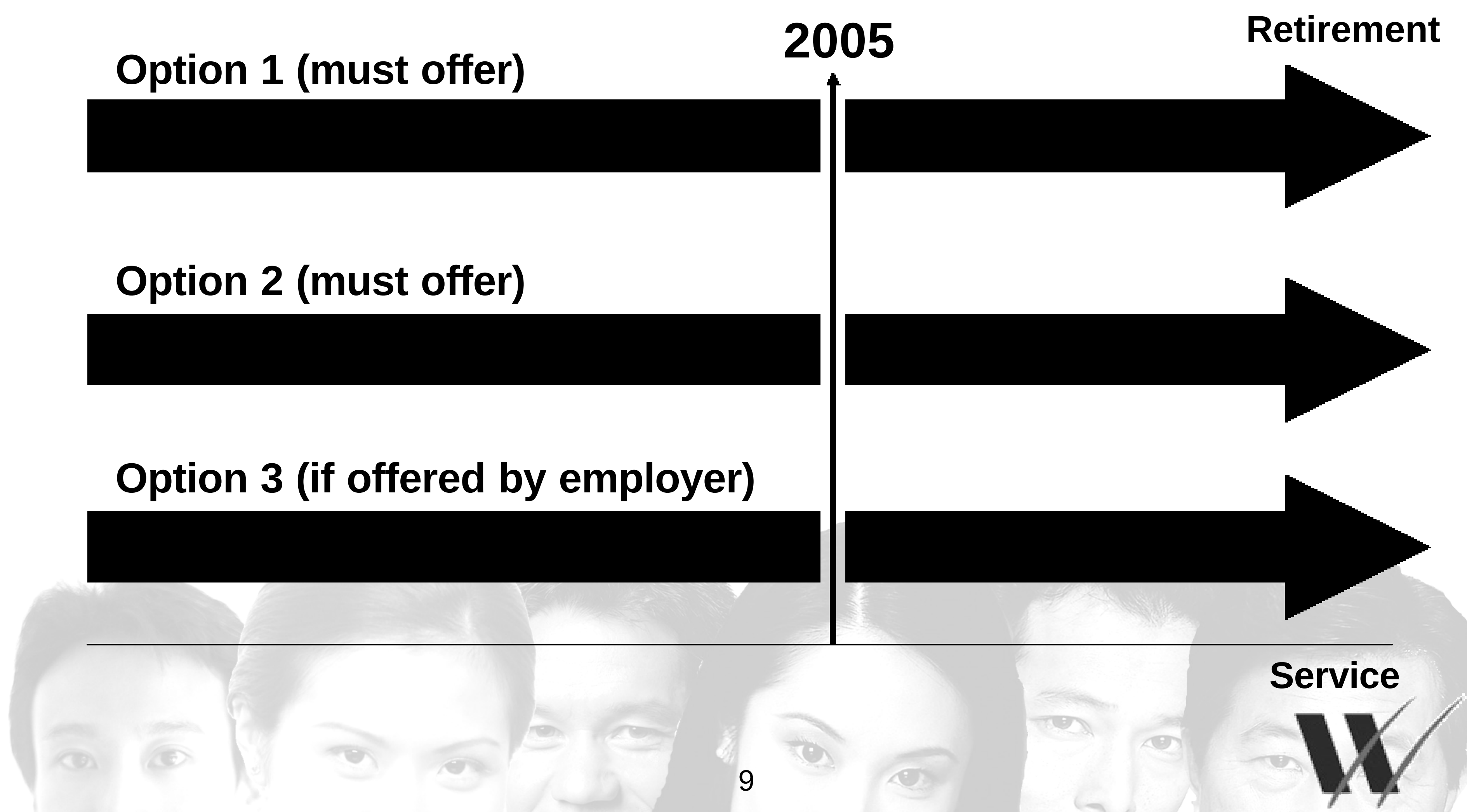
<u>Eligibility under LSL</u>

Age 60, Age 55 with 15 yrs of service or 25 yrs of service

Why Change?

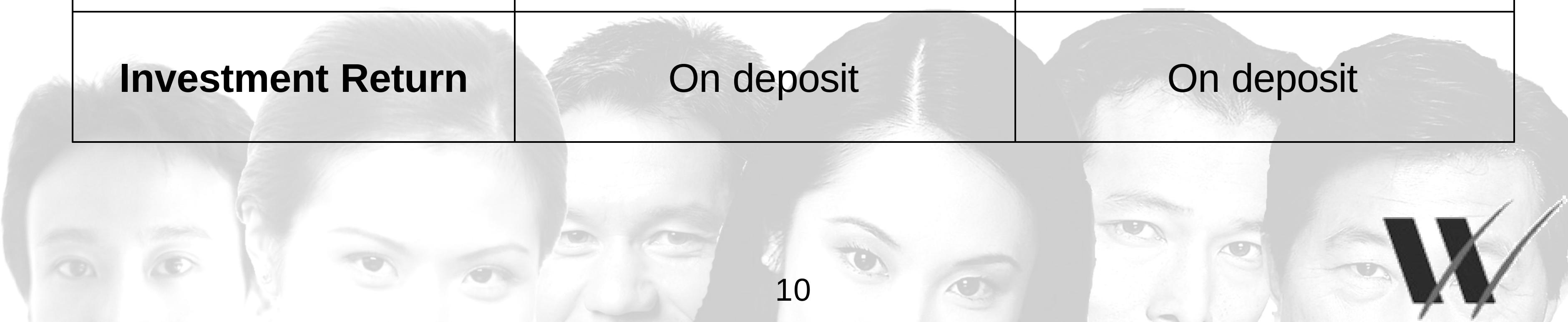
- **Long (extremely long!) vesting period**
- **Not transferable between employments**
- **Funding may be inadequate:**
  - – minimum 2% employer contribution
- **Lump sum benefit**
- **Low compliance**

Transition for existing employees



LSL vs. LPA

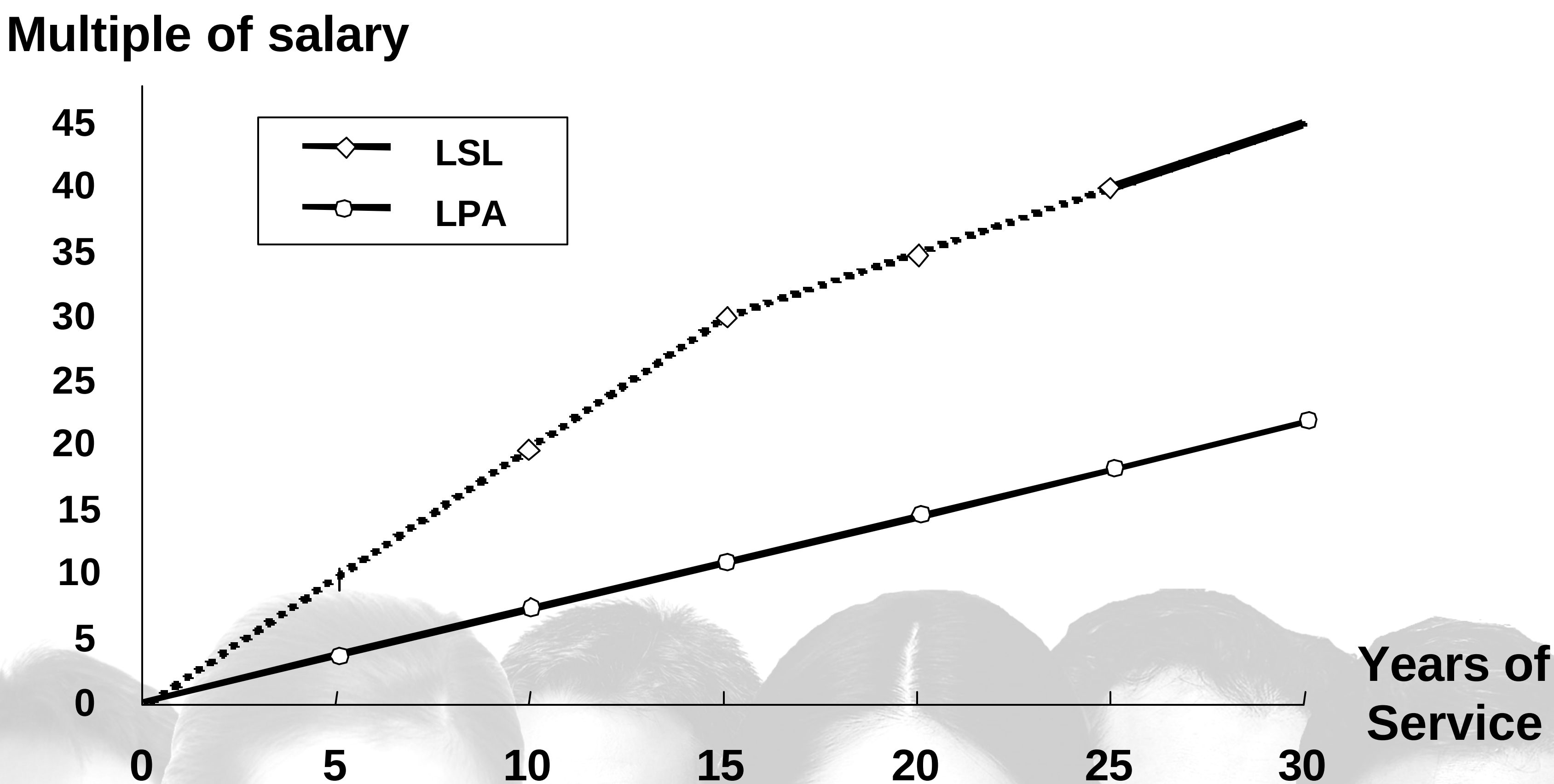
	LSL	LPA
Type of Plan	DB	DC
Employer Contributions	Min: 2% of total salaries	6% of salary (cap of NT$150k)
Employee Contributions	Nil	Voluntary: Up to 6% of salary
Investment Return	On deposit	On deposit



LSL vs. LPA (cont'd)

	LSL	LPA
Eligibility	Long vesting	Immediate vesting
Payment	Lump sum	Annuity (after 15 yrs service)
Portability	No	Yes
Investment choice	Not applicable	No

LSL vs. LPA (cont'd)



Other issues

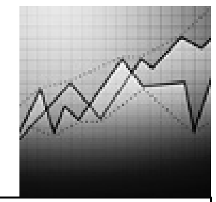
- **Tax deductibility**
  - – 6% contributions are tax deductible
- **Funding of LSL benefits**
  - – Must be fully funded in 5 years
- **Annuity Insurance Plan**
  - – Alternative to LPA if over 200 employees
  - – Over 50% of employees must consent
  - – DC products expected but won’t be ready by 1 July 2005

Comments on LPA

- ✓ **Portability**
- ✓ **Annuity payment**
- ✓ **Central administration**
- ✗ **Substantial reduction of employer funded benefits**
- ✗ **Low long-term investment return**
- ✗ **No investment choice**

LATEST PENSION TRENDS IN KOREA





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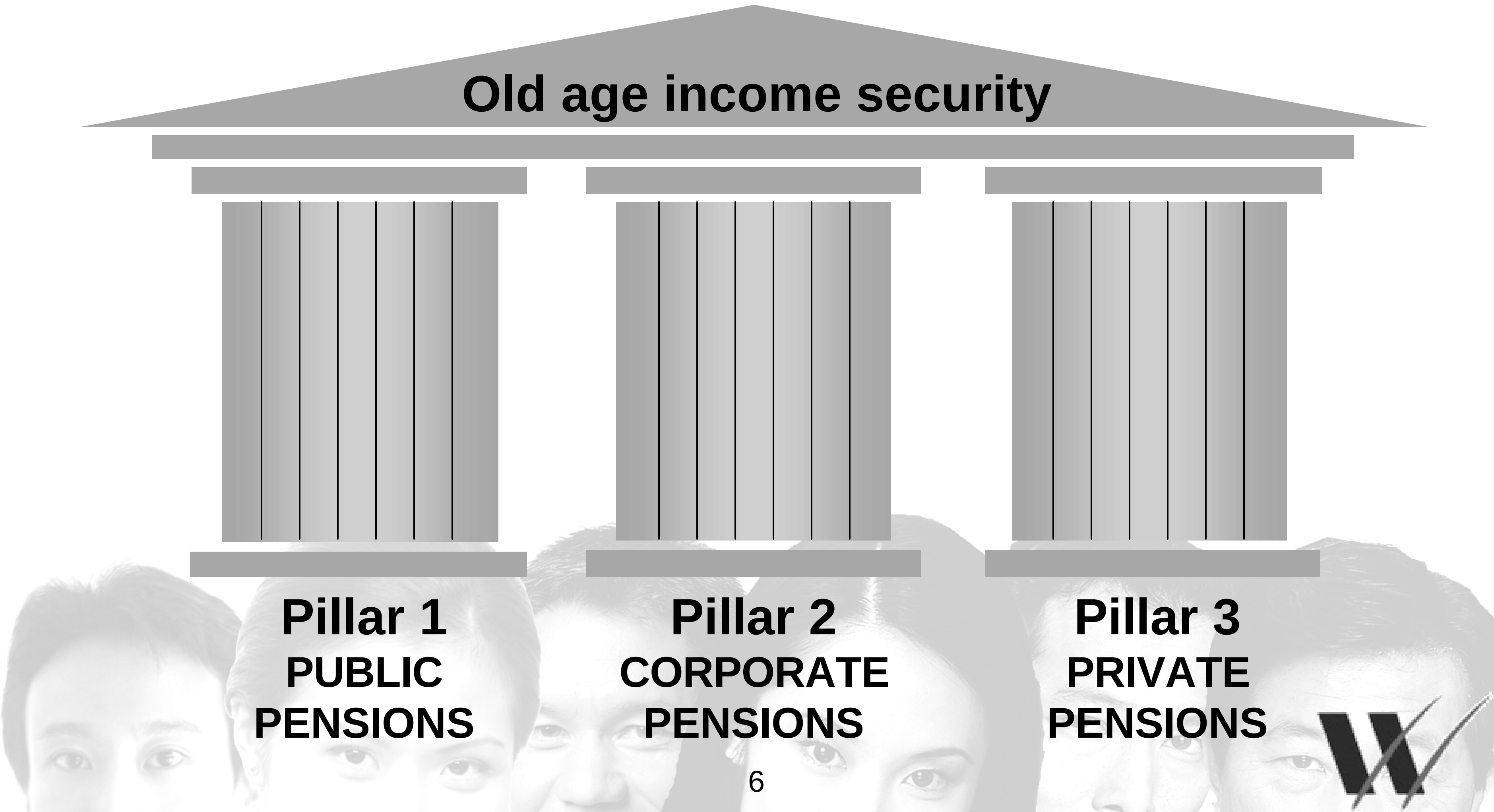
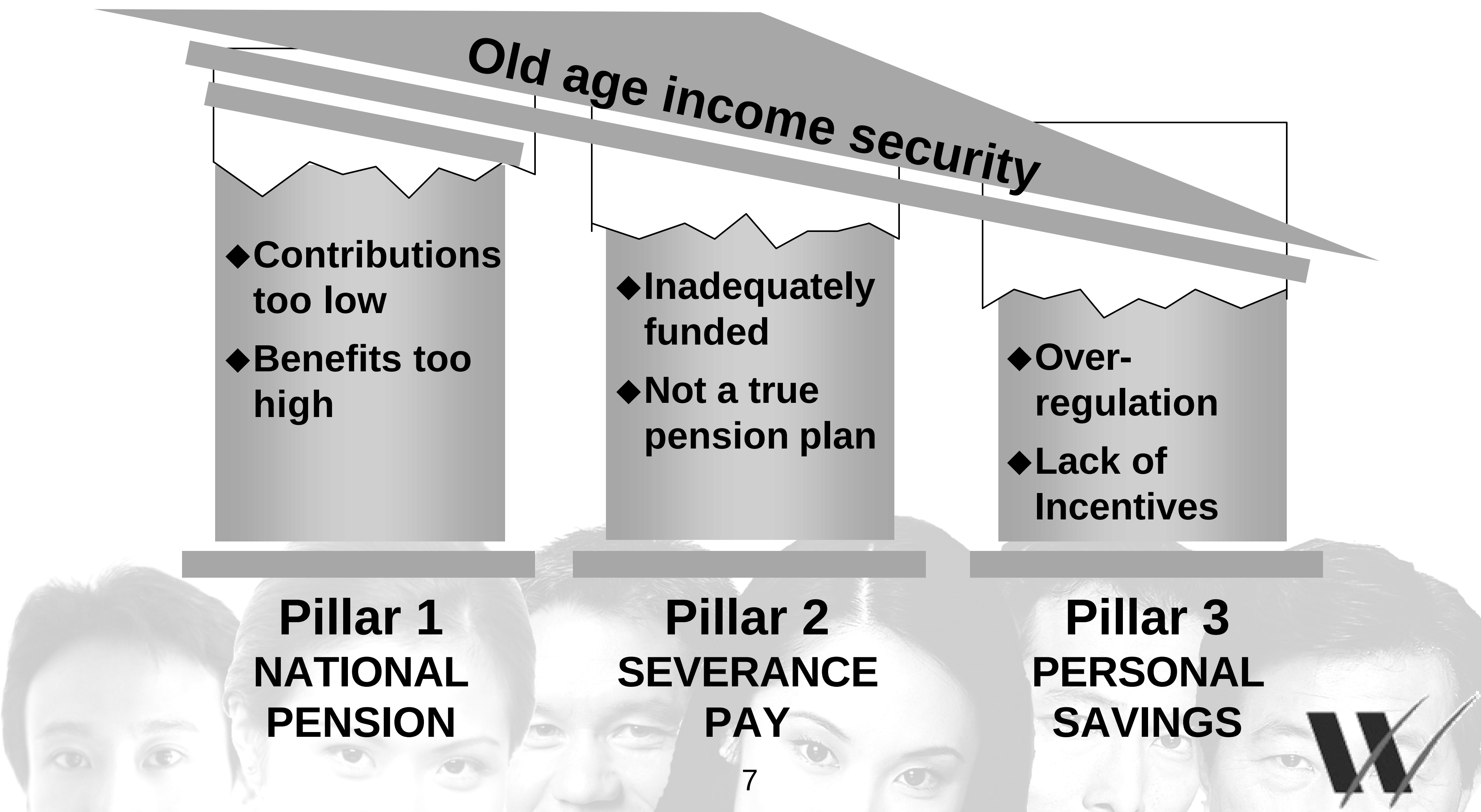
Three pillar pension system



Korea’s pension system

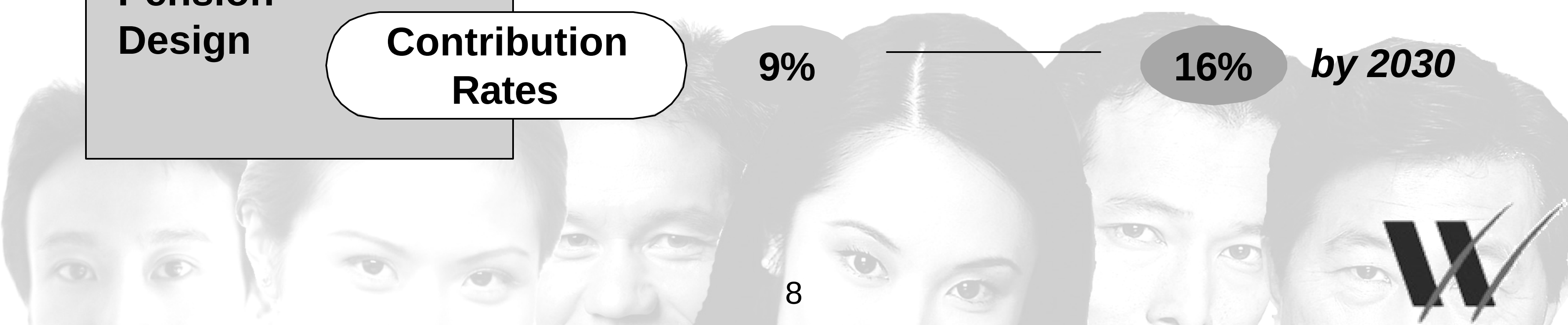


National Pension Scheme

- **Unable to cope with aging population**
- **Government response:**
  - decrease benefits
  - increase employer and employee contributions

National Pension Design

Benefit Ratios	**60%**	**50%**	***by 2008***
Contribution Rates	**9%**	**16%**	***by 2030***



Retirement Allowance System (RAS)

- **Mandatory lump-sum defined benefit**
- **Partial funding encouraged through tax incentives on insurance products**
- **Ineffective means of retirement saving:**
    - paid as cash on leaving each employment
    - option to take cash whilst employment continues

RAS Benefit Formula

Severance benefit = **Final average monthly salary** x **Years of Service**

ERSA

1 ( )

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Employee Retirement Security Act

Article 1 (Purpose)

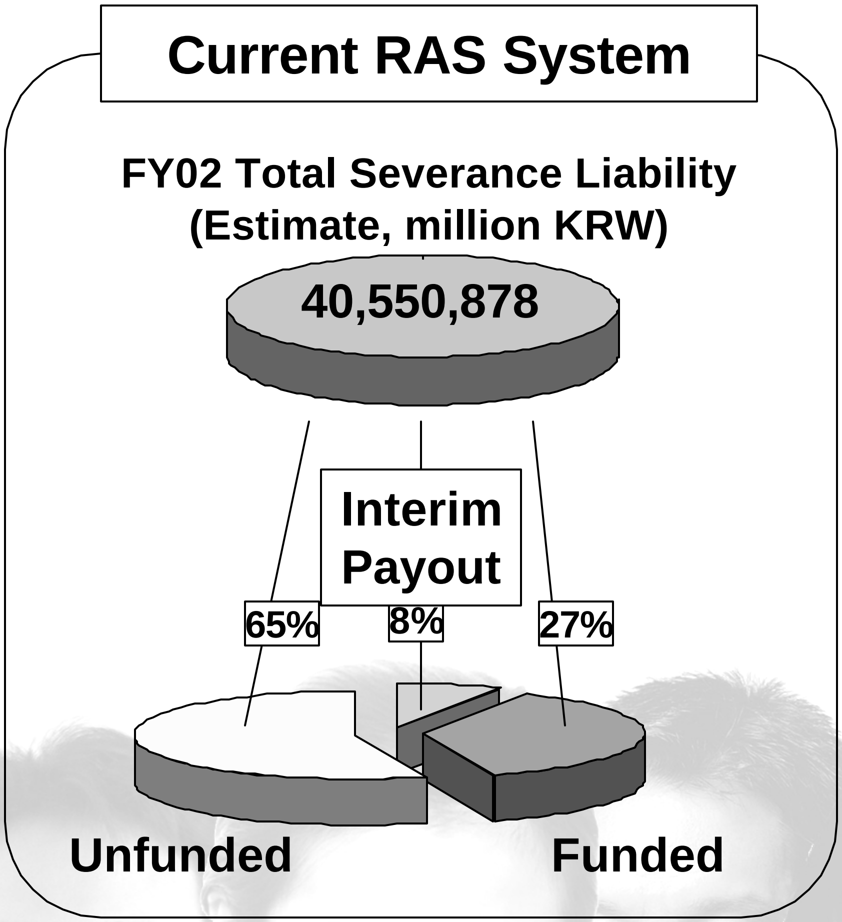
The Employee Retirement Security Act (ERSA) describes the requirements for the establishment and management of a Retirement Plan, with the aim of promoting a stable system for old-age security.

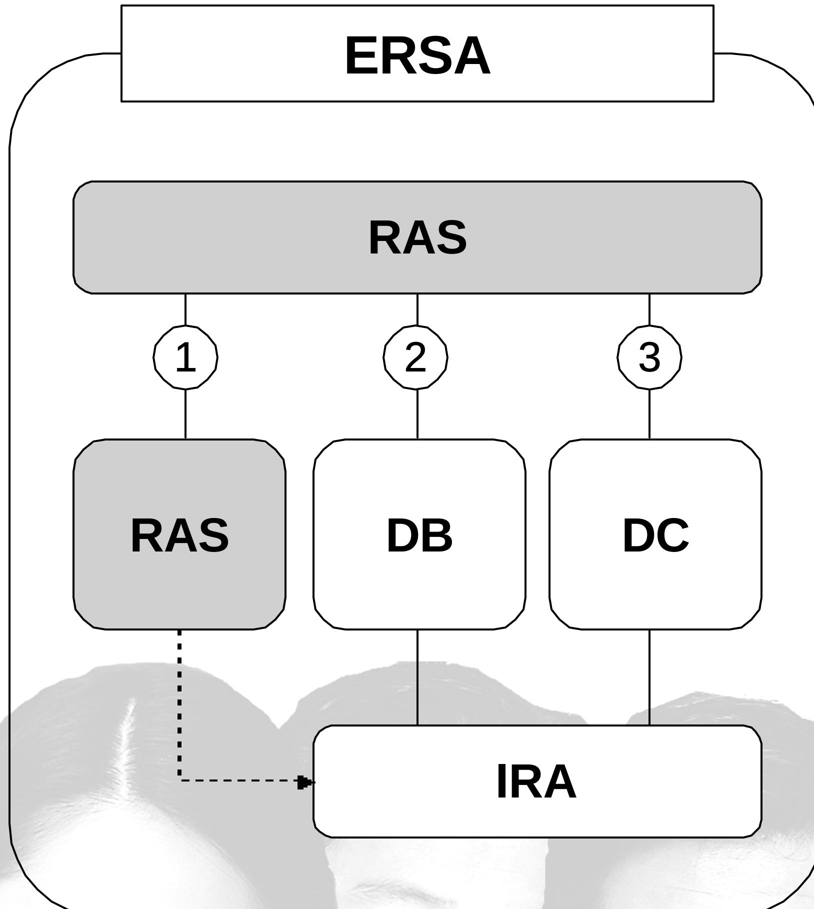
ERSA - Summary

- **Employer must provide either:**
  - – DB pension
  - – DC pension
  - – RAS
- **Benefit changes require employee/union consent**
- **Full external funding for DB and DC**
- **Employees may invest RAS payments in Individual Retirement Accounts (IRAs)**

Takes effect: 1 December, 2005

ERSA - Structure



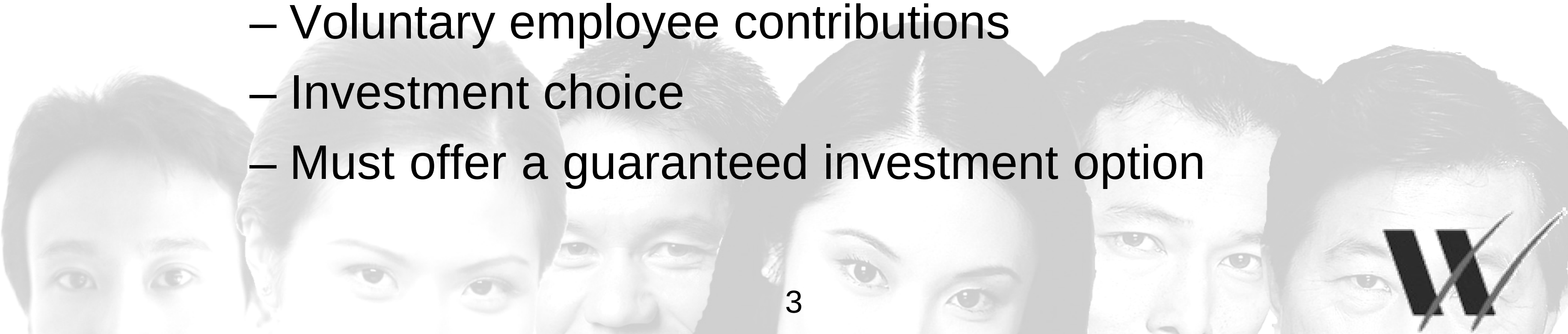


Source : Ministry of Labor, Watson Wyatt estimate

ERSA – what we DO know

- **Defined Benefit pension:**
  - – Equal value to RAS
  - – Minimum retirement age of 55
  - – Minimum funding regulations will exist

- **Defined Contribution pension:**
  - – Employer must contribute at least 1/12 annual salary
  - – Voluntary employee contributions
  - – Investment choice
  - – Must offer a guaranteed investment option



ERSA – what we DON'T know

- Tax incentives for DB or DC pension
- Tax disadvantages for RAS
- Tax disadvantages for early withdrawal of RAS benefits
- Access to pension entitlements prior to retirement
- Investment restrictions
- Specific funding standards for DB schemes
- Government guarantees on DB benefits in case of employer bankruptcy

ERSA – Some views on the future

- **Development of funded pensions may be slow due to continued allowance for unfunded RAS**
- **Labor plays a critical role in the outcome of pension reform**
- **No trustee structure**
- **Potential pension providers have very little time to prepare for 1 December 2005 launch**

LATEST PENSION TRENDS IN ASIA

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ACCOUNTING STANDARDS

Speaker : Bob Charles

Accounting convergence

- **International Financial Reporting Standards (IFRSs)**
- **Local accounting bodies adopt them as a package**
- **Implies Asia wide accounting treatment:**
  - Hong Kong – Singapore – Australia – Indonesia – Malaysia - New Zealand
- **Consistent recognition of**
  - unfunded retirement liabilities
  - stock based compensation

Stock-based compensation

A charge where there was no charge before

Focus on cost-control

Removal of accounting bias

Level playing field between

- **Different types of stock awards**
- **Equity and cash**

Stock incentive landscape

Restricted Stock ⟷ Future Direction of Stock-based Incentives? ⟷ Stock Options

Performance

MICROSOFT

- Restricted stock units

GENERAL ELECTRIC

- 60% stock options
- 40% restricted stock

IBM

- Stock options with 10% premium on exercise price

LATEST PENSION TRENDS IN ASIA

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Q&A