Press Release

Allianz Global Investors

Allianz Global Investors Index reveals countries in greatest need of pension reform

7 November 2011

The Pension Sustainability Index* produced by Allianz Global Investors (AllianzGI), one of the world's largest asset management companies, measures and illustrates the pressure on governments across the globe to reform their pension system.

Key findings of this year's Index include:

- Greece, India, China and Thailand show the greatest need for pension reform, though for different reasons
- Australia, in contrast, is ranked as the best prepared followed by Sweden, Denmark, New Zealand and the Netherlands
- Increased levels of sovereign debt following the financial crisis have exacerbated the need for reform in many countries

According to a new study that charts the relative sustainability of national pension systems in 44 countries around the world, Greece is under the most pressure to reform. Despite pension reforms initiated as a condition of the austerity packages from the International Monetary Fund (IMF) and European Central Bank (ECB), the retirement age in Greece is still low and public replacement rates (the percentage of a worker's pre-retirement income paid out by the pension system upon retirement) are too high. However, the greatest challenge facing the Greek pension system is that its old age dependency ratio – the ratio of elderly people to people of working age – is well above the European average.

The broader findings of the study, which are part of Allianz Global Investors' Pension Sustainability Index, provide a unique insight into the need for pension reform in a number of countries based on various criteria applied consistently to each national system.

Brigitte Miksa, Head of International Pensions at AllianzGI, comments: "While pension reform has been at the top of the political agenda across the globe for many years now, the progress of reform itself differs considerably from country to country, hence the need for an Index to show at a glance how countries compare. In this current study, Greece, India, China and Thailand show the greatest need for pension reform, although not due to a common cause. At the heart of Greece's deteriorating ranking are acute sovereign debt, a quite serious aging problem and a pension system which remains generous despite recent reforms. In contrast, in India and China, the issue is that pension coverage remains extremely low and adequate measures have not yet been implemented to improve this. Thailand takes the fourth ranking as it has sporadic pension coverage and an extremely low retirement age (55 years of age)."

"At the other end of the table is Australia which has a two-tier system of lean public pensions and highly developed funded pensions which means it is best prepared with respect to potential burden for public finances, thus, it is under the least pressure to reform. Also in a strong position are Sweden, Denmark, New Zealand and the Netherlands. As with Australia, these three western European countries have comprehensive pension systems based on strong, funded pension provisions."

Over the last decade, almost all western European countries have been trimming their public pension systems in an effort to make them more sustainable. However, a key driver of the Index results this year was the increase in sovereign debt as a result of the financial crisis with Greece and Ireland the most affected. In Ireland, as a result of the financial crisis and their bail out of the banks, sovereign debt has exploded in the last three years. Another example is France, where any gains made in terms of sustainability by stepping up pension reforms (which were hugely controversial and bitterly fought) were lost to a worsening of the sub-indicator 'public finances' as a result of the increasing level of sovereign debt. The same was true in Spain. Conversely, Norway and Finland benefited from their comparatively solid public finances.

Renate Finke, Senior Economist at AllianzGI and author of the white paper, adds: "The negative impact of the financial crisis on accumulated funds and national economies has tested the resolve of many governments. In central and eastern Europe, for instance, some countries decided to put their hand into the proverbial pension-fund cookie jar in response to the dramatic rise in debt to GDP ratios. Estonia, Hungary, Latvia, Lithuania, Poland and Romania reversed their pension financing model, diverting contributions from the privately funded second scheme back to the pay as you go public system in order to strengthen their fiscal situation. While such measures have ameliorated fiscal problems in the short-term, they have depleted pension resources and affected long-term sustainability, hence countries in Central and Eastern Europe do not rank as well this year as they did in previous Indices."

In Asia, comprehensive pension systems remain the exception rather than the rule and increasing the coverage of the pension system is still a challenge. The rankings of Asian countries in the Index have not changed significantly compared to earlier studies as they escaped the worse of the financial crisis and have experienced only minor increases in their debt to GDP ratio.

Andreas Hilka, Head of Pensions Europe at AllianzGI, adds: "Though it's not a patent remedy, the rise of (effective) retirement age seems to be a decisive factor for improving the financial sustainability of pension systems in many countries. Sustainable public pensions only go hand in hand with strong funded private pensions components. The ongoing shift towards from defined benefit to defined contribution schemes increases the vulnerability of retirement incomes to financial downturns. A comprehensive consideration of risk has become a must for funded pensions."

Brigitte Miksa concludes: "The study focuses on the sustainability of national first pillar pensions systems. Although not one of the sub-indicators used in this study, we have growing concerns about the adequacy of retirement income. Pension reforms introduced over the past 10 to 15 years have dramatically altered the global retirement landscape. Pay as you go systems are moving towards funded systems, defined benefit towards defined contribution, and family support structures towards more formalised public systems. This raises the crucial question as to whether today's workforce will be able to generate enough retirement income to maintain their pre-retirement standard of living or whether they will be faced with income shortfalls or even old age poverty."

- Ends -

Notes to editors

* The Pensions Sustainability Index (PSI) analyses the current and future prospects of national pension systems looking at variables such as demographic developments, public finances and pension system design to capture in one figure the need for further pension reform. A country with an overall score of one would indicate there is no need for reform and 10 would demonstrate tremendous need. The PSI has been published since 2004 and this year has been expanded from 37 to 44 countries by the inclusion of Canada, New Zealand, the Russian Federation, Turkey, Cyprus, Luxembourg and Malta.

For further information please contact:
John Wallace, Telephone +49 89 12207224, Email: john.wallace@allianzgi.com
Marc Savani, Telephone +49 69 263 14206, Email: marc.savani@allianzgi.de

Download the report at: http://publications.allianzgi.com

About Pensions International
The Allianz Global Investors' International Pensions team provides thought leadership on pension trends worldwide. The group has released numerous reports on pension systems and trends in various global regions, including developed and emerging countries throughout Europe and Asia Pacific.

About Allianz Global Investors
Allianz Global Investors, the asset management subsidiary of Allianz SE, has circa EUR 1,500bn of assets under management for its clients worldwide (as of 30/06/2011). Its investment managers – operating under the Allianz Global Investors, PIMCO and RCM brands – offer their own distinctive investment philosophy, and provide clients with a comprehensive and constantly evolving range of products and services. Its 4,900 employees around the globe, including more than 1,000 investment professionals, are committed to helping clients achieve their goals by combining global expertise and local market knowledge with innovative solutions and world-class professional service.

Disclaimer

This document has been issued and approved by Allianz Global Investors Europe GmbH, a subsidiary of Allianz Global Investors AG (parent company of the Allianz Global Investors Group). Allianz Global Investors Europe GmbH is a limited liability company incorporated under the laws of the Federal Republic of Germany with its registered office at Mainzer Landstraße 11-13, D-60329 Frankfurt/Main. Allianz Global Investors Europe GmbH is licensed as a provider of financial services (*Finanzdienstleistungsinstitut*); for the conduct of its business activities, Allianz Global Investors Europe GmbH is subject to the supervision of the German *Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).*

Allianz Global Investors Europe GmbH has established branches in Switzerland (Zürich), Italy (Milan), United Kingdom (London), Spain (Madrid) and the Netherlands (Rotterdam). Allianz Global Investors Europe GmbH also has established representative offices in the Kingdom of Bahrain (Bahrain), Portugal (Lisbon) and Sweden (Stockholm). For these branches and representative offices additional local laws and regulation may be applicable.

This document is meant to provide a broad overview for discussion and/or information purposes. Furthermore, this document was not prepared with the intention of providing legal or tax advice. The views and opinions expressed in this document, which are subject to change, are those of Allianz Global Investors Europe GmbH and its affiliated companies at the time of publication. The duplication, publication, or transmission of the contents of this document to unauthorised persons, irrespective of the form, is not permitted.

While some of the data provided herein is derived from various published and unpublished sources, and is assumed to be correct and reliable, it has not been independently verified. Therefore, Allianz Global Investors Europe GmbH does not guarantee the accuracy or completeness of such data/information and will not accept any liability for any direct or consequential losses arising from its use, unless directly caused by willful misconduct or gross negligence.

The investment opportunities described herein are not guaranteed by Allianz Global Investors Europe GmbH or affiliated companies within the Allianz Global Investors Group. This document does not constitute an offer or solicitation to buy securities. Statements made to recipients of this document are subject to the provisions of any underlying offer or contract that may have been, or will be, made or concluded.

Past performance is not a reliable indicator of future performance. Investors should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and investors may not get back the amount originally invested.

This document is marketing material.

Internet: www.allianzglobalinvestors.eu