



MetallRente Pensionsfonds
Winner of IPE-Awards in
2002, 2003 and 2004

MetallRente Pension Scheme

for Employees in Germany's Metalworking and Engineering
(Electrical) Industry

Heribert Karch, Managing Director

The Governance and Regulation of Risk Management for Defined Benefit
Pension Funds

MetallRente GbR
Dorotheenstrasse 37
GER – 10117 Berlin
www.metallrente.de

Agenda

1. Pension Schemes in Germany: Tradition vs. Modernity
2. MetallRente: A Unique Pension Scheme in the German Market
3. Key Indicators of MetallRente
4. Occupational Pension: Government Incentives and Collective Agreements
5. MetallRente Vehicles
6. Standards of Asset Management

Origin of German Pension Schemes

- First pension schemes voluntarily founded by large enterprises in the second half of the 19th century, in particular as from 1880/1890
- Motivated by patriarchal attitudes and/or the commitment to care for retiring workers and their families (old age, disability or death)
- Workers had no legal right to benefits
- Funding:
 - employer: voluntary contribution, used to pay the largest portion
 - workers: in many cases compulsory contribution (e.g. Krupp)
 - „... each member must pay four per cent of his fixed annual income... .“
- Counterpart of the public pension for white and blue collar workers introduced in 1889 (as from 1911)

Pension schemes existed long before the public pension system was established.
Pension schemes have always been a part of corporate social policy.
Pension schemes have always counted on the workers' own contributions.

Pension Scheme – a Wobbly Term

What does the term „pension scheme“ mean in Germany?

- Set-up: a legally capable institution
- Tasks: administration and management of (occupational) pension provisions
- Objective: to cover elementary risks such as old age, death and disability by granting the payment of a lifelong pension

Types of German pension schemes

- Company or corporation pension schemes
- Industry-wide pension schemes
- Cross-sector pension schemes
- Pension schemes according to collective agreements
- Specific branch pension schemes: public pension plus mandatory pension schemes for certain branches or professions

- Pension scheme – an overall term for different kinds of pension plan providers covering the risks of defined groups of employees
- Pension schemes in German industrial sectors have been constituent for the development of occupational pensions in Germany.

Evolution of the Pension Scheme Concept

„Old“ approach: market protection and separation certain risk groups

- Predomination of restricted solutions: “closed” company plans or mandatory branch pension schemes
- Pension vehicles designed and organised according to the company’s (corporation’s) specific requirements

„New“ approach: market orientation

- since 2002: free choice instead of restricted mandatory schemes, partly initiated by the collective bargaining parties
- Occupational pension schemes in flux: from closed company plans to general schemes open to the public
- Process of product standardisation – mass business
- “Spheres of influence” in general determined by collective agreements

- Evolution of the traditional institutionalised concept into a new, market-oriented pension scheme.
- New and traditional schemes will continue to coexist for quite some time.

MetallRente Pension Plans TODAY: *Synergy Between Market and Regulation*

- **Supplying**: Necessary additional pension provisions are being spread in the target sectors of industry and handicrafts.
- **Implementing**: MetallRente pension plans fully comply with the collective agreement in the target industry. Employers are given compendious and cost-efficient offers that save them rechecking conformity to the collective agreement.
- **Benchmarking**: MetallRente offers competition-oriented plans that are both attractive and save.
- **Securing**: Basic biometric risks are covered by guaranteeing life-long pension payments. This is particularly important in order to balance out the reductions in the German public pension system.
- **Identifying**: MetallRente offers solutions that are tailored to the particular needs of the target industries. Occupational pensions are thus promoted within the frame of the German system of industrial relations.

→ The new pension scheme operates in the market.

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2001: Quo vadis German Pension System? Or: A Complicated Political Deal

- Readjustment of the pension system: broad debate / dispute on a pension reform entailing cut-backs in pension benefits (public pension system)
- Result: "public-private mixed" concept
- Riester-Reform prioritised the legal framework of occupational pensions in order to ...
 - quickly spread and
 - subsidise the system from the very beginning.

However:

- The new regulations were over-regulated
- The old regulations were complicated anyway.
Furthermore, employers were obliged to make offers to their employees
→ immediate need for support

“New Deal of old age provision“: governmental withdrawal and “gap filling” by private actors and social partners.

An immediate deal was needed to make sure that the new system would expand quickly.

Unique chance for the parties to collective agreements – danger of competition?

Timeline: MetallRente Pension Scheme

May 11, 2001

Retirement Savings Supplementary Act

(Altersvermögensergänzungsgesetz – AVmEG, came into force on January 1, 2002)

Sept. 4, 2001

German employers' association for the metalworking and engineering (electrical) industry - Gesamtmetall – and the German Metalworkers' Union – IG Metall signed:

1. **Collective agreement on pay conversion (deferred compensation)**
2. **2. “Joint declaration on initiating a pension fund for the metalworking industry”, named MetallRente**

Sept. 10, 2001

Request to set up MetallRente-management

Oct. 29, 2001

Establishing MetallRente

Jan. 1, 2002

Take off: MetallRente pension scheme

Collective Agreement, Legislation and Market, No symmetric triangle...

Supply of pension provisions

- Obligation to make an offer: at least one occupational pension vehicle.
- Surviving dependants and disability insurance may be dropped (opting-out).
- One of the vehicles must offer both gross and net income conversion.
- Other direct insurance offers must comply with the conditions of the MetallRente direct insurance.

Legal framework / market development

- ⇒ Competitors also offer private 3rd pillar pension products as company contracts
- ⇒ Over 90% of plan participants drop biometric risk insurances (Opting out).
- ⇒ 10a incentive increasingly unattractive due to GMG
- ⇒ Increasing strength of MetallRente due to increasing revenue differences of other competitors.

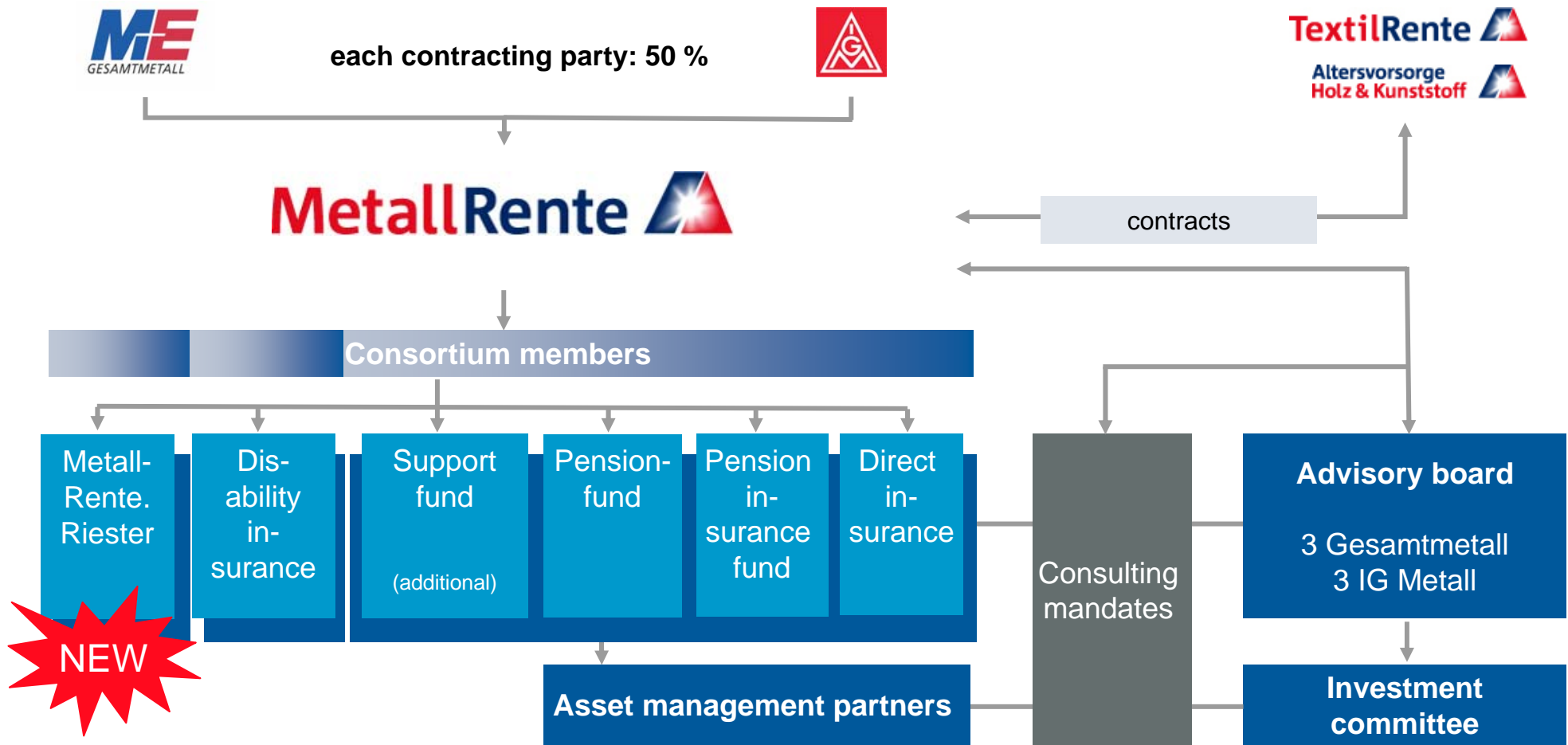
- The majority of the offers in the market did not comply with the collective agreements of the target industries
- The demanded for compliance with the collective agreement at first was an obstacle for other competitors. Today, the situation can be described as "level playing fields".
- Today, the direct insurance is a real benchmark in favour of the plan participant.

Product Overview: Standardized “Comprehensive Schemes”

Vehicles

- **Three vehicles**
 - Direct insurance
 - Pensionskasse
 - German-style pension fund
- **Pension plans**
 - Defined benefit according to contributions
 - Defined contribution with minimum guaranteed benefit
- **Two products under direct insurance and Pensionskasse**
 - Classical direct insurance based on DB and
 - investment fund based insurance based on DC with minimum guaranteed benefit
- **Biometric risks**
 - Optional coverage of surviving dependants and disability

Organization chart of MetallRente



Attractive and Safe: Risk Diversification is an Essential Feature

Challenges in the financial sector

- Increasing need of the insurers for transparency, net assets and risk management
- More volatile capital markets increase the spread of the providers' capacity.
- Fragmentation of the sector into strong and weak providers even with respect to surpluses
- Reduction of the fixed interest rate as from 2007

→ Risk diversification is a challenge for **all** actors.

- Contracts have been signed with leading financial providers that operate the pension plans on behalf of MetallRente.
- These contracts allow Metallrente to vary the consortium members' share according to their performance share reduction in case of low return).

MetallRente Consortium – High Level of Diversification –



Ein Unternehmen der
ERGO Versicherungsgruppe.



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Clients, Plan Participants & Trends

Clients (companies)

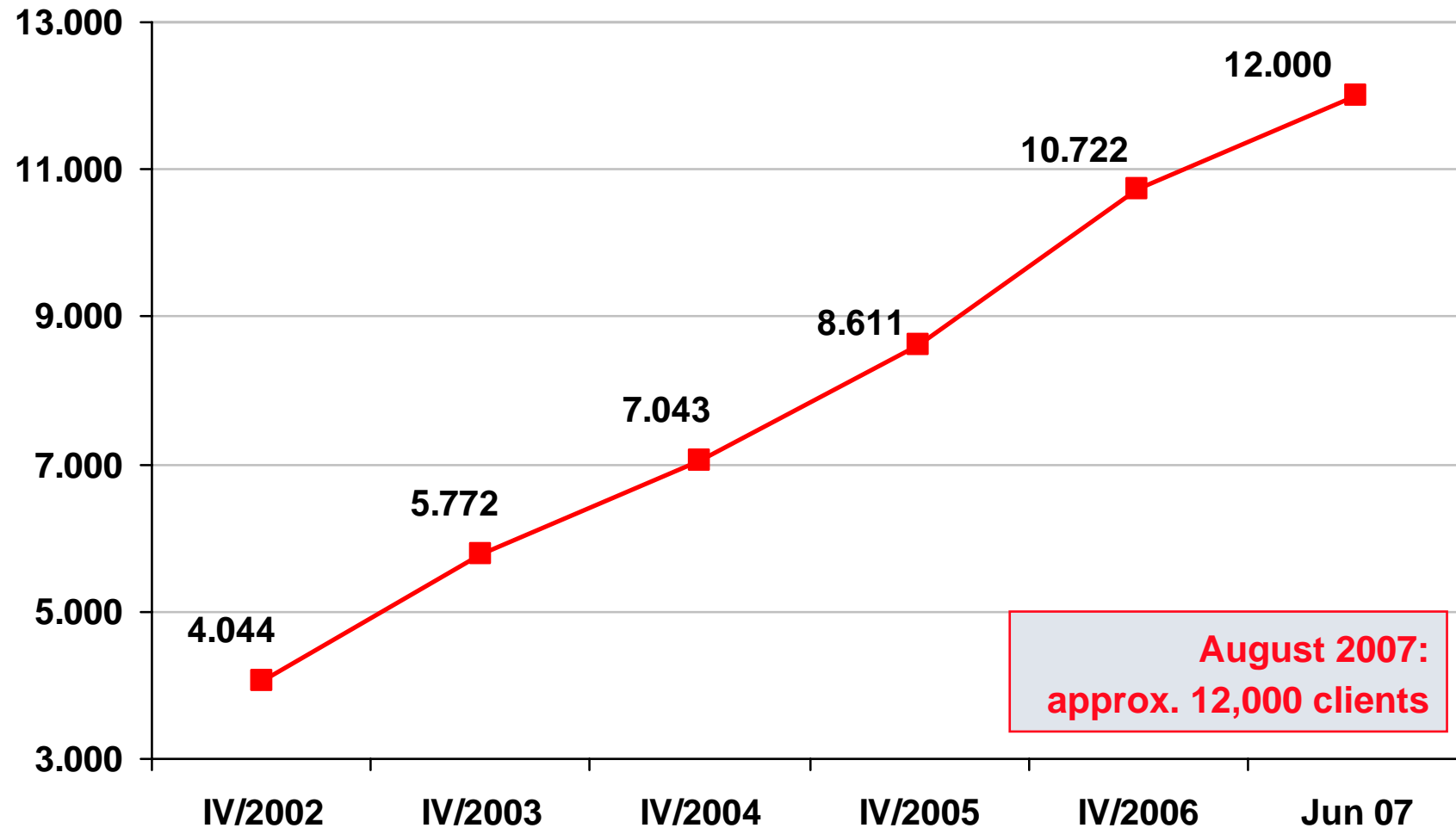
- In 2006, the number of MetallRente clients rose from nearly 8,600 to 10,800.
- Midyear 2007: approx. 12,000 clients.
- Main characteristics
 - MetallRente has become a leader setting an “industry wide standard”:
> 60 % of all companies (with >20 employees) in metal/engineering (electrical) industry offer MetallRente products.
 - Target group: small and medium-sized companies.
 - MetallRente has become a reference model beyond the borders of the collective agreement: more than 50 % of MetallRente clients are not bound to the collective agreement.

Plan Participants

- In 2006, approx. 195,000 plan participants, >20 % increase compared to previous year.
- Midyear 2007: The number of new contracts has increased by 33,00 to a total of 226,000 and tripled compared to the same period in the previous year.

Clientship of MetallRente

More clients mean better portability.



Financial Key Indicators & Current Business Trends

Contributions

- Contributions/pension premiums per annum rose from €199m in 2005 to approx. €250m in 2006 (€120m in 2003).
- Midyear 2007: periodical premiums of new contracts increased by 60 per cent (compared to the same period in the previous year).

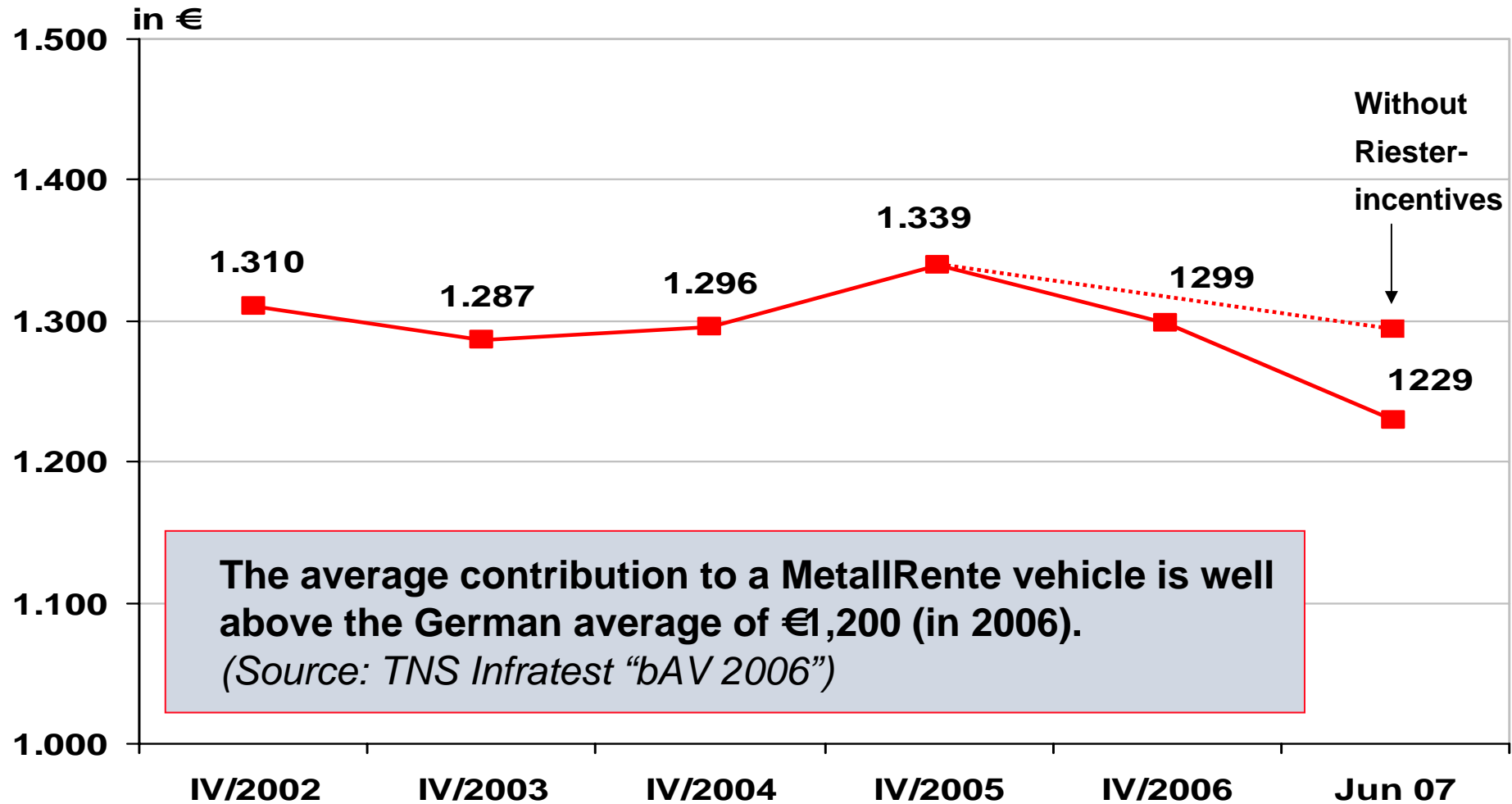
Total Value of Funds

- In 2006, almost €800 m
- July 2007: MetallRente hit the threshold of €1 bn
- Sum insured (amount of cover): more than €10 bn (midyear 2007)

Pension Vehicles

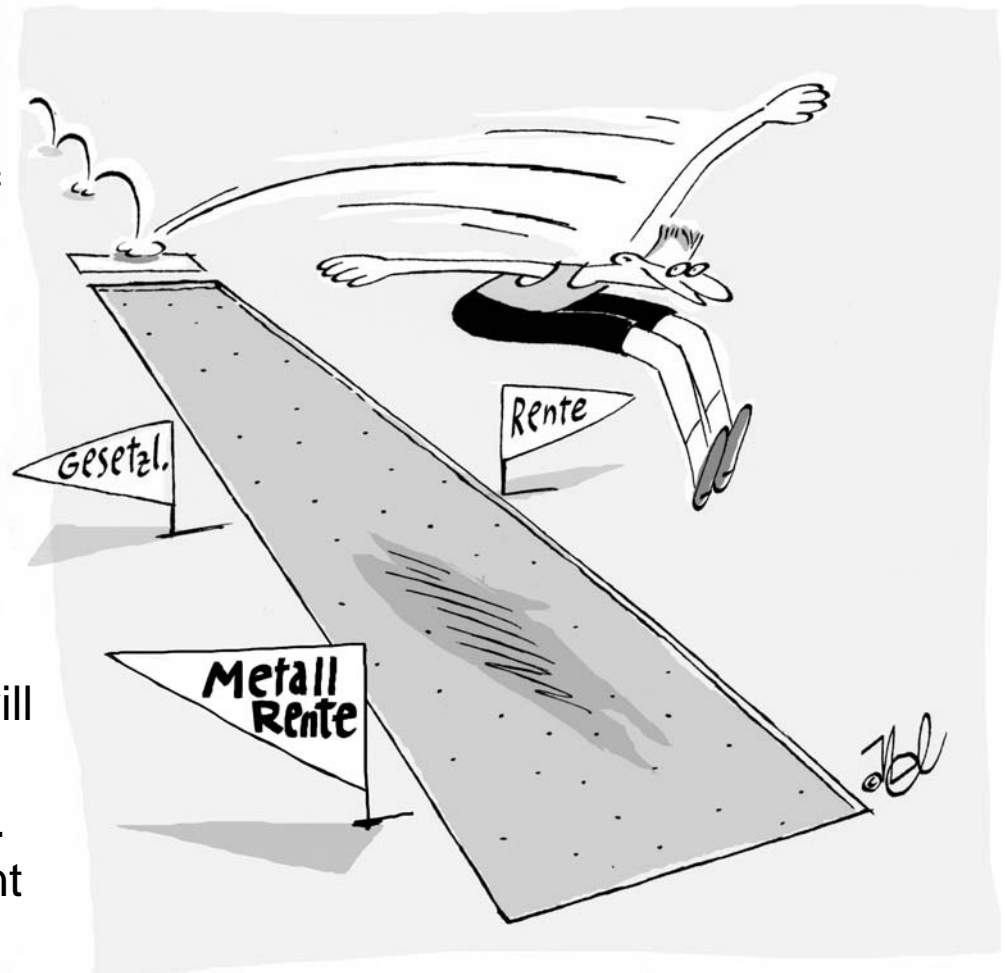
- Pension insurance fund (Pensionskasse) is the most popular vehicle (ca. 90 % of all contracts).
- MetallRente pension fund has delivered the best financial performance (return on assets) to date.

Average Amount of Income Conversion (all pension vehicles, incl. Riester-incentives)



Conclusions and Outlook:

- **MetallRente's position in the market**
 - By far the most successful and fastest growing pension institution of its kind.
 - Occupational pensions will continue to be our core business.
 - MetallRente ranks in the upper third of the occupational pensions market.
 - Dominant supplier in the metal and electronics industry right from the very beginning: 45 to 50 % of all contracts (MR-estimate).
- **Outlook 2007 ...**
 - After 2006 another successful year.
 - Impulse/Growth: Income conversion will be free of taxation and social security contributions even after the year 2008. This will push our positive development in the second half of 2007.

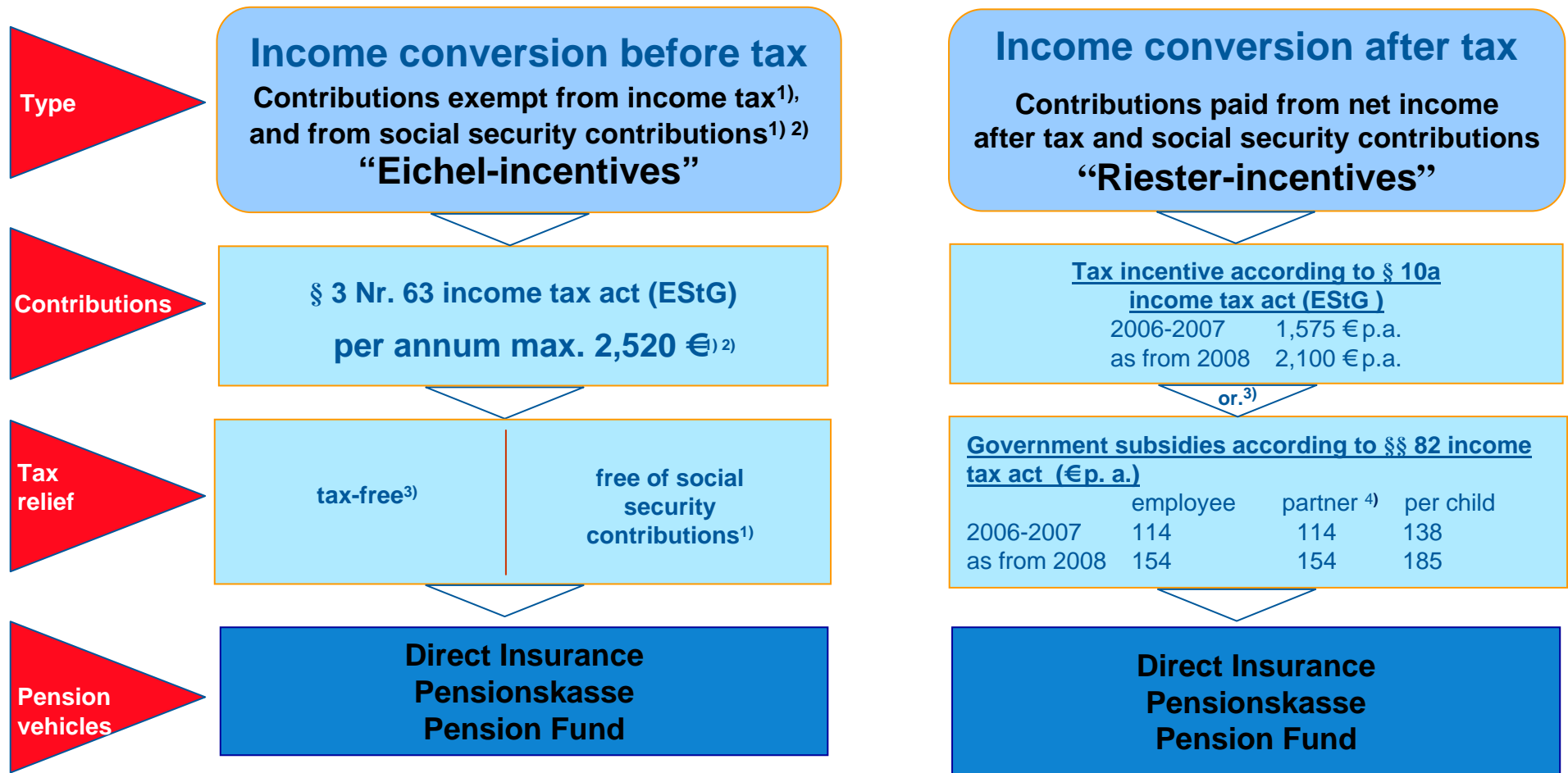


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Two Types of government incentives

1. Exemption from income tax and social security contributions,
2. Riester-incentives (financial subsidies/supplements and extra tax relief on personal pension savings)



1) 4% of social security ceiling in statutory old-age insurance.

2) An an additional tax-free amount of € 1,800 is possible in case of new contracts, however, without exemption from social security contributions.

4) The tax office reviews the respective income tax declaration, determines the most favourable of the two options and then pays out the according amount.

5) Under the condition that, during the previous year, the partner had no income subject to social security contributions and his/her own Riester-contract.

Occupational Pension Benefits

MetallRente.bAV



Boosting Occupational Pension Schemes: Two Important Collective Agreements in the Metal and Engineering (Electrical) Industry

**1. Collective agreement on
the conversion of income into pension contributions**
(EUW-agreement, 2001/2006)
concluded in 2001 / extended in 2006 / valid until December 2012

**2. Collective agreement on
employer contributions to pension formation**
(AVWL-agreement, 2006)
concluded in 2006 / valid until December 2012
A sum of €319 per annum, which according to the previous collective agreement was
used for capital-formation, will now be used as employer contribution to an occupational
pension scheme.

Collective Agreement on Income Conversion

(EUW-agreement, 2001/2006)

Employees have the right to income conversion that is tax-deductible to a limit of 4% of the pensionable income (€2,520 in 2007). An additional tax-free conversion of up to €1,800 per annum is possible in specific cases*.

- Employers are obliged to offer their employees at least one type of occupational pension provision.
- This offer must include both Riester- and Eichel-incentives, that is, income conversion before or after tax.
- Employees are free to decide between income conversion before tax (Eichel-incentives) or after tax (Riester-incentives).
- Direct insurances offered by other competitors must comply with the conditions of MetallRente direct insurance.
- Disability insurance and insurance for surviving dependants must be offered.

* New contracts signed after 2005 according to § 3 Nr. 63 of the German Income Tax Act (Eichel-incentives).

Right to Disability Insurance

§ 9 EUW-Agreement (on Income Conversion):

- Employees in the metal and engineering sector are entitled have a disability insurance offered by their employer.
 - The employer may provide an according insurance within the framework of income conversion

or

- offer a private disability insurance.

Collective Agreement on Pension Formation

(AVWL-agreement, 2006)

This agreement...

- ...is an innovative milestone in the history of collective bargaining in the German metal and engineering industry.
- ...represents an answer to the pressing problem of decreasing pensions (in the public pension system).
- ...replaces the former Capital Formation Agreement.
- ...focuses **exclusively** on capital formation for supplementary old-age pension.

- Term of the AVWL-agreement: October 1st, 2006 to December 31st, 2012
- The total amount to be paid by the employer corresponds to the amount fixed in the previous agreement on capital formation (VWL-agreement):
 - Full time employed receive 319,08 € per calendar year
 - Trainees/apprentices receive 159,48 € per calendar year
 - proportionate amount for Part time workers as well as trainees.
- Precondition: The assets are invested exclusively in old age provision!

It's the Employee's Choice

Employees may decide whether to ...

1. invest their AVWL-assets in a private Riester-incentivised pension provisions.
 2. convert their AVWL-assets according to the collective agreement on income conversion.
 3. accept a pension promise made by the employer.
 - According to the AVWL-agreement, this employer-financed pension promise is based on a voluntary company agreement.
 - The company agreement may include both (private Riester contract and/or income conversion) or only one of these two options.
- AVWL-assets are not to be paid out in cash.

Investment Options According to the AVWL-agreement

Type of investment				
	§ 3.1.a	§ 3.1.b	§ 3.1.c - 1	§ 3.1.c - 2
	Private Riemer contract	Income conversion	Pension promise (employee choice)	Pension promise (no employee choice)
Savings phase	Social security contributions	Exempt from social security contributions	Exempt from social security contributions	
Pay-out phase	Exempt from health insurance contributions		Subject to full payment of health insurance contributions	

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MetallRente Occupational Pension Products

		Eichel-incentives	Riester-incentives
		Contributions: tax free up to 4 % of social security ceiling in statutory old age insurance plus €1,800 for new contracts signed in 2005 or later. Benefits: subject to individual taxation (§ 3.63 income tax act)	Contributions: incentives and/or government subsidies according to the“Riester scale“ Benefits: subject to individual taxation (§§ 10a, 82 Income tax act)
Metall-Direct Insurance	Traditional pension insurance	Old-age provision incl. dependants’ and disability pension (may be dropped by the plan participant)	Old-age provision incl. dependants’ and disability pension (may be dropped by the plan participant)
	Unit-linked insurance	Old-age provision	Old-age provision
Metall-Pensionskasse	Traditional pension insurance	Old-age provision incl. dependants’ and disability pension (may be dropped by the plan participant)	Old-age provision incl. dependants’ and disability pension (may be dropped by the plan participant)
	Unit-linked insurance	Old-age provision	Old-age provision
Metall-Pension Fund	Equity-oriented pension fund	Old-age provision incl. dependants’ and disability pension (may be dropped by the plan participant)	Old-age provision incl. dependants’ and disability pension (may be dropped by the plan participant)
Additional MetallRente offer (covering the collective agreement only in combination with one of the above mentioned products):			
Support (protection) Fund	Traditional pension insurance	<ul style="list-style-type: none"> ➤ “Deferred Compensation“ ➤ Riester-incentive not possible ➤ old-age pension, dependants’ pension and/or disability pension ➤ Lump-sum payment possible 	

There are many good reasons to choose MetallRente

- MetallRente is the only pension scheme in Germany that fully complies with **ALL** requirements of the collective agreement.
- MetallRente is the only pension scheme supported by both parties to the collective agreement.
- MetallRente offers the complete set of pension vehicles subsidised by the German government (§ 3 Nr. 63 and/or § 10a EStG income tax act).
- MetallRente is characterised by a cost-effective administration (bulk discount effect) providing a better return, even to employees in small and medium-sized companies.
- MetallRente cooperates with a consortium consisting of reputable insurance and financial service providers.
- MetallRente guarantees a high standard of security and quality due to an elaborate system of risk diversification.

There are many good reasons to choose MetallRente

- Each prospective client will find the right product: traditional pension plans as well as risk-oriented innovative pension funds.
- All contributions paid into the different pension plans are guaranteed at any moment.
- MetallRente covers additional biometric risks: disability insurance and insurance for surviving dependants.
- Due to its widespread market penetration, portability of MetallRente plans is less bureaucratic than with many other competitors in the market.
- MetallRente is an all-in-one provider offering easy administration.
- Clients and sales forces are supported by innovative IT-appliances that guarantee access to up-to-date information.
- Interesting information, news and an online pension calculator can be downloaded at www.metallrente.de
- MetallRente is supported by sales and marketing partners who are located in all regions of Germany.

MetallRente Private Pension Insurance

MetallRente.Riester



MetallRente.Riester – A new private pension Insurance

- MetallRente offers attractive and secure pension vehicles. This includes all occupational schemes as well as the new private pension insurance (MetallRente.Riester).
 - Attractive tariffs due to bulk discount effect.
 - MetallRente.Riester is offered exclusively to employees working in the target industry and related sectors.
 - MetallRente.Riester is also offered to spouses/partners if they are not subject to mandatory social insurance contributions.
 - MetallRente.Riester applies attractive unisex-tariffs according to the specific gender distribution within this risk group.
 - MetallRente.Riester guarantees a high standard of security and quality due to an elaborate system of risk diversification.
- MetallRente.Riester as pension insurance or unit-linked (“hybrid”) product
- MetallRente.Riester offers individual contracts as well as group contracts in case of more than 10 plan participants in the same company
 - precondition: administration agreement signed by the employer

Private MetallRente Disability Insurance

MetallRente.BU



MetallRente Disability Insurance: Main Features

- Employer's involvement is not needed (MetallRente Disability Insurance is a private contract).
- Clientele: Employees in the metal and engineering (electrical) industry.
- The Contract does not contain any abstract reference to the obligation of seeking alternative employment.
- Simplified medical examination.
- Disability pension of up to 1.500 € per month or up to 50% of the current net income.
- Higher pensions may also be insured
- No increase in contributions in case of job change that imply a higher disability risk.
- Coverage possible up to the age of 67.
- Trainees/apprentices are entitled to full insurance coverage.
- No qualifying period – benefits are granted at once.
- Payment of up to €12,000 in case of professional reorientation.
- World wide coverage
- Free choice of doctors.

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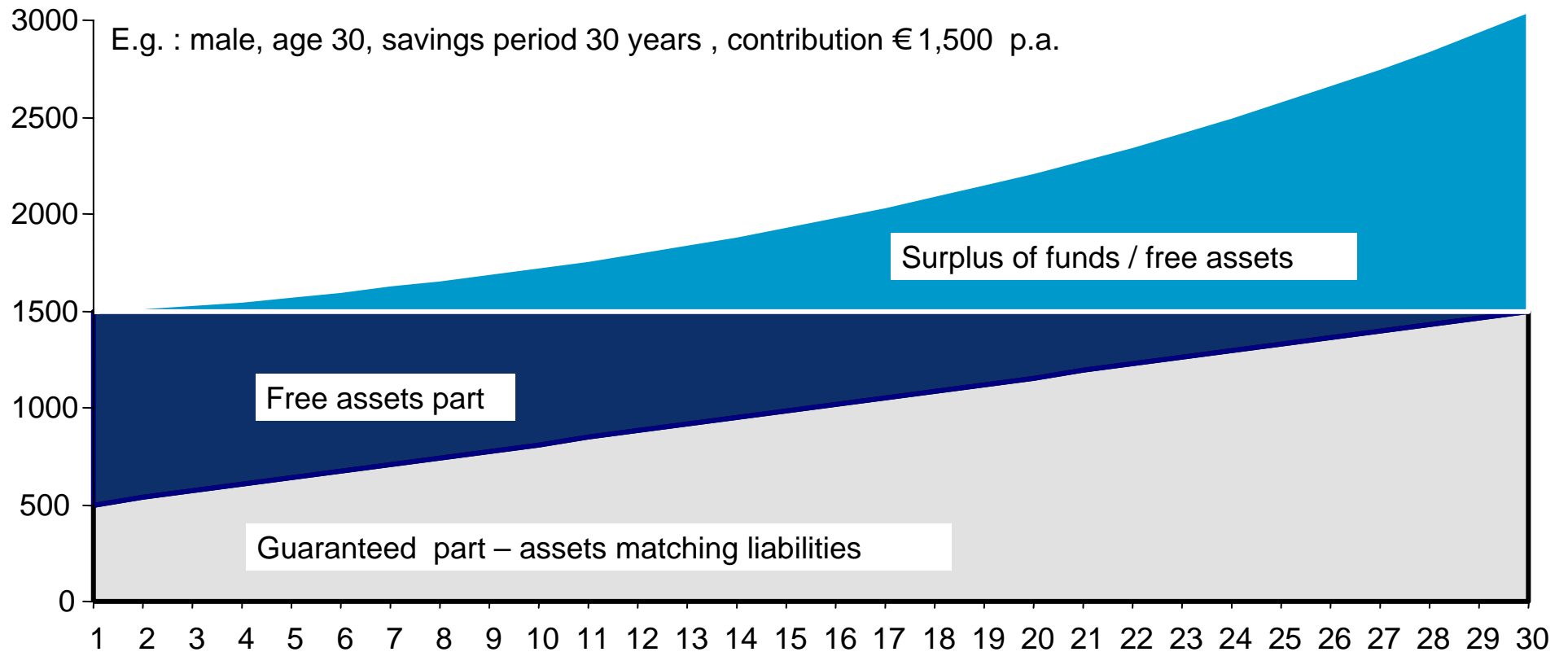
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Standards of MetallRente Asset Management

- ✓ Traditional products for DB-plans
investment in premium stock of Allianz Leben insurance company
- ✓ “Fund based” unit linked products for DC-plans
fund of funds for free assets, guaranteed assets in premium stock of Allianz Leben insurance company
- ✓ Pension fund for DC-plans
guaranteed assets collectively secured, dynamic value guarantee
- **Combination of Asset Management and insurance know-how**

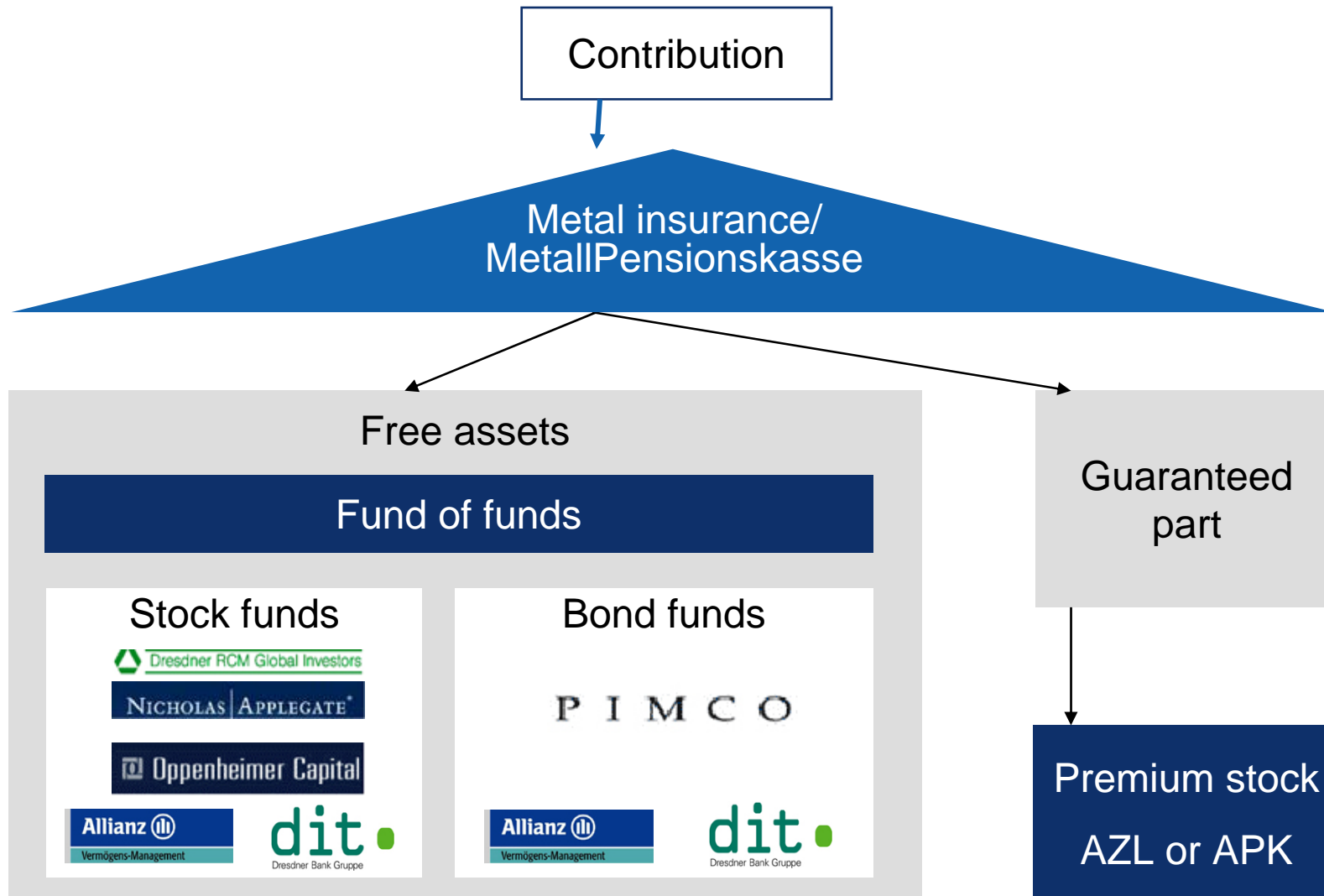
Unit-linked Products

Division of contribution in hybrid products



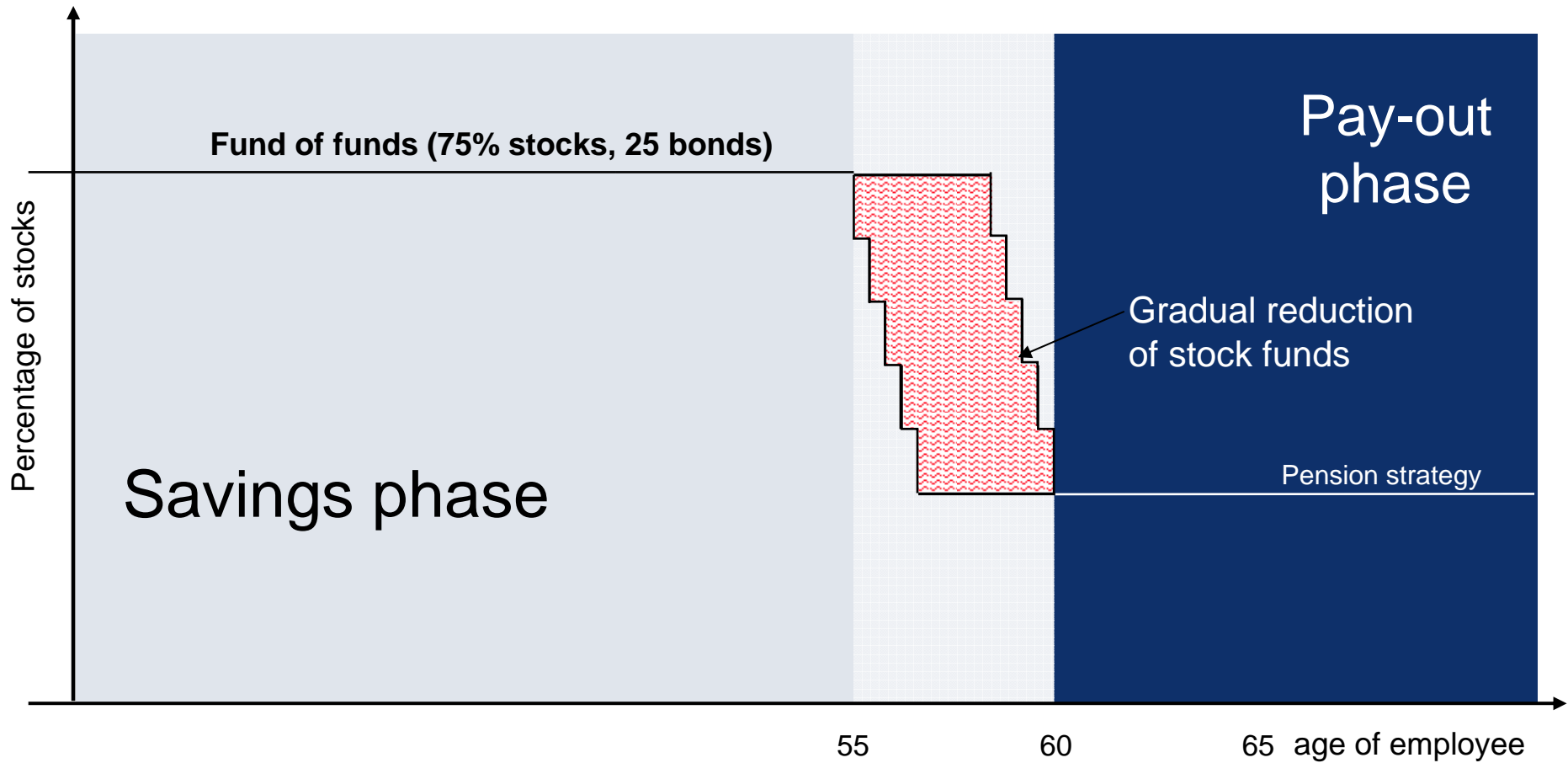
Unit-linked Products

Asset Steering

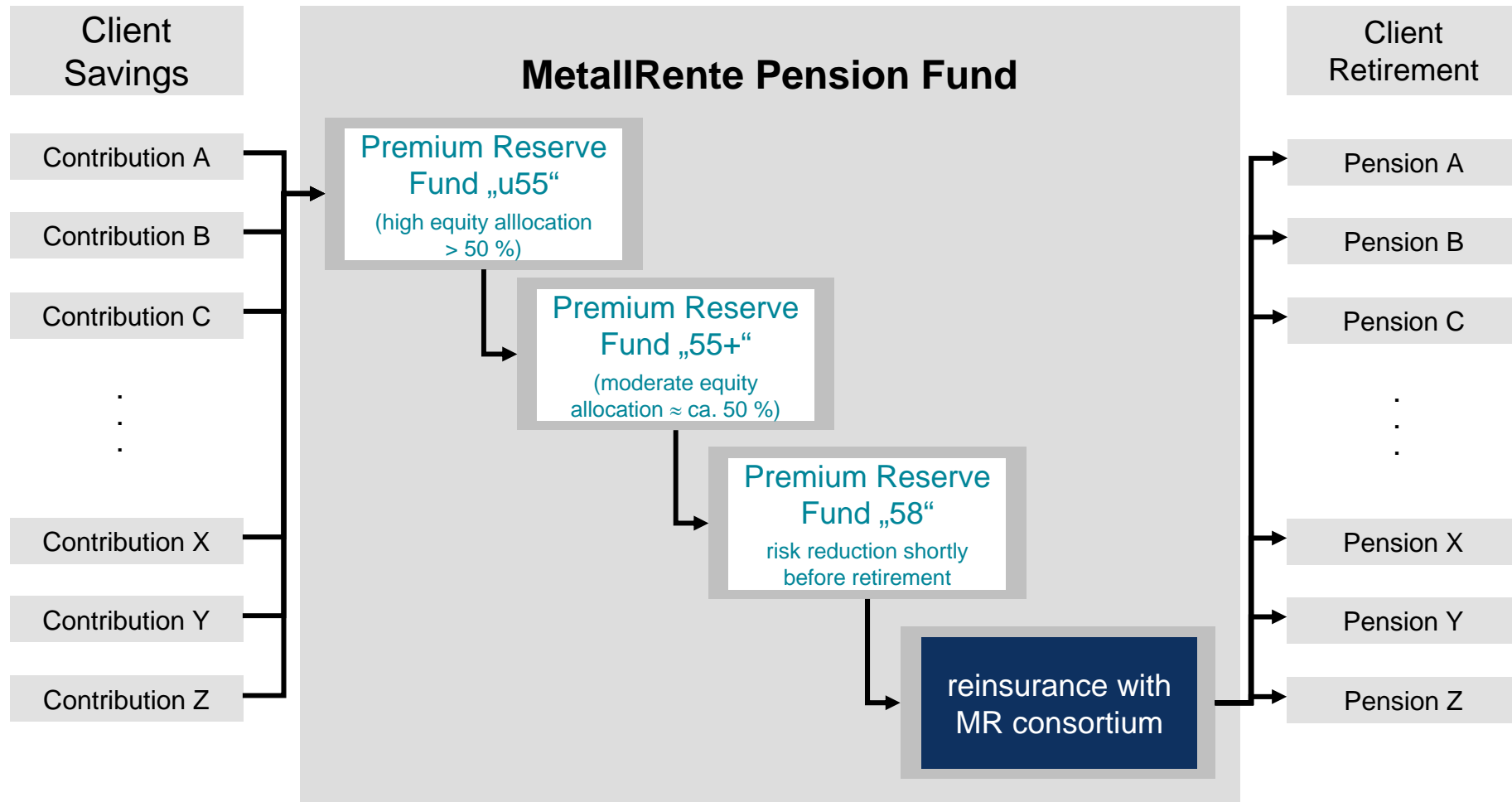


Unit-linked Products

At age 55 compulsory reduction of stock funds

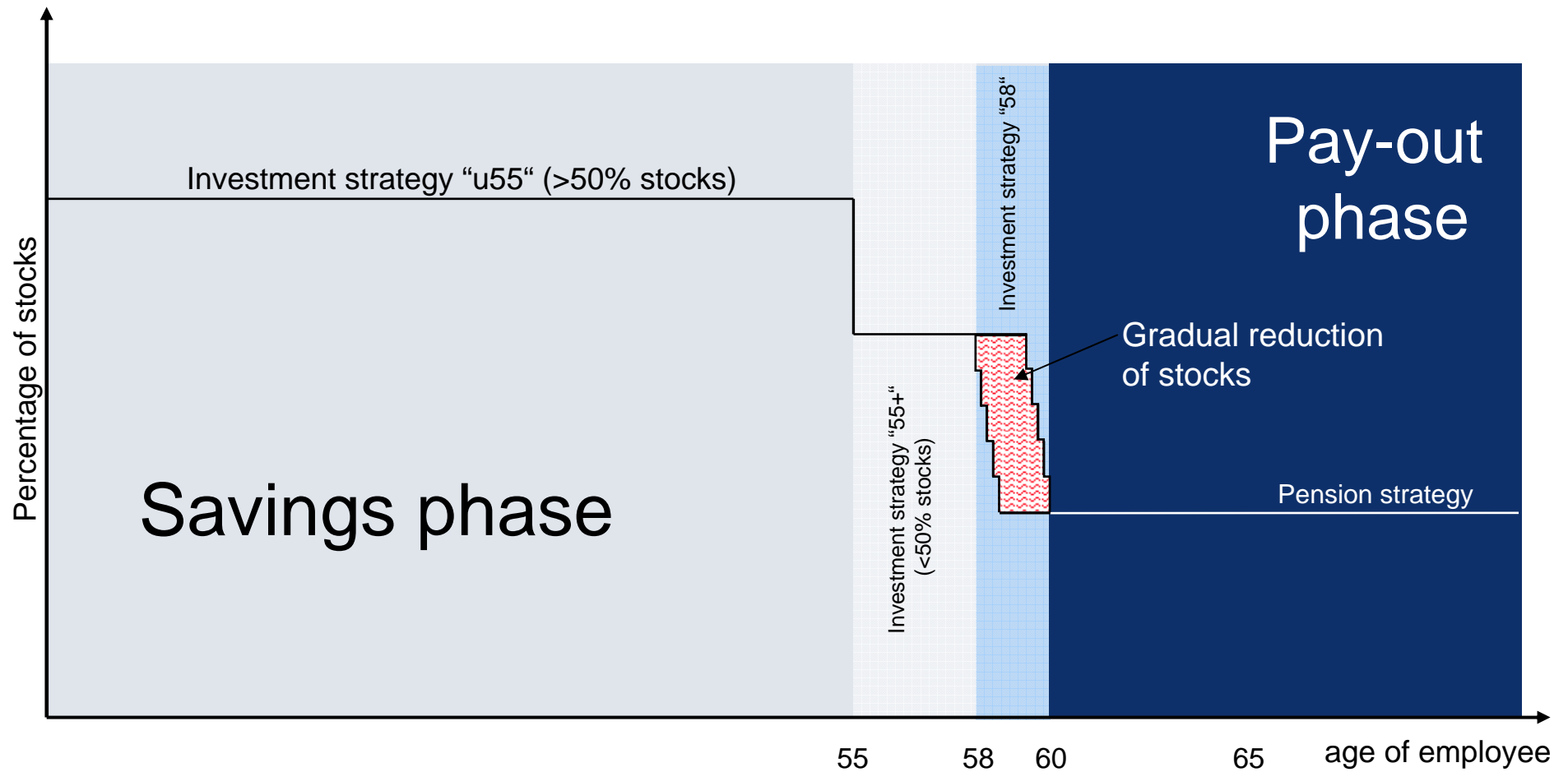


Pension Fund Investment Strategies



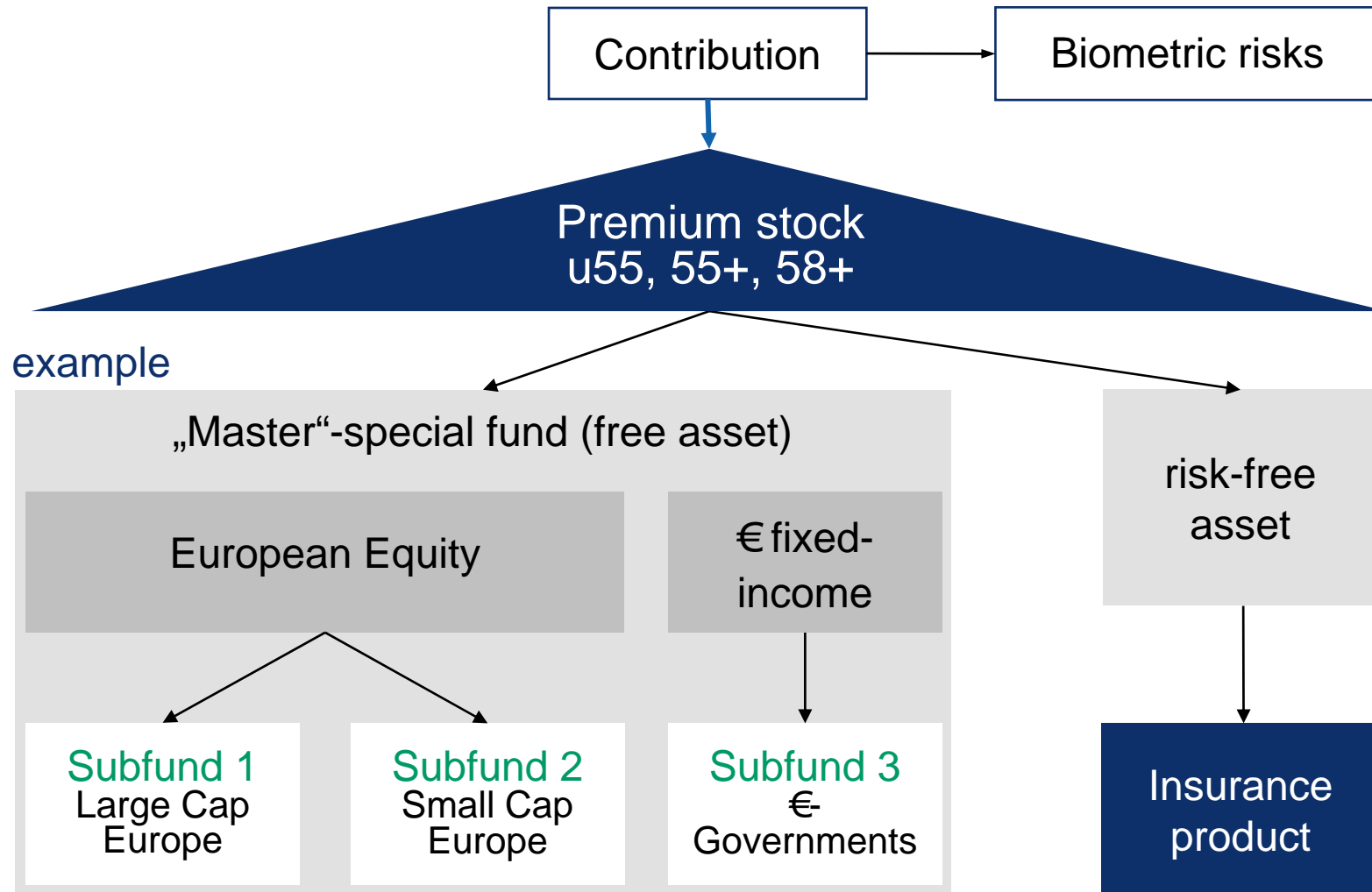
Pension Fund

Change of investment strategy as from age 55



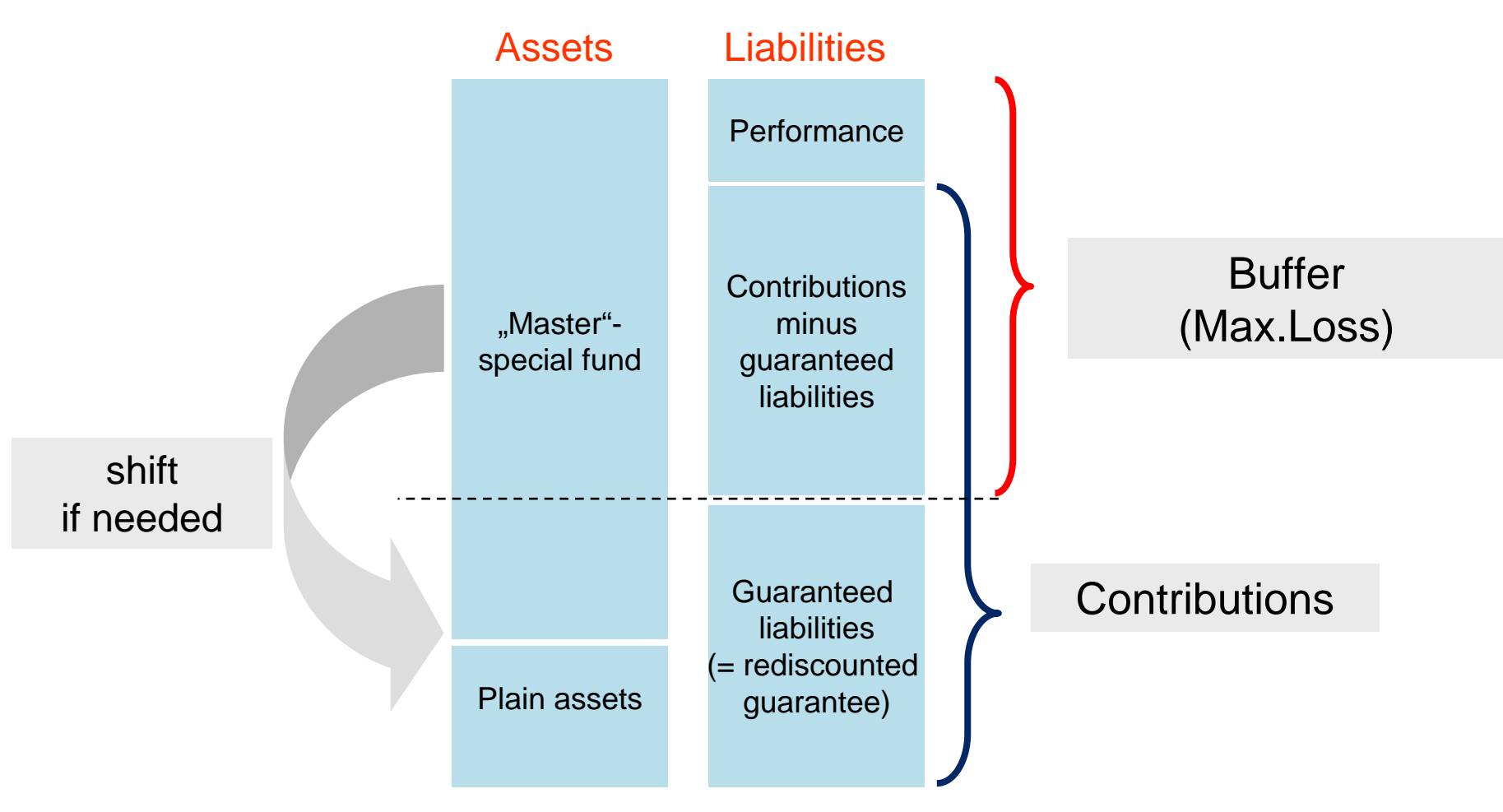
Pension Fund

premium reserve fund



Pension Fund

Long-term portfolio insurance



Pension Risk Management

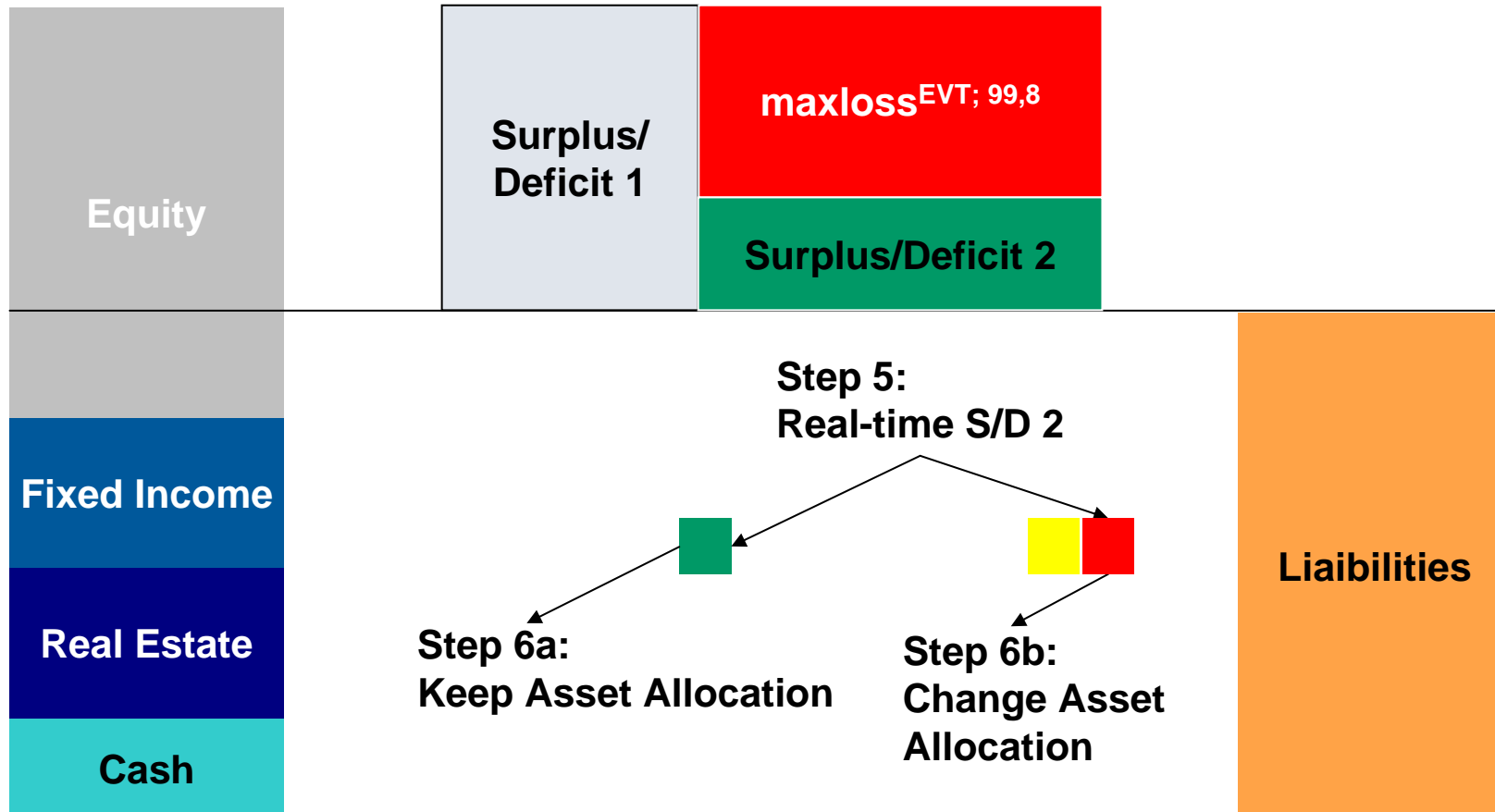
Real-Time Stress Testing of Allocations

Step 1:
Real-Time Assets

Step 3:
Real-Time S/D 1

Step 4:
Real-Time maxloss^{EVT; 99,8}

Step 2:
Liabilities



MetallRente, a Unique Pension Scheme in the German Market

MetallRente, the most successful pension scheme in Germany

- ...is characterised by an institutionalised system combined with market-orientation.
 - ... is successful due to qualified offers and qualified information and consultation.
 - ...provides a variety of offers hardly reached by other competitors.
 - ...combines occupational pension vehicles with private Riester-incentives.
 - ...offers special conditions.
 - ...exclusively focuses on a specific target group.
 - ...fully complies with all features of the collective agreements.
 - ...combines pension vehicles with a disability insurance.
 - ...generates savings premiums above average
 - ...provides a risk diversification other competitors are not able to offer.
- **MetallRente is a success story of employers and employees.**
MetallRente as a new type of pensions provider has found its position as an important player in the pensions market.
- **MetallRente has managed to combine its institutionalised character with risk diversification and thus offers pensions that are both secure and beneficial for the plan participant.**



**Thank you
for
your attention!**