

European Pension Funds Congress 2010

EC Green Paper on the Future of Pensions in the EU

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The Chemical Company

Human Resources

About BASF



BASF – The Chemical Company

- The world's leading chemical company
- Sales 2009: 50.693 billion €
 - Region Europe 28.5 billion €
- Offers intelligent system solution und premium products for almost all markets
- Earnings (EBIT) 2009: 3.677 billion €
- Employees (31.12.2009): 104,779
 - Employees Region Europe: 67,621

BASF Pensionskasse

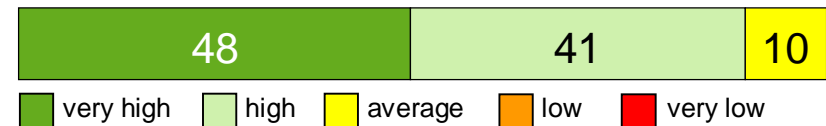
- **BASF started providing occupational pension benefits in 1871**
- **BASF Pensionskasse was founded in 1888**
- **BASF Pensionskasse in 2009:**
 - more than 62,000 active members
 - ca. 5.5 billion € pension liabilities
 - ca. 40,000 retirees
 - ca. 190 million € pension payments p.a.
- **Worldwide:**
 - ca. 15 billion € pension liabilities
 - ca. 767 million € pension payments p.a.
- **EU:**
 - ca. 10 billion € pension liabilities
 - ca. 499 million € pension payments p.a.

Employee Appreciation of BASF SE Pension Scheme

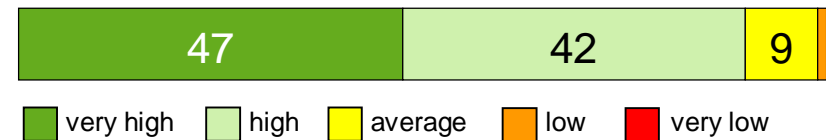


How do you evaluate your personal benefit gained from the occupational pension scheme provided by BASF SE?

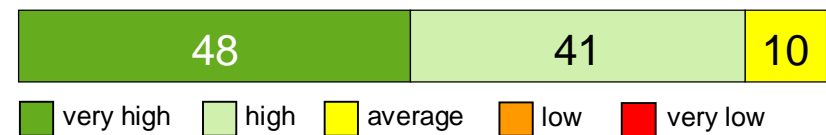
2009



2008



2007



BASF pension funds (IORPs) in Europe

- Austria (multi employer fund)
- Belgium
- Germany
- Ireland
- Netherlands
- Spain
- Switzerland
- U.K.

Questions of the Green Paper on Pensions

Removing obstacles to mobility

5. In which way should the IORP Directive be amended to improve the conditions for cross-border activity?

BASF's assessment and view

- It may be too early to amend the IORP directive
 - Allow employers and supervisory authorities more time for obtaining experience
- Rather than amending the IORP directive the EU should ensure its consistent application
 - “Fully funded at all times“ (Art.16, 3)
- Establishing a separate, 28th EU pension regime in addition to those of the Member States does not appear useful as it will add additional complexity rather than provide the desired simplification

Questions of the Green Paper on Pensions

Removing obstacles to mobility

6. What should be the scope of schemes covered by EU level action on portability?

7. Should the EU look again at the issue of transfers or would minimum standards on acquisition and preservation plus an EU level tracking service for all types of pension rights be a better solution?

BASF's assessment and view

- Occupational pensions are only a minor issue in the context of cross-border mobility within a globally-operating company. Therefore, this topic does neither need nor justify extensive EU regulation.
- If the portability will be revisited, the EU should focus on transferability of pensions, whereby such transferability should be based on a capital transfer with the releasing scheme determining the transfer amount on the basis of its rules and the receiving determining the amount of pension purchased with the transfer amount in accordance with its rules. Smaller and medium-sized schemes should be protected against large outflows of capital.
- The EU should not look again at acquisition and preservation of pension rights, i.e. increasing minimum standards on vesting and indexation of vested entitlements.
- The EU may consider a tracking service for all types of pension rights, but this service should be set up by the member states with mandatory coordination cross-border such as with state pensions.

Questions of the Green Paper on Pensions

Safer, more transparent pensions, better awareness and information

8. Which elements of the current EU legislation should be reviewed to ensure a consistent regulation and supervision of funded pension schemes and products?

9. How could European regulation or a code of good practice help Member States achieve a better balance for pension savers and pension providers between risks, security and affordability?

BASF's assessment and view

- It would be helpful, if the somewhat fuzzy and unclear boundaries between social security schemes and private schemes, occupational and individual schemes, voluntary and mandatory schemes could be made clearer through a uniform, concise pensions terminology.
- The EU could help the Member States to achieve an appropriate balance between risks, security and affordability by extending the open method of coordination to occupational pensions, whereby best practice solutions would be presented and discussed.

Questions of the Green Paper on Pensions

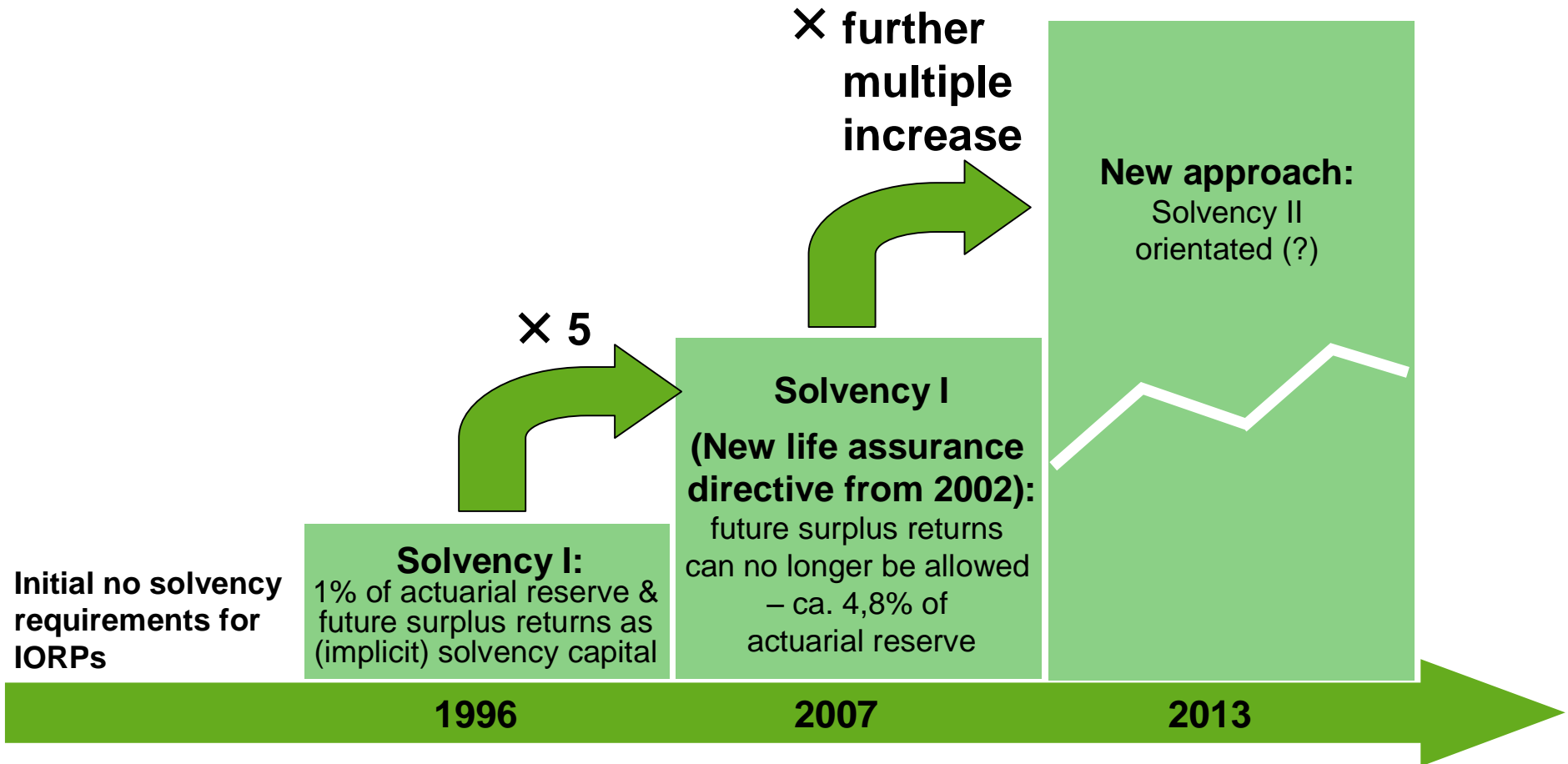
Safer, more transparent pensions, better awareness and information

10. What should an equivalent solvency regime for pensions funds look like?

BASF's assessment and view

- Pension funds are social institutions which are different from insurance undertakings, hence the Solvency II regime is not an adequate standard for them
 - No third party interest as employers and employee representatives
 - All surplus returns are distributed among scheme members
 - Significantly higher duration of liabilities
 - Vesting of entitlements rather than midterm cancellations
 - Risk margin for selling the portfolio of policies is not consistent with occupational pensions
 - Benefits of actives may be reduced in a situation of economic distress
- Pension funds should have their own solvency regime with qualitatively-orientated risk-based solvency rules as are defined in pillars 2 and 3 under solvency II
- In order to keep European employers competitive in the world-market they should not be required to lock extensive capital away in pension funds just for safety reasons rather than using those financial resources for investments, research and the creation of jobs
- Any solvency regime should not make the employers shy away from voluntarily providing occupational pensions

Historical Development of Solvency Rules for IORPs



Questions of the Green Paper on Pensions

Safer, more transparent pensions, better awareness and information

11. Should the protection provided by EU legislation against insolvency of pensions sponsoring employers be enhanced and if so how?

BASF's assessment and view

- In general, protection of pensions against insolvency of the sponsoring employer is increasingly addressed by Member States; therefore there is no need for EU-legislation other than ensuring the exchange of best practice models via the method of open coordination
- In the special case of DC-pension arrangements, it may be useful that the EU engages in communication campaigns aiming at increasing the level of awareness and information relating to investment risks and possibilities to mitigate those

Questions of the Green Paper on Pensions

Safer, more transparent pensions, better awareness and information

12. Is there a case to modernize the current minimum information disclosure requirements for pension products (e. g. standardization and clarity)?

13. Should the EU develop a common approach for default options about participation and investment choice?

BASF's assessment and view

- There are already extensive information requirements to occupational pensions so that even further rules would create more complexity – rather than transparency and clarity -, additional bureaucracy and costs
- Matters such as auto-enrolment with voluntary opt out possibility, lifecycle investment as default options could be considered, but at Member State rather than EU level in order to allow solutions which are customized to the specific local circumstances in each of the Member States