

HEALTH WEALTH CAREER

# FUTURE OF PENSIONS IN NORWAY

CHANGES AND UPDATES IN THE  
NORWEGIAN PENSION MARKET



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MAKE TOMORROW, TODAY  **MERCER**

# TODAY'S SPEAKER



PER IVAR BAKKEN  
SENIOR CONSULTANT

# AGENDA

## The Norwegian pension environment

Several major changes since 2011

1

Final stage of transition periods

New developments to come

Increasing demand for market data

## Maturing DC schemes and new priorities

2

More focus on asset management and asset managers

Acknowledging DC as not being “risk free” for employer

Adequacy analysis

# MERCER PENSION SURVEY 2016 TO BE UPDATED Q1 2017

## Why

Rapidly changing market

Increased need for facts and references

Increased variances between and within industries

## How

261 companies

17 different industries

Designed and assessed by specialists

## What

Standardized report

Peer groups in industry or cross industries



## How to get the report

E-mail: [stigmartin.aadnevik@mercer.com](mailto:stigmartin.aadnevik@mercer.com)

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# MATERIAL CHANGES SINCE 2011

National Insurance Scheme (NIS)  
AFP (tariff-based in private sector)

**2011**

from “DB” to “DC”  
from early retirement to life long

No DB competition  
No competition for paid up policies

**2012/2013**

due to vendors’ perceived risk  
due to vendors’ perceived risk

Introduction of Hybrid plans  
Increased maximum contribution rates  
*(plus change to the contribution model)*

**2014**

a bit late for private sector  
re-ignites the DC market

New NIS disability pension

**2015**

“unbalanced” company schemes

New company paid disability pension

**2016**

transition ending 31.12.2016

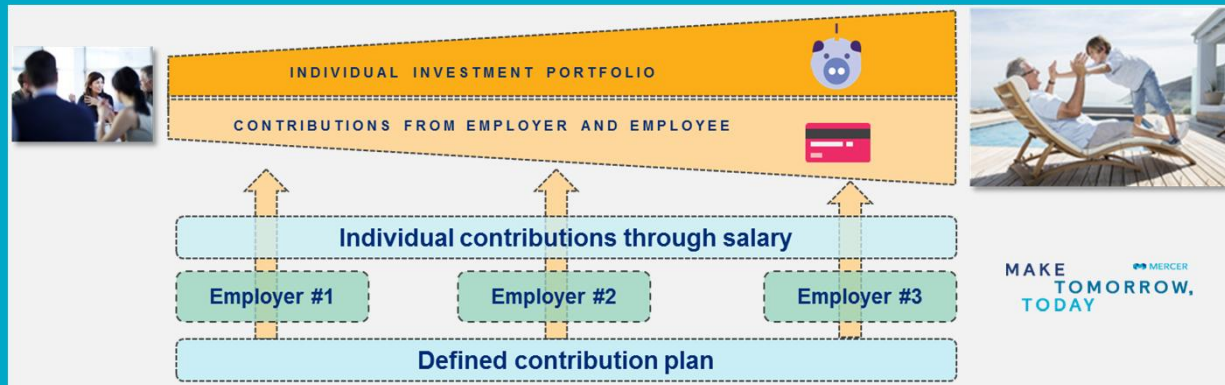


# MATERIAL CHANGES UP AHEAD?

- Less than 20 % positions to be eligible?
- Leavers to get proprietary right to all accrued assets? (no minimum service period)
- First G (NOK 92,576) of salary mandatory as pensionable in DC schemes?
- AFP to be assessed in 2017 (what will happen with the AFP scheme?)
- • **One individual pension account throughout the career? (game changer?)**



Government preliminary assessment 1<sup>st</sup> of December 2016 (delayed to 15<sup>th</sup> December??)



# MATERIAL CHANGES IN DC MARKET TRANSITION 01.01.2014 TO 31.12.2016

from



to

5% | 8%

old maximum contribution rates  
below and above salary 6G



7% | 25.1%

new maximum contribution rates  
below and above salary 7.1G

6G

old salary threshold between  
low and high contribution rate



mandatory by 31.12.2016  
transition period

7.1G

new salary threshold between  
low and high contribution rate

1G

deduction  
from pensionable salary



1G

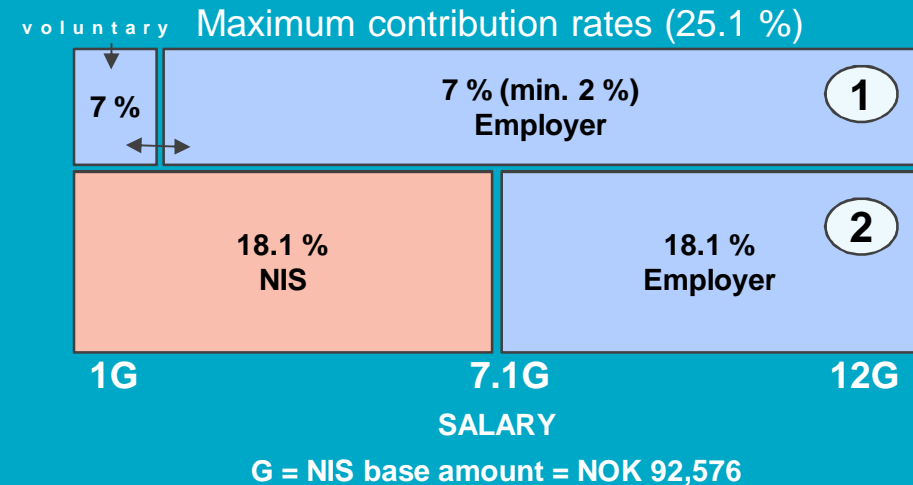
voluntary  
in pensionable salary



# MERCER'S PENSION SURVEY - 2016

## A FEW HIGHLIGHTS

- **87 %** of organisations have DC (fully or partly)
- **35 %** of DB organisations are likely to transfer to DC (fully or partly) by year end 2016
- **5 %** of organisations have implemented employee contribution



### Old market median (equals old maximum rates)

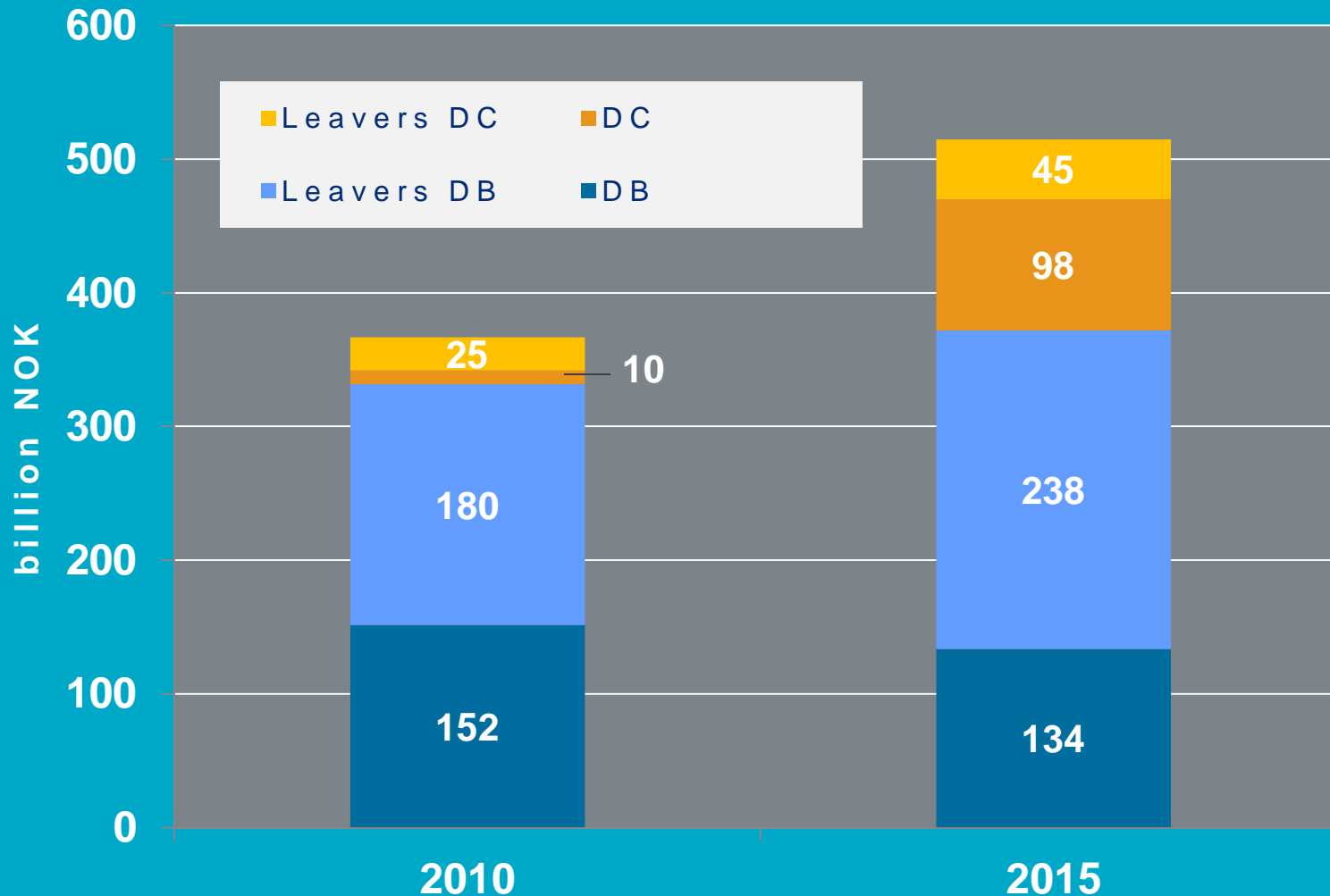
Salary from 0 – 1 G up to NOK 92,576	Salary from 1 – 6G up to NOK 555,546	Salary from 6G – 12G up to NOK 1,110,912
0 %	5 %	8 %

### New market median

Salary from 0 – 1 G up to NOK 92,576	Salary from 1 – 7.1G up to NOK 657,290	Salary from 6G – 12G up to NOK 1,110,912
5 %	5.5 %	13 %



# ASSETS SHIFTING TO DC AND PAID UP POLICIES



**2015**

facts

**NOK**  
**35**  
billion

contributions to  
DB and DC combined

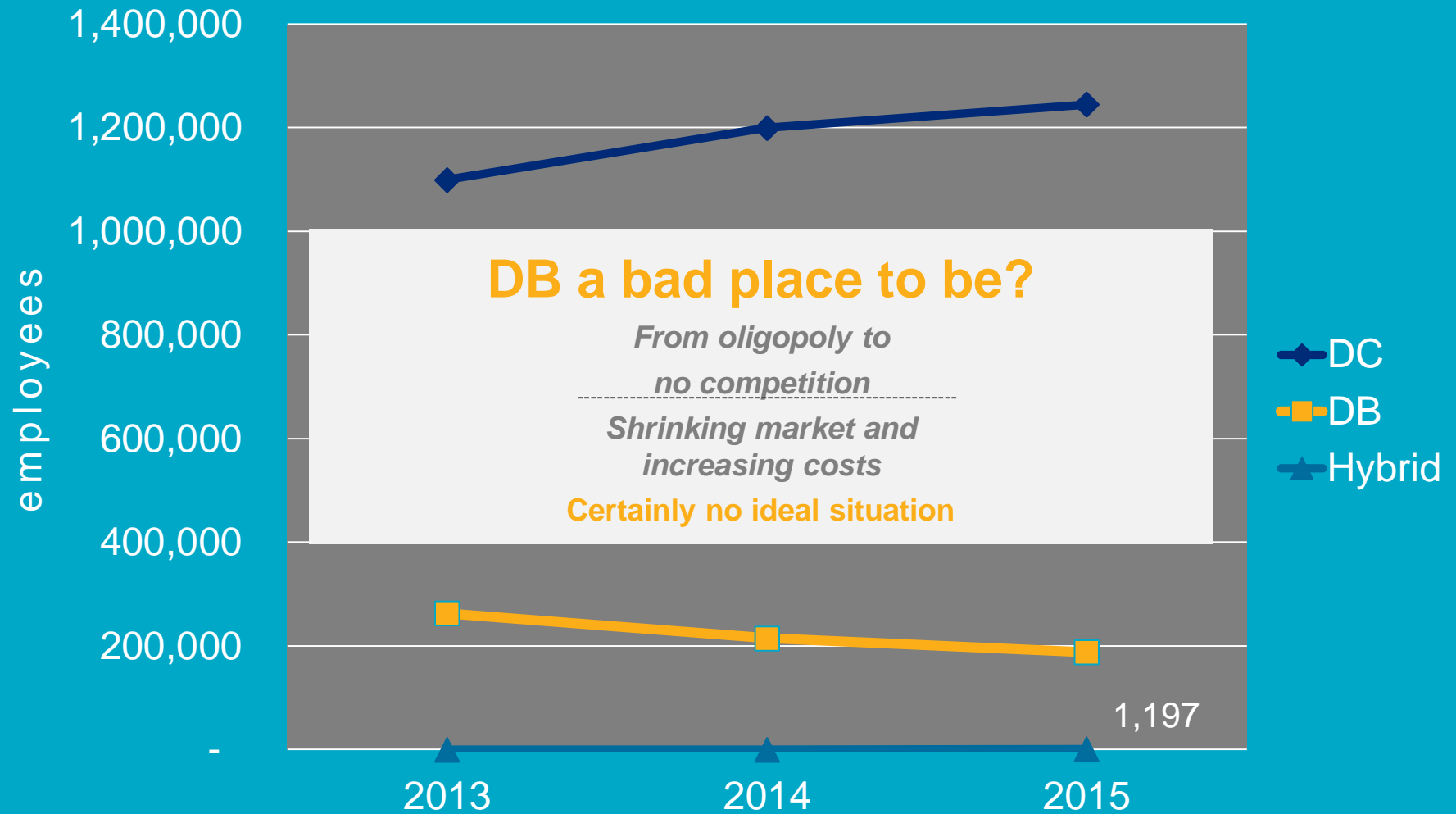
**8%**

decrease in DB  
contributions

**20%**

increase in DC  
contributions

# PLAN MEMBERS SHIFTING TO DC



# FROM FULL FOCUS ON TRANSITION TO FULL FOCUS ON GOVERNANCE

- **Increasing assets**

- more focus on costs
- more focus on quality
- more focus on solutions



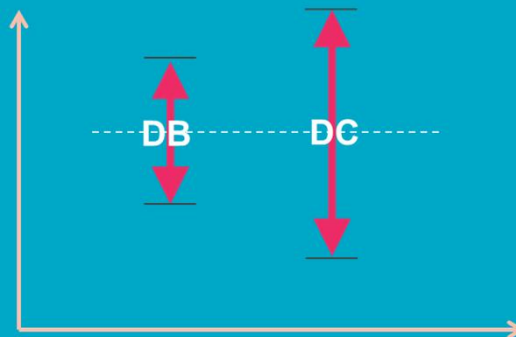
- **Documentation**

- choice of provider
- choice of (default) funds
- training and communication

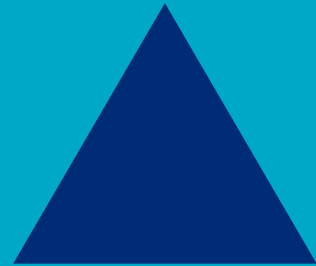


- **Adequacy analysis**

- are we on track
- benefit level
- optimal age to retire



**DEFINED  
CONTRIBUTION PLAN  
GOVERNANCE  
DC VENDOR EVALUATION**



# MERCER DC REPORT

## Why

How does your vendor perform compared to its peers?

How does your vendor perform considering its risk-taking?

Have you selected the right default solution?

## How

Interviews with the 7 largest vendors

Qualitative and quantitative analysis the asset management quality

## What

Quarterly benchmark report

Full vendor review

**SUMMARY**

The top 10 vendors have achieved the performance ratings (for an evaluation of Mercer's services) shown in the grid below.

Metric	Score	Score	Score	Score	Score
Asset management	A	B	B+	C	C
Fixed income	A	B	B+	C	C
Equity strategy	A	B	B+	C	C
Global assets	A	B	B+	C	C
Private equity	A	B	B+	C	C

Historical mean performance in the last 5 years (ending April 2015):

Metric	Score	Score	Score	Score	Score
Asset management	A	B	B+	C	C
Fixed income	A	B	B+	C	C
Equity strategy	A	B	B+	C	C
Global assets	A	B	B+	C	C
Private equity	A	B	B+	C	C

## How to get the report

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# FIVE GENERATIONS WORKING TOGETHER



**MATURISTS**  
Born 1900 - 1945



**BABY BOOMERS**  
Born 1946 - 1964



**GENERATION X**  
Born 1965 - 1976



**GENERATION Y**  
Born 1977 - 1997



**GENERATION Z**  
Born after 1997



The DC market is developing and is more complex than ever. How does your pension vendor perform compared to its peers?



Unsatisfactory performance and a suboptimal investment profile can both lead to lower pension savings.



1 % higher annual return can generate 20 % higher pension savings over 30 years.

# TIME FOR A VENDOR REVIEW IN 2017?

- Only 5-10 % of DC plan participants change from the default investment option
- Fewer employers have changed or reviewed their DC vendor over the last years – even fewer have changes the default investment option
- Past performance is not a guarantee for future return

## Annual historical return over the last 5 years

Danica Pensjon	11,1% p.a.
DNB Liv	9,5% p.a.
Gjensidige Pensjonsforsikring	11,4% p.a.
KLP	8,7% p.a.
Nordea Liv	9,5% p.a.
Sparebank 1 Forsikring	12,7% p.a.
Storebrand	10,4% p.a.



**MERCER DC REPORT**  
3 PROVIDERS WITH HIGHER  
PROBABILITY TO CREATE  
GOOD RESULTS IN THE  
FUTURE

*Norskpensjon.no, period ending September 2016*





# QUESTIONS?

PER IVAR BAKKEN



MARTIN ALBINSSON



## QUESTIONS

Please type your questions in the Q&A section of the toolbar and we will do our best to answer as many questions as we have time for.

To submit a question while in full screen mode, use the Q&A button, on the floating panel, on the top of your screen.

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