

Building a Sustainable, Adequate and Efficient Pension System

Mexico City, Mexico

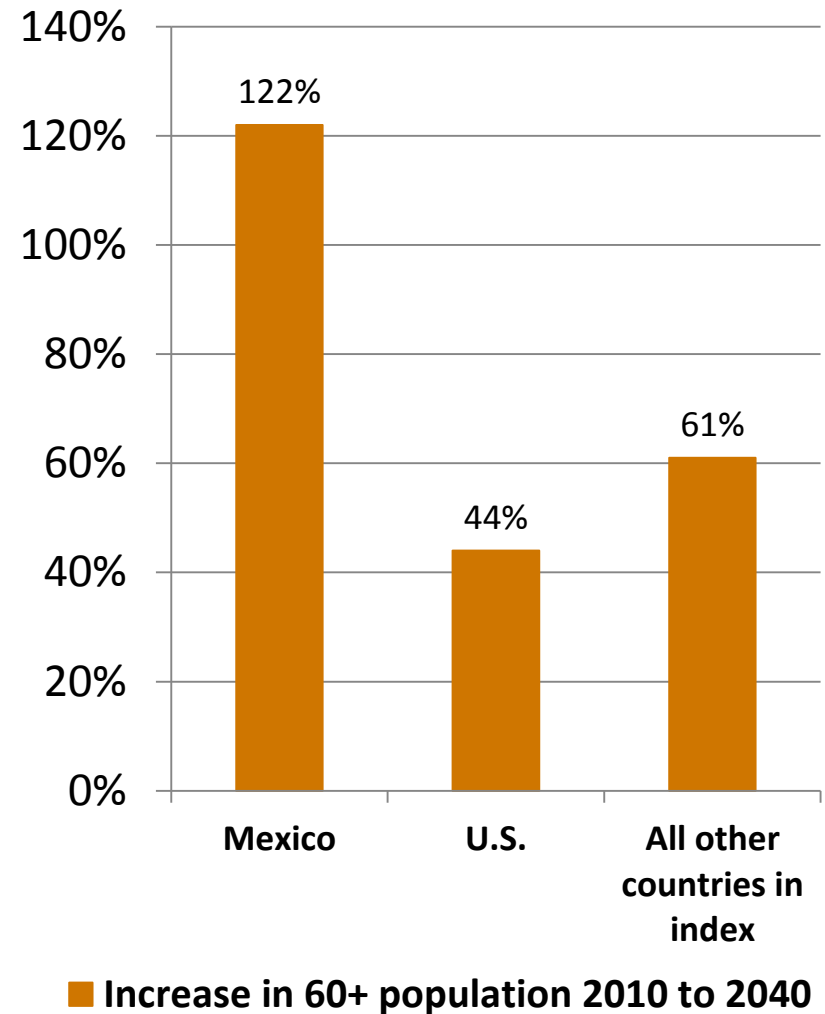
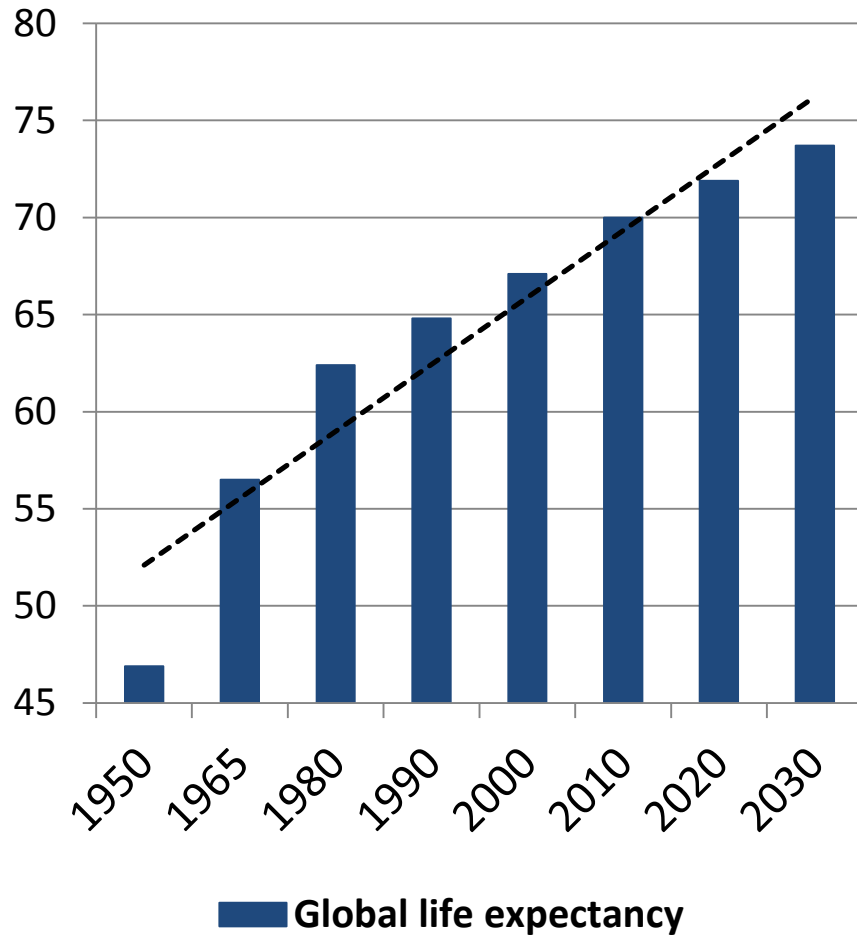
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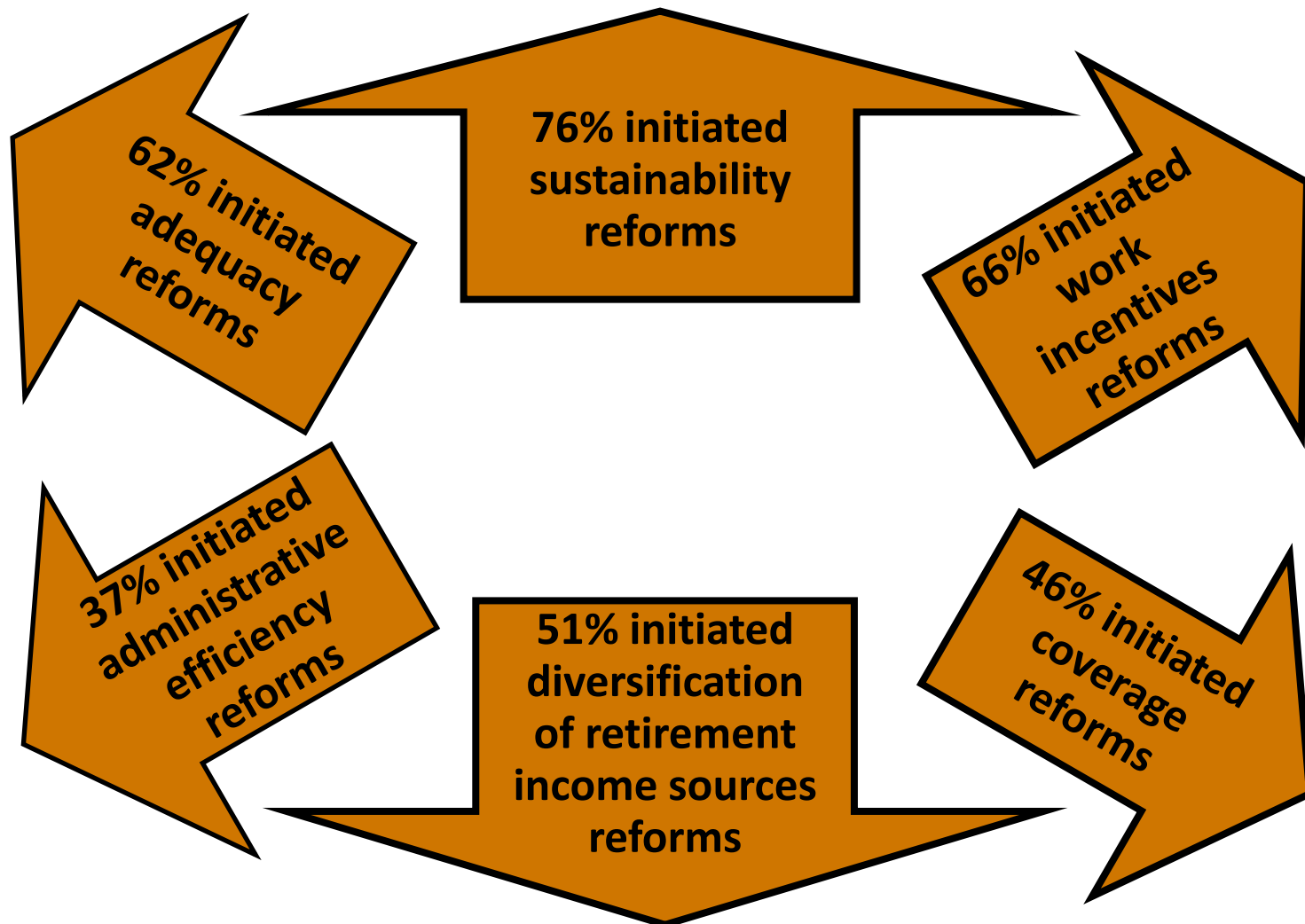
- Global pension system challenges
- Government pension reforms around the world
- Pension reform in Mexico
- Retirement plan best practices
- US: role of group voluntary pensions
- Suggestions for Mexican pension system

Global Pension Systems Under Increasing Pressure

(in particular, PAYGO systems)



Percent of 34 OECD Countries Which Initiated Various Types of Pension Reforms: 2009-2013



Global Preparedness Index Country Rankings

INCOME ADEQUACY INDEX*

COUNTRY RANKING			
1	Netherlands	11	Italy
2	US	12	Spain
3	Brazil	13	China
4	Australia	14	Japan
5	Germany	15	India
6	Sweden	16	Switzerland
7	UK	17	Mexico
8	Chile	18	Russia
9	Canada	19	South Korea
10	France	20	Poland

FISCAL SUSTAINABILITY INDEX*

COUNTRY RANKING			
1	India	11	US
2	Mexico	12	Switzerland
3	Chile	13	UK
4	China	14	Brazil
5	Russia	15	Japan
6	Australia	16	France
7	Sweden	17	Netherlands
8	Canada	18	Germany
9	Poland	19	Italy
10	South Korea	20	Spain

*Note: Countries are ranked from best to worst.

Outcomes of Pension Reform in Mexico

Financially viable



Sustainability of the new system does not depend on the population dynamics.

Creation of individual accounts



Savers always receive their money.

Mobility



Employees can work in different sectors without losing their contributions and benefits.

Safety net



Guaranteed minimum pension and the Social Quota are financed with general taxes.

Expanding access



Introduces low income workers to the financial system and offers competitive returns.

Channel resources to productive projects



System for Savings and Retirement (SAR) finances companies and projects that, in turn, create more jobs in the country.

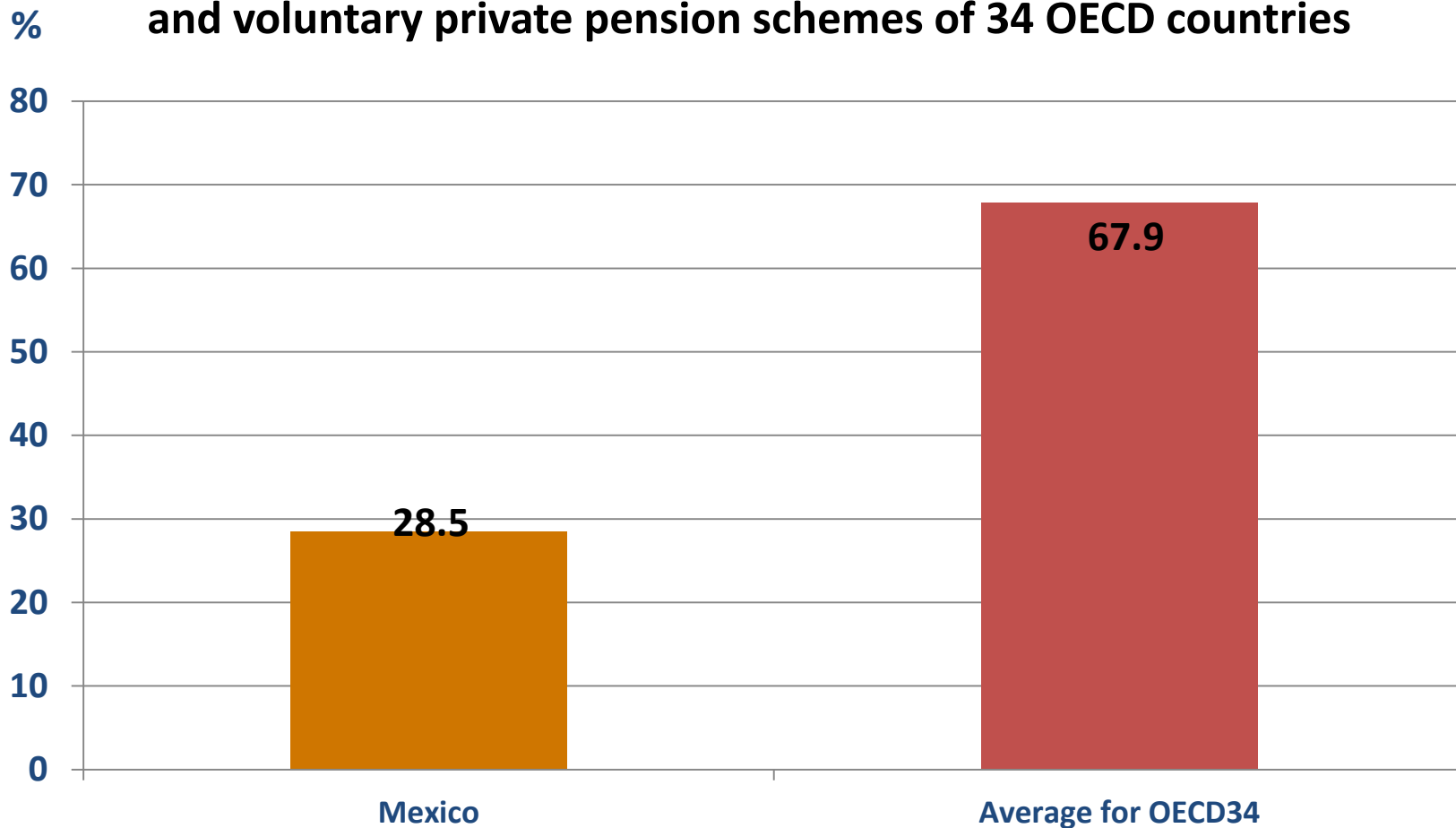
Freedom of choice



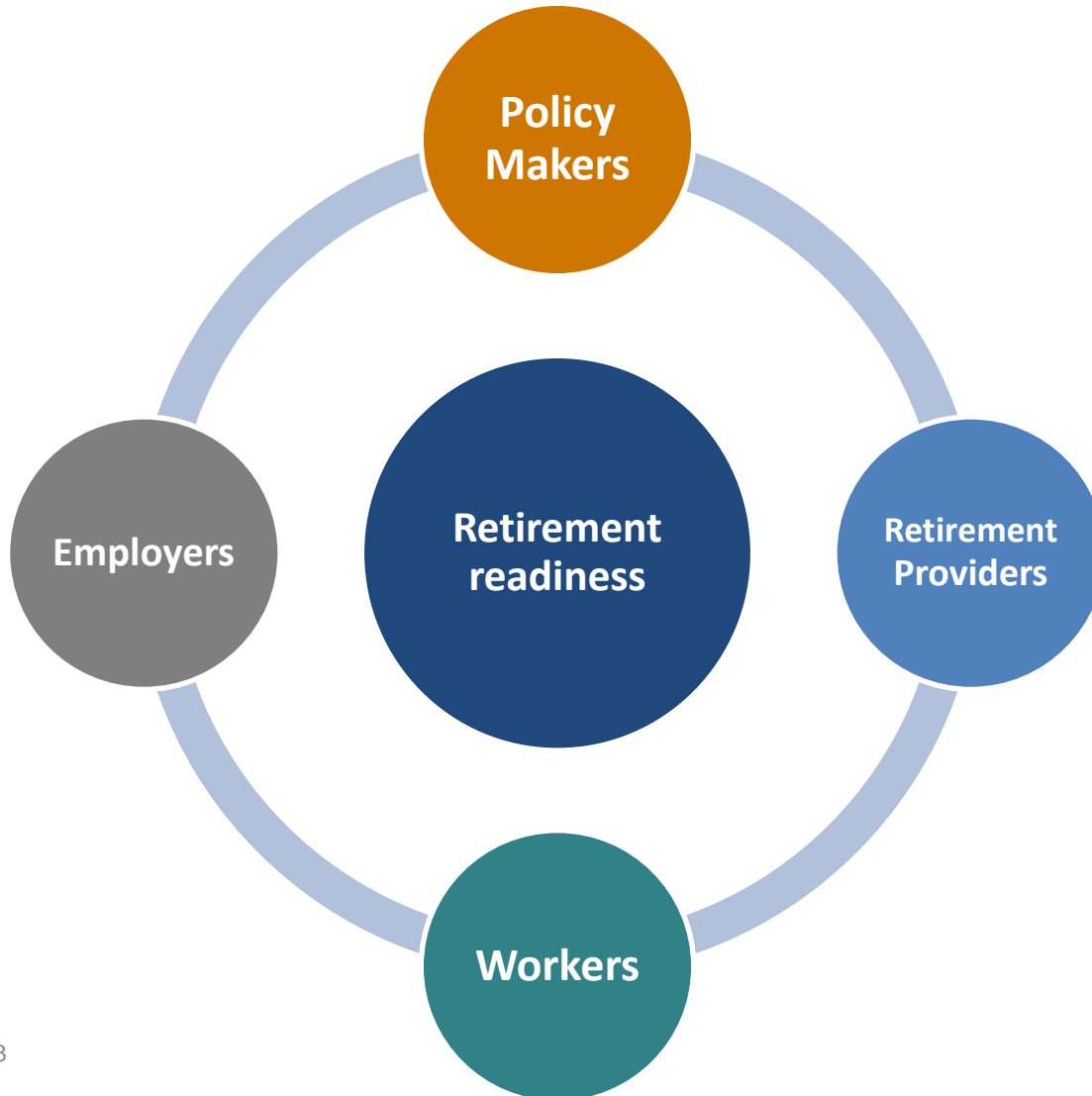
Workers can choose between 12 AFORES and have the right to switch freely, at least once a year.

More Work to Be Done

Gross Pension Replacement Rates (GPRR) for mandatory, private and voluntary private pension schemes of 34 OECD countries



Best Practices: The Retirement Ecosystem



Better Outcomes:

- All stakeholders can and must do more
- Employer/ advisor/ provider collaboration particularly critical
- All stakeholders benefit from “on track” workforce

The Retirement Ecosystem: Summary of Key Roles

Policy Makers	<ul style="list-style-type: none">• Preserve and strengthen fully funded mandatory plan• Adequately fund public/mandatory pensions through worker and employer contributions• Develop framework for voluntary system to grow, encourage worker participation• Adjust retirement ages to reflect changes in longevity• Appropriate tax incentive structures
Retirement Providers	<ul style="list-style-type: none">• Strong investment returns on diversified set of investment options• Keep fees affordable and transparent• Develop retirement income solutions. Provide needed advice and services• Work with employer on plan design and employee education
Workers	<ul style="list-style-type: none">• Take ownership of financial future• Start saving early• Save consistently throughout career
Employers	<ul style="list-style-type: none">• Sponsor voluntary plans using best in class plan design (auto enroll, auto escalate, auto sweep)• Provide employer matching contribution• Educate on importance of participation

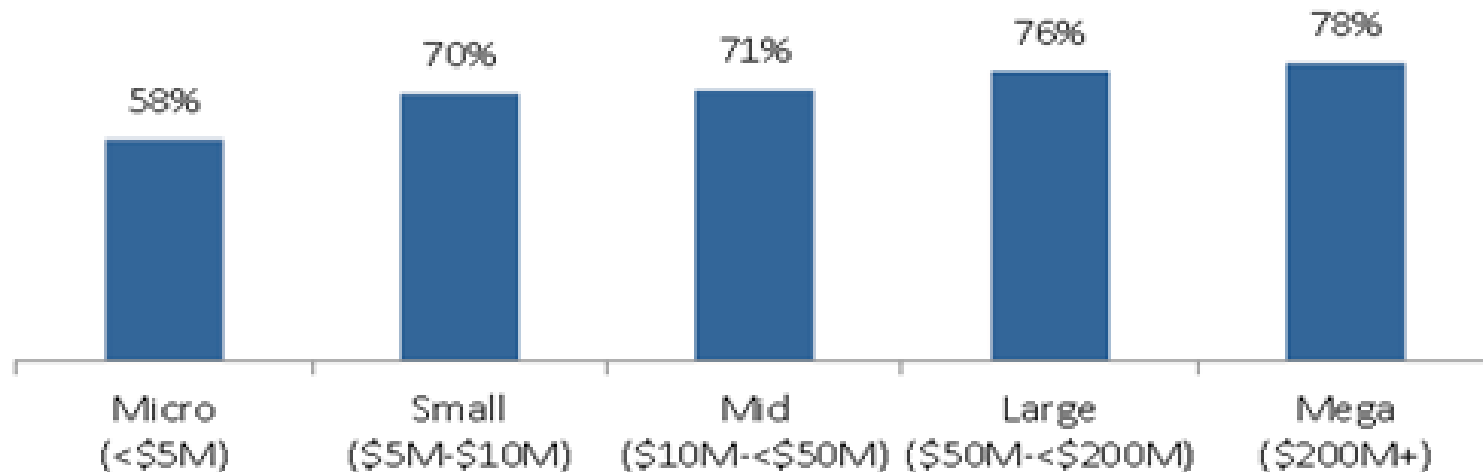
Defined Contribution Group Voluntary Plans are a Win for Individuals, Employers and Governments

- Only approximately 8% of Americans who don't have access to a workplace retirement plan save on their own in an Individual Retirement Account (IRA).
- Voluntary Defined Contribution plans cover 76 percent of workers*. When looking at both Defined Benefit and Defined Contribution plans, this number jumps to 80 percent of the full-time workforce.

*Those workers who are between age of 21 - 65, employed in a full time capacity and making over \$10,000 annually.

Defined Contribution Group Voluntary Plans Are Strategic Recruiting and Retention Tool

% AGREE: PRIMARY PLAN GOAL IS TO ATTRACT AND RETAIN QUALITY EMPLOYEES



Employers are not entirely altruistic about sponsoring DC plans. The majority, regardless of size, view their plan's primary purpose as helping them attract quality new talent, and retain existing talent.

... by investing trillions of dollars in the US capital markets, improving household balance sheets and supporting consumption/spending in retirement.

- **In 2013 approximately 33 percent of the value of US stock market was attributed to assets which came from DC/IRA**
- **More than half of total US retirement assets have been saved in DC/401(k) and IRAs.** At the end of 2013, retirement plans held approximately \$18.9 trillion in assets, with approximately \$10.0 trillion held in private DC plans and IRAs.

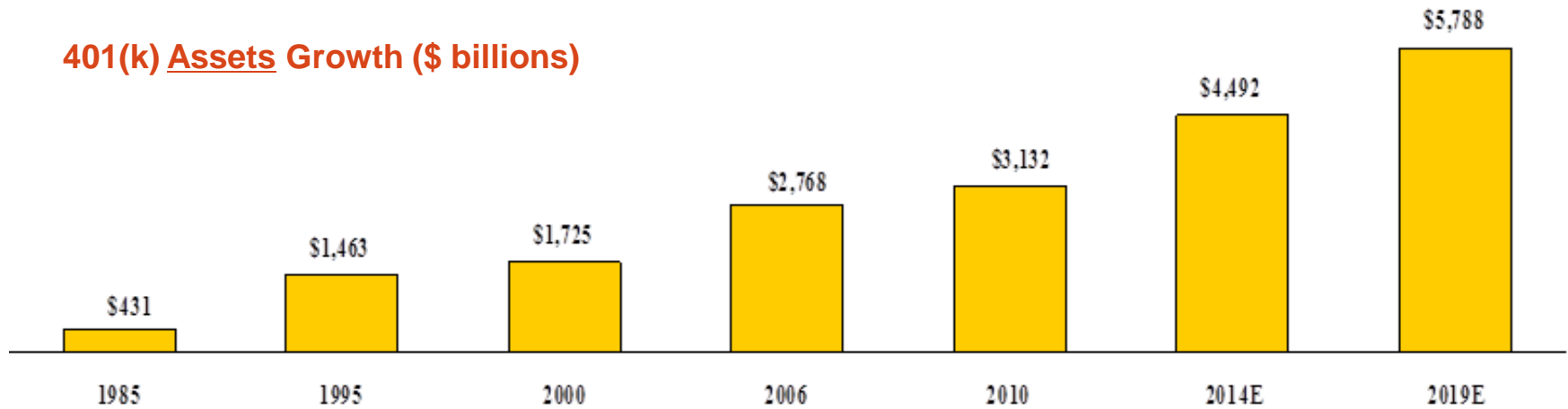
The overall savings rate in the U.S. would be consistently negative starting from 1993 without help from savings attributed to 401(k) system

Even during the recent severe recession, average deferral percentage (ADP) decline was negligible due to 401(k) participants' inertia which had a positive impact both for the economy and participants themselves (5.5 percent in 2008, 5.2 percent in 2009 and 5.3 percent in 2013, according to PSCA survey)

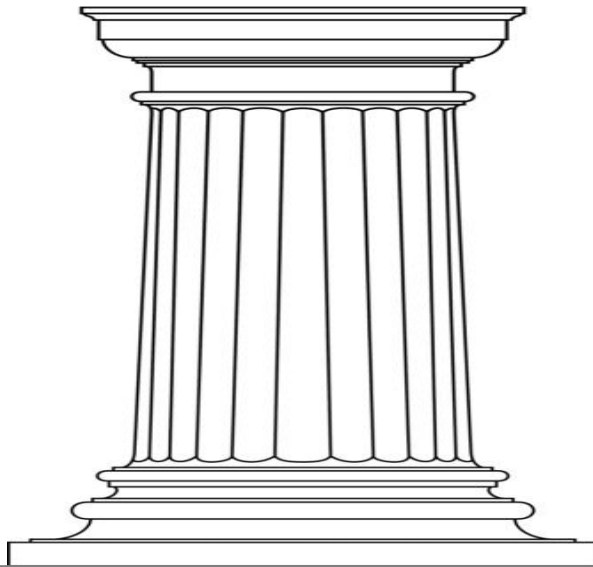
- **Deferred taxation advantage**
- **Fairness: Non discrimination and coverage rules**
- **Simplicity: payroll deduct**
- **Key to encouraging savings: employer matching contribution**
- **Choice of investment options**
- **Portability and roll-over features**

Popularity of 401(k) System Has Driven Exponential Growth

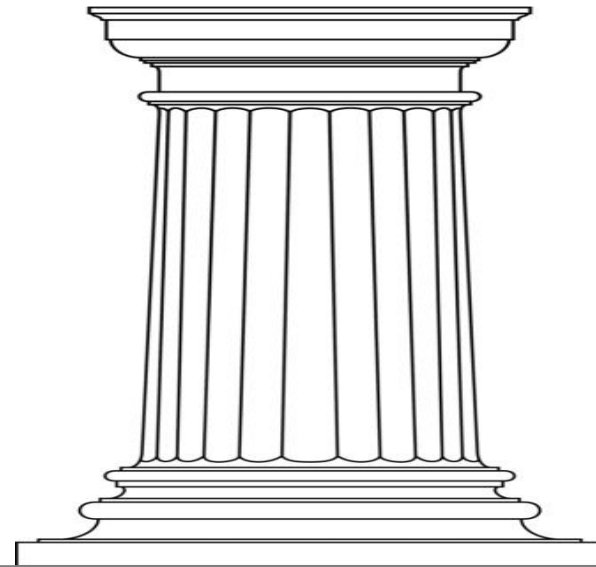
401(k) Assets Growth (\$ billions)



**Strengthen
Voluntary Savings Pillar**



**Strengthen
Asset Performance Pillar**



Strengthen Retirement & Financial Education

Need to Create Solid and Attractive Plan Scheme

Key components:

- Clear rules and parameters for all plans
 - All written and in accordance with applicable Pension, Tax & Labor Law
- Simplified rules for employers
- Tax incentives for both employers and employees

Greater Investment Flexibility

- Asset class diversification
- Investment diversification, both domestically and globally
- Promote Target Date Solutions
 - Flexibility in Glide Path
 - Flexibility in Asset Allocation

- Promote Savings Culture
- Expand Financial Education
- Develop Retirement Knowledge

¡GRACIAS!

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2015

**CONSTRUYENDO UN SISTEMA DE
PENSIONES SUSTENTABLE,
ADECUADO Y EFICIENTE**