



2006 Global Survey of Accounting Assumptions for Defined Benefit Plans

A Watson Wyatt Survey Report

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Introduction

The *2006 Global Survey of Accounting Assumptions for Defined Benefit Plans* is the 17th annual survey of assumptions applied by major corporations for their defined benefit plans around the world.

Watson Wyatt Worldwide also conducts two other major annual surveys relating to actuarial assumptions used for U.S. retirement plans. The results of these surveys, which deal with funding and accounting matters, are included in the following reports:

- *Survey of Actuarial Assumptions and Funding*
- *Accounting for Pensions and Other Postretirement Benefits*

Copies are available from any Watson Wyatt office in the United States and online at www.watsonwyatt.com.

In previous years, this survey has covered accounting assumptions under the U.S. GAAP standard: FAS 87. Over the last few years, a number of other standards, which operate on similar principles to FAS 87, have been introduced for application in other countries. These include, but are not limited to:

- IAS 19 International
- FRS 17 United Kingdom and Ireland

While there are subtle differences among the approaches to assumption setting, we believe that the similarities are more important than the differences. In all likelihood, these differences will disappear over time as the accounting standards converge.

The U.S. retirement plan data on FAS 87 assumptions are derived from information reported in corporate annual reports. The non-U.S. information was collected using a survey form.

Watson Wyatt believes that these surveys have elicited useful information and would be pleased to provide further information, if desired. However, as many participants requested confidentiality, individual company data will not be released.

Sixty-six percent of this survey's participants report under FAS 87, 31 percent under IAS 19, 1 percent under FRS 17 and 2 percent under other accounting standards.

Countries Covered and Size of Plans

The 504 companies surveyed have disclosed pension assumptions for their plans. The report reflects data as of December 31, 2005. The following 29 countries are represented:

Australia	Malaysia
Austria	Mexico
Belgium	Netherlands
Brazil	Norway
Canada	Philippines
Colombia	Poland
Finland	Portugal
France	South Africa
Germany	Spain
Hong Kong*	Sweden
India	Switzerland
Ireland	Taiwan
Italy	Thailand
Japan	United Kingdom
Korea (South)	

*Hong Kong is a Special Administrative Region of China.

This list includes the major countries in which companies have defined benefit plans. Please note that Colombia, Finland, the Philippines and Poland have been added to the study this year. We have included results from the U.S. survey for reference.

The number of participants in the plans covered in this survey varies widely. Around 80 percent of the plans have 1,000 or fewer members. Around 10 percent have between 1,000 and 3,000 members, and the remaining 10 percent have more than 3,000.

Background

In broad terms, each of the accounting standards was designed to provide a measure of pension expense that is understandable and comparable, because it reflects the terms of the underlying plan and approximates the recognition of the cost to the employer of an employee's pension over that employee's service period. It also provides disclosure that will allow users of financial statements to:

- Understand the extent and effect of an employer's undertaking to offer employees pensions and related financial arrangements
- Improve reporting of financial positions

Any pension accounting method that recognizes the cost of benefits before their payment becomes due must be based on estimates or assumptions about future events that will determine the amount and timing of benefit payments. The accounting standards require that each assumption be the best estimate of the plan's future experience.

One major problem in applying FAS 87 or other accounting standards outside the United States has been the selection of assumptions consistent with the accounting standard's methodology. In September 1993, the U.S. Securities and Exchange Commission (SEC) indicated an approach, deemed appropriate by the SEC staff, to choose discount rates for measuring the pension benefit obligation. The discount rate assumption should have the same value as the market value of a portfolio of high-quality corporate bonds whose maturities match the obligation's cash flow. While this has had an impact on U.S. plans, it is difficult to judge what, if any, effect it has had on non-U.S. plans. One possible impact is that plan sponsors might have looked more closely at the duration of the liabilities and, when practical, taken more account of yields available on government and high-quality corporate bonds of similar terms. The newer accounting standards have implied that high quality is AA-rated or equivalent.

In many cases, local traditional actuarial cost methods and assumptions, and/or the application of legal/tax constraints, mask the realistic cost of benefits. Moreover, accounting standards have introduced a clear distinction between "cost" – the charge to a company's earnings and profits – and "funding" – the cash contribution to a pension fund. This continues to be an issue, and as countries put special requirements on funding, the situation becomes more like that in the United States.

Measurement of Cost and Obligations

The determination of pension costs and obligations is based on the attribution of benefits to periods of employee service and the use of actuarial assumptions to calculate the present value of such benefits. Actuarial assumptions reflect the time value of money and the probability of payment. There are three key economic assumptions in the determination of pension costs under an accounting standard:

- Discount rate
- Salary increase rate
- Expected long-term rate of return on plan assets

Also, in many countries, two other economic assumptions can play a key role:

- Rate of increase in pensions, both in deferment and in payment
- Rate of increase in the social security parameters reflected in the pension benefit formula

The first of these additional key assumptions is attributable either to custom or to law in the particular country and possibly to actual plan provisions regarding increases to pensions in deferment and/or in payment. Accounting standards address situations that exist when a particular practice, though not spelled out in the plan's text, provides benefits beyond those that are legally (i.e., in the plan text) contracted. If such a practice has become so common as to constitute a "substantive commitment," then under an accounting standard the increase should be allowed for in the determination of pension expense. Providing regular ad hoc increases to pensions in payment is one situation where such a "substantive commitment" may exist. However, the decision whether this is indeed the case must be made by the employer, subject to confirmation by the auditor.

The second of these additional assumptions arises because social security plays a significant role in determining the ultimate benefit in many countries, so the company provision that is over and above (or integrated with) social security tends to be highly leveraged. Thus, the rate at which the social security amounts are assumed to increase can materially affect costs.

While each assumption should be a realistic best estimate, it is essential that the assumptions be consistent among themselves. So, it is common to determine an underlying long-term estimate of the level of price inflation, which

then forms the basis for the assessment of the other economic assumptions. In other words, the other assumptions should be arrived at by considering how they vary from the long-term inflation assumption.

The non-economic assumptions should not be overlooked. It is important to make best estimates of turnover, early retirement (essential whenever benefits that differ from the actuarial equivalent are provided), disability, family composition and, of course, mortality, both in service and after retirement. It is also necessary to consider the form of payment (pension versus lump sum) in determining the importance of assumptions. This study, however, mainly explores economic assumptions. For the first time this year, data regarding mortality assumptions are included.

Measurement Dates

The measurement date usually coincides with the end of the fiscal year. However, some accounting standards (notably FAS 87) permit the measurement date to be as much as three months earlier than the end of the company's fiscal year. It should be noted that under the newly issued FAS 158 standard, it will no longer be possible for measurement dates to be earlier than the company's fiscal year end. This change comes into effect for all fiscal years ending after December 15, 2008.

For the majority of respondents, the reported measurement date was December 31, 2005. In terms of observations, 80 percent were at December 31, 2005, 13 percent were in the three-month window before December 31, 2005, 2 percent were in 2006, and the remaining 5 percent were earlier than September 30, 2005. The last category of observations is not included in this report.

It should be noted that the assumptions used to calculate the liabilities as of the measurement date are also used to calculate pension expense for the following year. For consistency, the expected return on assets assumption is also for the following year, i.e., 2006, for almost all of the companies surveyed.

Background Economic Data

Figure 1 shows bond yields in the 29 countries included in the survey, plus the United States and the Euro Zone.

Figure 1: Background Economic Data – Bond Yields

As of December 31:	Bond Yields			
	Government		Corporate	
	2005	2004	2005	2004
Australia	5.60%	5.40%	6.00%	6.01%
Austria*	3.60%	4.27%	4.15%	4.58%
Belgium*	3.60%	4.24%	4.15%	4.58%
Brazil	17.98%	17.74%	-	-
Canada	4.08%	4.74%	4.74%	5.34%
Colombia	6.19%	7.73%	-	-
Finland*	3.60%	4.15%	4.15%	4.58%
France*	3.55%	4.17%	4.15%	4.58%
Germany*	3.60%	4.15%	4.15%	4.58%
Hong Kong	4.20%	3.78%	-	-
India	7.74%	7.06%	-	-
Ireland*	3.60%	4.15%	4.15%	4.58%
Italy*	3.60%	4.25%	4.15%	4.58%
Japan	1.81%	1.83%	1.90%	2.01%
Korea	5.65%	3.50%	6.20%	4.30%
Malaysia	4.69%	6.22%	-	-
Mexico	8.72%	10.16%	-	-
Netherlands*	3.60%	4.21%	4.15%	4.58%
Norway	3.78%	4.23%	-	-
Philippines	12.77%	14.50%	-	-
Poland	4.43%	6.62%	-	-
Portugal*	3.60%	4.15%	4.15%	4.58%
South Africa	7.48%	8.29%	-	-
Spain*	3.60%	4.27%	4.15%	4.58%
Sweden	3.41%	4.35%	-	-
Switzerland	2.13%	2.72%	2.24%	2.31%
Taiwan	2.01%	1.35%	-	-
Thailand	4.60%	2.40%	-	-
United Kingdom	4.13%	4.62%	4.83%	5.37%
United States	4.65%	4.86%	5.55%	5.68%
EURO	3.60%	4.15%	4.15%	4.58%

*Country uses Euro rates for corporate bonds and for government bonds when no country data are available.

Sources

Bond Yields:

Brazil, Colombia, Poland and Thailand: *The Economist Financial Indicators*; Australia, Canada, Euro countries, Hong Kong, India, Japan, Korea, Malaysia, Mexico, Philippines, South Africa, Taiwan, Thailand: *Bloomberg*; United States: *Citigroup Index for Corporate Bonds and 30-Year Treasury for Government Bonds*

Figure 2: Inflation Assumptions – Averages and Percentiles

	Averages	2006 Percentiles*		
	2006	25th	50th	75th
Australia	2.55%	2.50%	2.50%	2.50%
Austria†	2.00%	-	2.00%	-
Belgium	1.91%	1.83%	2.00%	2.00%
Brazil	5.04%	5.00%	5.00%	5.50%
Canada	2.54%	2.50%	2.50%	2.50%
Colombia	4.88%	4.50%	4.50%	5.50%
Finland	1.83%	1.75%	1.75%	2.00%
France	2.01%	2.00%	2.00%	2.00%
Germany	1.79%	1.75%	1.75%	2.00%
Hong Kong†	2.50%	-	2.50%	-
Ireland	2.25%	2.25%	2.25%	2.25%
India†	5.00%	-	5.00%	-
Italy	2.02%	2.00%	2.00%	2.00%
Japan†	1.00%	-	1.00%	-
Korea†	3.00%	-	3.00%	-
Malaysia†	4.00%	-	4.00%	-
Mexico	3.96%	3.75%	3.75%	4.00%
Netherlands	2.02%	2.00%	2.00%	2.00%
Norway	2.42%	2.50%	2.50%	2.50%
Philippines†	7.00%	-	7.00%	-
Poland	2.20%	2.00%	2.25%	2.25%
Portugal	2.09%	2.00%	2.00%	2.00%
South Africa†	4.50%	-	4.50%	-
Spain	2.25%	2.00%	2.25%	2.25%
Sweden	2.00%	2.00%	2.00%	2.00%
Switzerland	1.43%	1.25%	1.50%	1.50%
Taiwan	2.29%	2.30%	2.30%	2.30%
Thailand	3.55%	3.50%	3.50%	3.50%
United Kingdom	2.78%	2.70%	2.75%	2.80%
United States†	2.70%	-	2.70%	-

*Values are shown if there are five or more observations

†Values provided by actuary's economic expectations

Inflation Assumptions

For the first time, this survey depicts the assumption for long-term inflation. Figure 2 summarizes the results for the companies that provided an inflation assumption.

For a handful of countries, including Brazil, Colombia and Mexico, inflation has historically been very volatile, which has led to the selection of assumptions on a “real” basis (i.e., net of inflation). For these countries, we have added the median inflation rate shown in Figure 2 to the “real” rate provided in order to present a comparable “nominal” rate for all locations.

Discount Rates

Discount rates are used to calculate the present value of pension obligations and the service and interest cost portion of pension expense. The disclosure of obligations in the financial statement is based on the discount rate selected at the current measurement date. This rate is also used to determine pension expense for the following year.

The discount rate is intended to represent the rate at which pension benefit obligations could be settled. The primary focus for corporations has been placed on long-term high-quality corporate bonds of appropriate duration. For countries with a deep market in corporate bonds, it has become more common to match expected cash flows from the plan to either a portfolio of bonds that generate sufficient cash flows or a notional yield curve generated from available bond information. This is a common approach in the United States; it is also used in the United Kingdom and Canada, and less commonly in the Euro Zone.

Where there is no deep market in corporate bonds, it is typical for government bonds to be considered with a risk premium to approximate corporate bond yields. It should be noted that under IAS 19, for countries where there is no deep corporate bond market, the standard requires the use of government bonds with no additional risk premium when determining discount rates. Based on the survey responses, this particularly affected the results in Australia and had an influence on the results in Norway, Sweden and Switzerland.

Figure 3 shows the average discount rates for 2006 and 2005 and the 25th, 50th (median) and 75th percentiles for 2006.

Over the past year, long-term interest rates have trended downward; therefore, discount rates in most countries have also trended downward. It is also noticeable that over the last three years, the range of permitted values for the discount rate has declined; hence, the spread between the 25th and 75th percentiles is noticeably smaller.

Figure 3: Discount Rates – Averages and Percentiles

	Averages		2006 Percentiles*		
	2006	2005	25th	50th	75th
Australia	5.33%	5.56%	4.80%	5.38%	5.75%
Austria	4.19%	5.00%	4.00%	4.23%	4.33%
Belgium	4.00%	4.87%	4.00%	4.00%	4.25%
Brazil	11.75%	11.31%	10.75%	11.50%	12.35%
Canada	5.10%	5.98%	5.00%	5.00%	5.25%
Colombia	8.75%	-	8.68%	9.19%	9.52%
Finland	4.46%	-	4.50%	4.50%	4.50%
France	4.13%	4.73%	4.00%	4.00%	4.25%
Germany	4.24%	4.91%	4.00%	4.25%	4.25%
Hong Kong	4.83%	4.66%	4.50%	4.75%	5.00%
India	7.73%	7.67%	7.50%	8.00%	8.00%
Ireland	4.26%	4.82%	4.25%	4.25%	4.25%
Italy	4.02%	4.71%	4.00%	4.10%	4.25%
Japan	1.95%	2.07%	2.00%	2.00%	2.00%
Korea	6.05%	5.64%	6.00%	6.00%	6.50%
Malaysia	6.00%	6.46%	6.00%	6.00%	6.00%
Mexico	9.16%	9.69%	9.00%	9.00%	9.50%
Netherlands	4.09%	4.94%	4.00%	4.00%	4.25%
Norway	4.56%	5.46%	4.25%	4.50%	4.75%
Philippines	10.71%	-	10.50%	11.00%	11.00%
Poland	5.10%	-	5.00%	5.00%	5.25%
Portugal	4.48%	5.12%	4.25%	4.50%	4.75%
South Africa	8.66%	8.00%	8.50%	8.50%	8.63%
Spain	4.12%	4.87%	4.00%	4.20%	4.25%
Sweden	3.83%	4.99%	3.50%	3.75%	4.00%
Switzerland	2.90%	3.46%	2.75%	3.00%	3.00%
Taiwan	2.71%	3.34%	2.50%	2.63%	3.00%
Thailand	5.92%	5.90%	5.50%	6.00%	6.38%
United Kingdom	4.85%	5.41%	4.75%	4.80%	5.00%
United States	5.60%	5.83%	5.50%	5.63%	5.75%

*Values are shown if there are five or more observations

Figure 4: Rates of Return – Averages and Percentiles

	Averages		2006 Percentiles*		
	2006	2005	25th	50th	75th
Australia	7.07%	6.81%	7.00%	7.00%	7.00%
Belgium	5.17%	5.49%	4.50%	5.00%	5.75%
Brazil	12.60%	12.39%	12.00%	12.45%	13.50%
Canada	7.32%	7.59%	7.00%	7.30%	8.00%
Finland	4.62%	-	4.50%	4.50%	4.50%
France	5.08%	5.35%	4.20%	4.75%	5.90%
Germany	5.02%	5.48%	4.50%	4.65%	5.75%
Hong Kong	6.95%	6.76%	6.00%	7.00%	8.00%
India	7.78%	7.68%	7.50%	8.00%	8.00%
Ireland	6.55%	6.61%	6.00%	6.50%	7.00%
Japan	2.41%	2.71%	1.00%	2.50%	3.50%
Korea	4.89%	4.50%	5.00%	5.00%	5.00%
Mexico	9.56%	9.95%	8.50%	10.00%	10.25%
Netherlands	4.71%	5.92%	4.00%	4.50%	5.20%
Norway	5.62%	6.50%	5.25%	5.50%	5.70%
Philippines	11.00%	-	10.00%	11.00%	11.00%
Portugal	5.40%	5.65%	5.00%	5.50%	6.00%
South Africa	9.54%	11.25%	9.04%	9.50%	11.00%
Spain	4.75%	4.83%	4.13%	4.75%	4.88%
Sweden	4.66%	-	3.90%	4.80%	5.63%
Switzerland	4.57%	4.95%	4.50%	5.00%	5.25%
Taiwan	2.96%	3.34%	3.00%	3.00%	3.00%
United Kingdom	6.77%	7.25%	6.30%	6.80%	7.30%
United States	8.33%	8.39%	8.00%	8.50%	8.75%

*Values are shown if there are five or more observations

Rates of Return

The expected rate of return on assets is the long-term expectation of the annual earnings rate of the pension fund. The expected return on assets is a component of pension expense. Rates of return reflect the plan sponsor's outlook with regard to the asset allocation decision plus future expectations.

The survey disclosed the following percentages of funded plans in those countries where both funded and book-reserved plans occur:

Australia	96%	Italy	22%
Belgium	83%	Japan	52%
Brazil	81%	Korea (South)	60%
Canada	79%	Mexico	76%
France	46%	Portugal	79%
Germany	37%	Spain	80%
India	85%	Sweden	48%

Given the current market conditions (in particular, a reduction in expected bond yields and equity premiums), there was a common trend to reduce this assumption from last year's assumption. In general, companies have taken a more robust review of this assumption globally.

Figure 4 shows the average rates of return for 2006 and 2005 and percentiles for 2006.

Figure 5 explores the levels of real returns that companies are using.

In order to estimate the long-term inflation to develop these data, for simplicity and convenience we have used the median reported assumption that appears in Figure 2.

Figure 6 shows the distribution of the real rates of return.

Figure 6: Distribution of Real Rates of Return

Real Rates of Return	2006	2005
Less than 3%*	8	5
3% to under 4%	6	5
4% to under 5%	6	6
5% to under 6%	3	2
6% to under 7%	0	2
7% to under 8%	1	0
8% and over	0	0

*Includes negative values

Because of additional countries, 2006 sample is larger than 2005 sample

Figure 5: Average Real Rates of Return, 2006

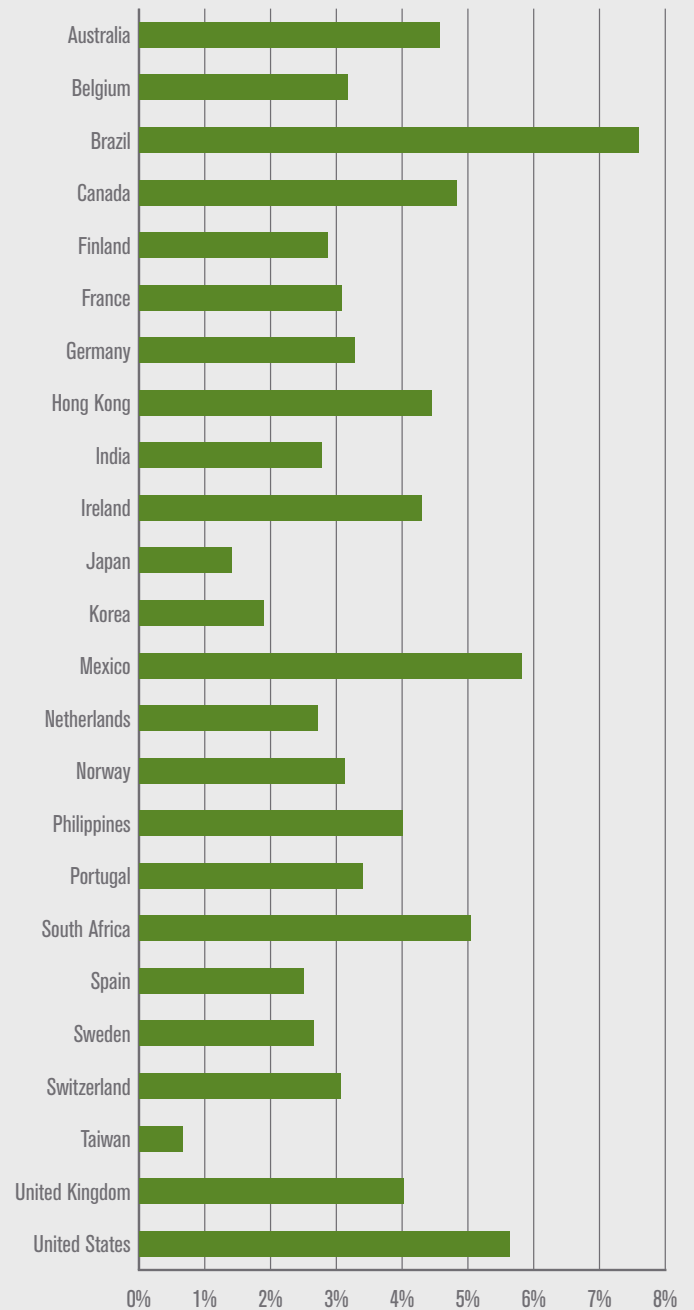


Figure 7: Salary Increase Assumption – Averages and Percentiles

	Averages		2006 Percentiles*		
	2006	2005	25th	50th	75th
Australia	3.98%	3.95%	3.63%	4.00%	4.00%
Austria	2.98%	2.72%	2.75%	3.00%	3.15%
Belgium	3.31%	3.21%	3.00%	3.13%	4.00%
Brazil	6.73%	6.13%	6.05%	7.34%	8.15%
Canada	3.68%	3.95%	3.50%	4.00%	4.00%
Colombia	5.87%	-	5.50%	6.00%	6.00%
Finland	2.77%	-	2.50%	2.50%	3.30%
France	2.92%	2.73%	2.50%	3.00%	3.00%
Germany	2.64%	2.84%	2.50%	2.75%	3.00%
Hong Kong	4.55%	4.11%	4.00%	4.50%	5.00%
India	6.08%	5.77%	5.00%	5.50%	8.00%
Ireland	3.63%	3.85%	3.50%	3.75%	3.75%
Italy	3.19%	3.25%	3.00%	3.13%	3.50%
Japan	2.35%	2.36%	2.00%	2.25%	2.75%
Korea	5.13%	5.21%	5.00%	5.00%	5.00%
Malaysia	6.00%	5.81%	6.00%	6.00%	6.00%
Mexico	4.84%	6.03%	4.50%	5.00%	5.50%
Netherlands	2.54%	3.23%	2.00%	2.50%	3.00%
Norway	2.92%	3.21%	2.50%	3.00%	3.00%
Philippines	9.71%	-	9.00%	9.00%	10.00%
Portugal	3.04%	3.43%	3.00%	3.00%	3.50%
South Africa	5.36%	7.00%	5.00%	6.00%	6.50%
Spain	3.32%	3.28%	3.25%	3.50%	3.50%
Sweden	3.15%	3.38%	3.00%	3.00%	3.50%
Switzerland	2.61%	2.70%	2.25%	3.00%	3.00%
Taiwan	3.34%	3.24%	3.00%	3.25%	4.00%
Thailand	5.83%	5.66%	5.50%	6.00%	6.00%
United Kingdom	3.95%	4.04%	3.58%	4.00%	4.30%
United States	4.17%	4.11%	3.90%	4.00%	4.50%

*Values are shown if there are five or more observations

Salary Increase Rates

The salary increase assumption is used to project current salaries into the future. The assumption selected at the current measurement date is a significant factor in determining the projected benefit obligation disclosed in the financial statement, and it also affects the determination of pension expense for the following year.

Year-to-year increases in compensation result from:

- Inflation
- Productivity improvements
- Merit and promotional increases
- Seniority raises

Elements other than inflation are commonly expressed as a flat percentage increment, but in reality they are more commonly related to age, service and position, and may also vary between salaried and hourly employees.

Figure 7 shows the average values for the salary increase assumption for 2006 and 2005 and the percentile values for 2006.

The salary increase is very much company- and plan-specific once the underlying country level of inflation is taken into account. In a handful of instances, age-related salary scales may be used.

Figure 8 explores the real rates of salary increases that companies have used. In order to estimate the long-term inflation to develop these data, for simplicity and convenience we have used the median reported inflation assumption that appears in Figure 2. Of the 24 countries with comparable 2006 and 2005 average real salary increases, 10 saw an increase over the past year.

Figure 9 shows the distribution of the real rates of salary increases.

Figure 9: Distribution of Real Rates of Salary Increases

Real Salary Increase	Number of Countries	
	2006	2005
Less than 1%*	6	7
1% to under 2%	16	10
2% to under 3%	5	4
3% to under 4%	0	3
4% and over	2	0

*Includes negative values

Because of additional countries, 2006 sample is larger than 2005 sample

Figure 8: Average Real Salary Increases, 2006

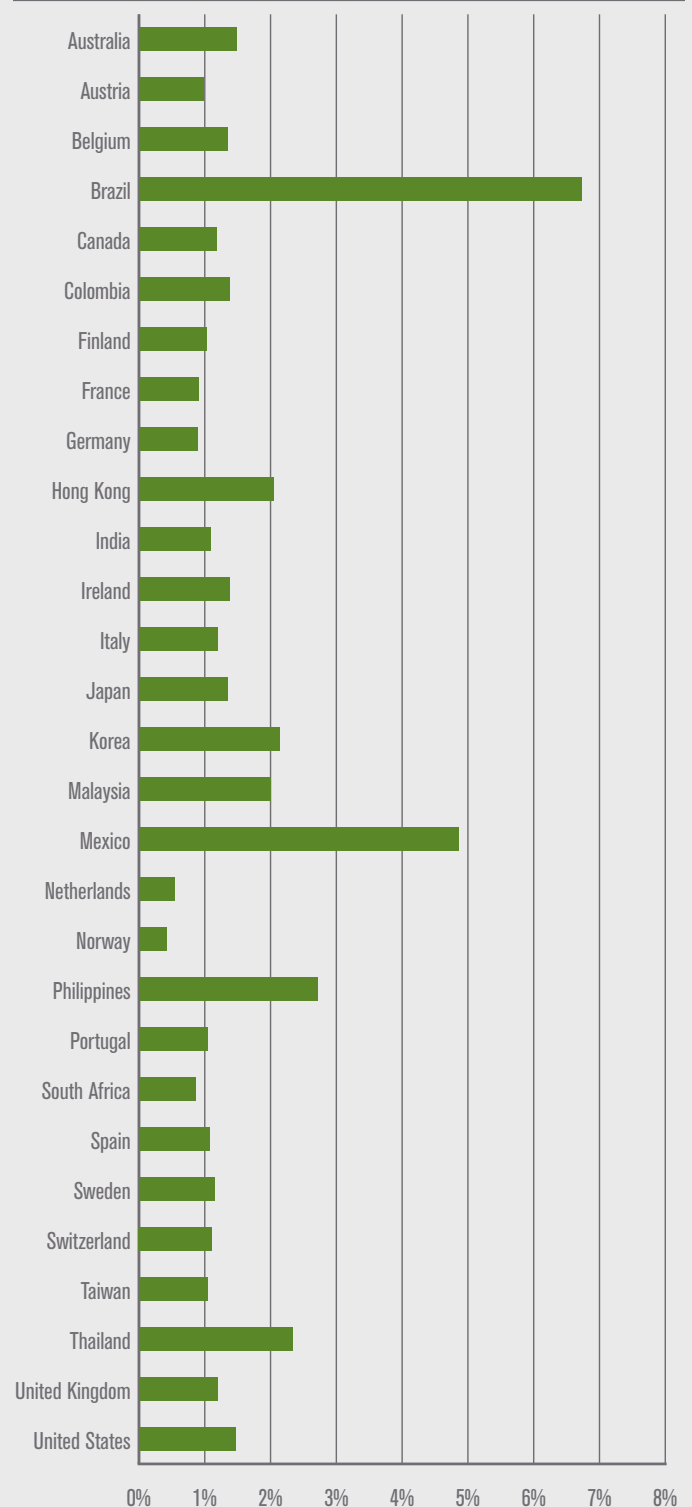


Figure 10: Spread Between the Average Discount Rate and Salary Increase by Country, 2006

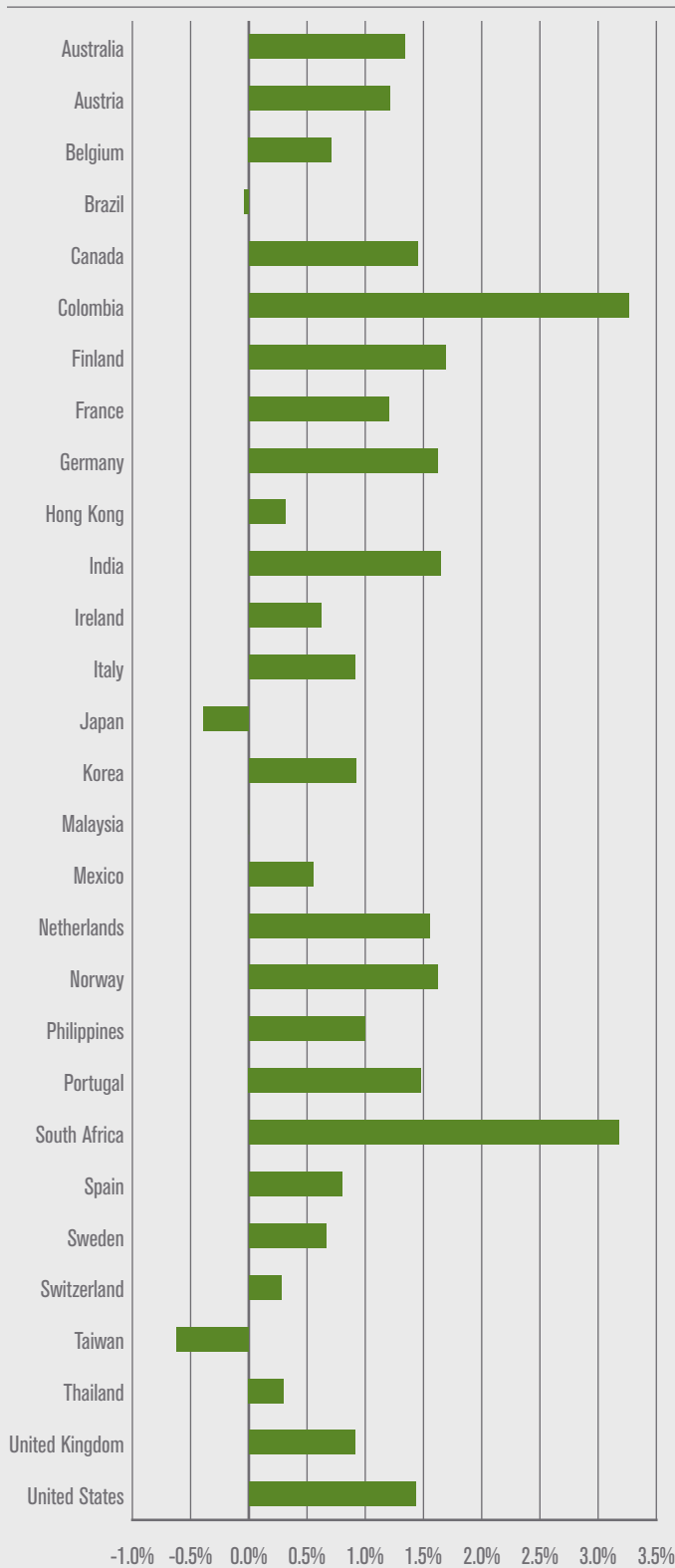


Figure 10 shows the difference (spread) between the average discount rate and the average salary increase rate.

Figure 11 shows the distribution of the spread between the average discount rate and the average salary increase rate.

Figure 11: Distribution of Spreads

	Number of Countries 2006
Less than 1%*	12
1% to under 2%	13
2% to under 3%	0
3% to under 4%	2
4% and over	2

*Includes negative values

Social Security Increase Rates

In many countries, the plan formula takes into account social security. We asked companies to provide their assumption for social security increases. Figure 12 summarizes the results for those companies that provided a response.

Of the 10 countries with both a 2006 and a 2005 value, four countries have seen an increase in the median value of the social security assumption, three have seen a decrease and three have seen no change.

Figure 12: Social Security Assumption – Averages and Percentiles

	Averages		2006 Percentile*		
	2006	2005	25th	50th	75th
Belgium	1.87%	2.00%	1.75%	1.90%	2.00%
Brazil	9.90%	10.42%	9.50%	10.00%	10.50%
Canada	3.18%	2.90%	3.00%	3.50%	3.50%
Colombia	4.94%	-	4.50%	4.75%	5.50%
France	1.97%	1.89%	2.00%	2.00%	2.00%
Germany	2.27%	1.62%	2.00%	2.25%	2.50%
Ireland	3.40%	2.50%	3.50%	3.50%	3.50%
Mexico	3.78%	-	3.50%	3.75%	4.00%
Netherlands	1.98%	2.14%	2.00%	2.00%	2.00%
Norway	2.92%	-	2.70%	3.00%	3.00%
Portugal	2.27%	2.33%	2.10%	2.23%	2.50%
Spain	2.33%	-	2.25%	2.25%	2.50%
Sweden	3.23%	-	3.00%	3.25%	3.50%
Switzerland	1.71%	1.24%	1.50%	1.75%	2.00%
United Kingdom	2.75%	2.69%	2.70%	2.75%	2.78%

*Values are shown if there are five or more observations

Figure 13: Pension Increase Rate Assumption – Averages and Percentiles

	Averages		2006 Percentiles*		
	2006	2005	25th	50th	75th
Belgium	1.68%	1.85%	1.50%	2.00%	2.00%
Brazil	4.95%	5.00%	5.00%	5.00%	5.00%
Canada	1.38%	2.54%	0.88%	0.88%	1.70%
Colombia	4.94%	-	4.50%	4.75%	5.50%
Finland	2.23%	-	2.25%	2.28%	2.30%
France	2.14%	1.79%	2.00%	2.00%	2.50%
Germany	1.58%	1.61%	1.50%	1.50%	1.75%
Ireland	2.31%	2.43%	2.25%	2.25%	2.50%
Netherlands	1.87%	1.96%	1.80%	2.00%	2.00%
Norway	2.38%	-	2.00%	2.50%	2.50%
Portugal	2.19%	1.98%	1.75%	2.00%	2.50%
Sweden	2.06%	2.05%	2.00%	2.00%	2.00%
Switzerland	1.14%	1.48%	0.50%	0.75%	1.00%
United Kingdom	2.76%	2.66%	2.65%	2.75%	2.80%

*Values are shown if there are five or more observations

Pension Increase Rates

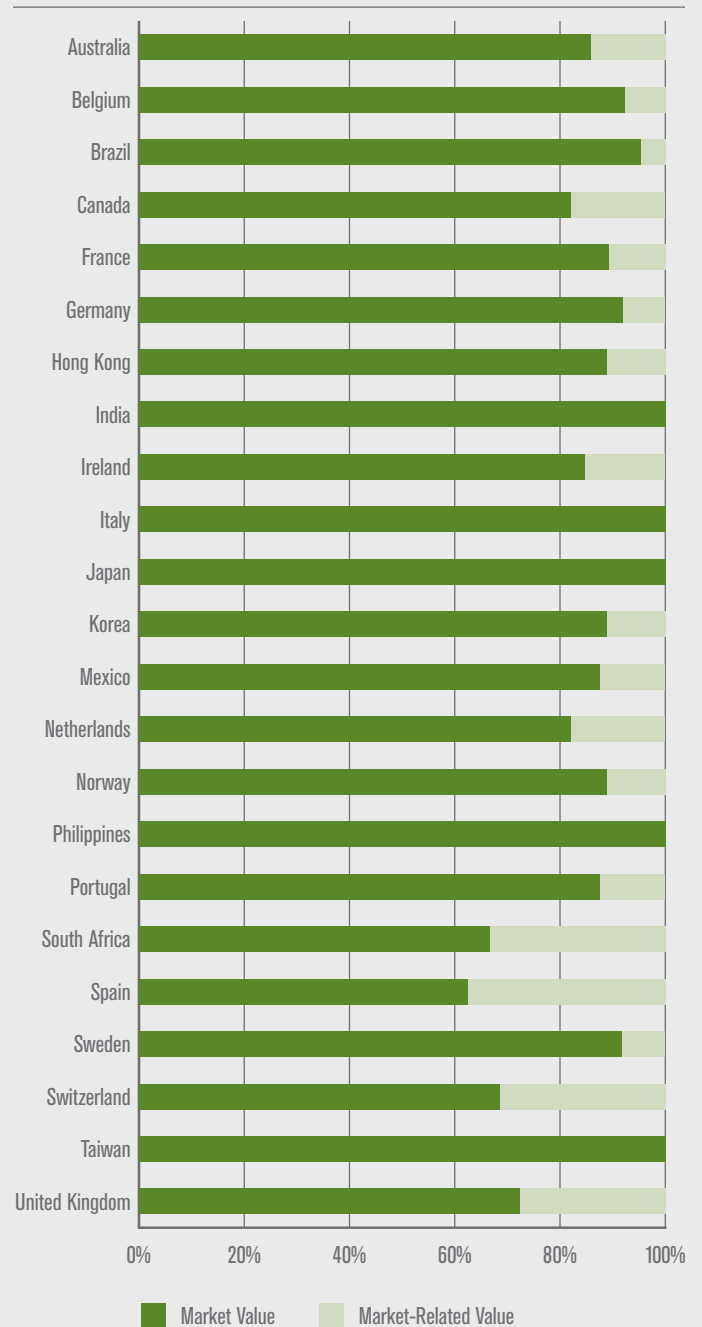
There are also a number of countries where pensions are increased in payment status. In some of these countries, pensions are required to increase, while in others the assumption reflects either a plan provision or a substantive commitment to provide increases. **Figure 13** reflects the results for those companies that provided a non-zero response.

Of the 11 countries that had both a 2006 and a 2005 pension increase assumption, two countries have seen a decrease in the median value of this assumption and nine have seen no change.

Assets

FAS 87 permits assets to be valued at market value or market-related value. In the latter case, companies can smooth the value of assets over a period not to exceed five years. Figure 14 shows the percentage of companies using each method, excluding the companies that did not report a method. It is clear that market value remains the most prevalent approach globally.

Figure 14: Percentage Reporting Assets Calculated as Market Value or Market-Related Value



**Figure 15: Average Asset Allocation by Country
(With Five or More Observations)**

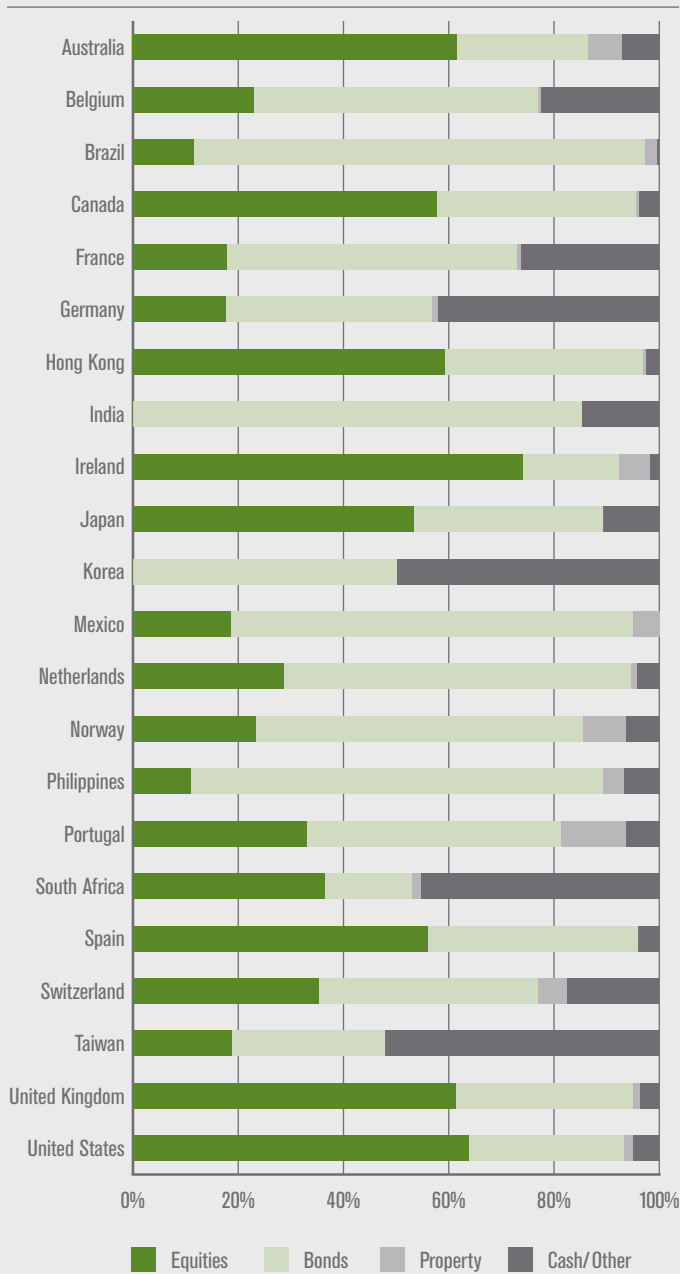


Figure 15 shows the broad split of assets at the accounting date. We present the average allocations split among equities, bonds, property and cash/other.

Funded Status of Pension Plans

Funded status provides a measure of the security of pension earned by plan participants. For this report, funded status is defined as the ratio of the market value of plan assets to the actuarial present value of benefit obligations. Different measures of the benefit obligation – projected and accumulated – are used to calculate separate security ratios. A security ratio equal to or greater than one means that the type of benefit obligation is fully funded.

Please note that in many countries, plans are book-reserved (fully or partially) and are therefore unfunded. Results are shown for countries that have five or more funded plans. Some companies may have had observations for their projected benefit security ratio and not their accumulated benefit security ratio or vice versa. Therefore, the companies shown in **Figures 16** and **17** may not be identical.

Projected Benefit Security Ratio

The projected benefit security ratio is the ratio of the current market value of plan assets to the plan's projected benefit obligation. The projected benefit obligation is the actuarial present value of all benefits attributed by the benefit formula to service prior to the measurement date, including benefits based on expected future salary increases. Under IAS 19, this is known as the defined benefit obligation.

In many instances this has improved from last year, but not as much as may have been expected given the average asset returns and sizable cash contributions seen in 2005. An increase in liabilities – driven by a global drop in bond yields and, hence, in discount rates – offset much of the asset performance and cash contributions.

Figure 16 shows the average projected benefit security ratio for 2006 and 2005 and 2006 percentiles (as of December 31, 2005).

Figure 16: Projected Benefit Security Ratio – Averages and Percentiles

	Averages		2006 Percentiles*		
	2006	2005	25th	50th	75th
Australia	1.11	1.08	0.98	1.08	1.25
Belgium	0.77	0.83	0.46	0.66	0.83
Brazil	0.96	0.95	0.63	0.79	1.36
Canada	0.86	0.83	0.72	0.84	0.95
Finland	0.74	-	0.85	0.89	0.93
France	0.47	0.47	0.17	0.41	0.65
Germany	0.34	0.36	0.07	0.25	0.53
Hong Kong	1.02	0.97	0.92	1.02	1.10
India	0.80	0.77	0.70	0.84	0.94
Ireland	0.86	0.78	0.77	0.91	0.98
Japan	0.71	0.59	0.44	0.57	0.88
Korea	0.65	-	0.53	0.65	0.92
Mexico	0.89	0.68	0.52	0.82	1.30
Netherlands	0.79	0.85	0.68	0.81	0.91
Norway	0.76	0.91	0.70	0.72	0.85
Philippines	0.92	-	0.73	0.97	1.13
Portugal	0.79	0.89	0.62	0.81	0.99
South Africa	1.20	-	1.04	1.04	1.21
Spain	0.62	0.67	0.39	0.69	0.90
Sweden	0.47	-	0.09	0.63	0.78
Switzerland	0.87	0.82	0.82	0.91	0.96
Taiwan	0.47	0.48	0.19	0.37	0.66
United Kingdom	0.81	0.80	0.71	0.81	0.90
United States	0.84	0.84	0.72	0.82	0.92

*Values are shown if there are five or more observations

Figure 17: Accumulated Benefit Security Ratio – Averages and Percentiles

	Averages		2006 Percentiles*		
	2006	2005	25th	50th	75th
Australia	1.25	1.07	1.08	1.17	1.42
Belgium	1.00	1.23	0.80	0.95	1.24
Brazil	1.30	1.21	0.93	1.35	1.63
Canada	0.95	0.90	0.84	0.92	1.05
Finland	0.57	-	0.13	0.57	1.01
France	0.53	0.54	0.15	0.44	0.76
Germany	0.37	0.39	0.08	0.27	0.44
Hong Kong	1.25	1.33	0.97	1.12	1.58
India	1.41	1.49	0.90	1.17	1.93
Ireland	1.07	1.07	1.03	1.08	1.21
Japan	0.92	0.74	0.50	0.68	1.20
Korea	1.11	0.87	0.83	1.03	1.57
Mexico	1.30	0.90	0.67	1.17	1.74
Netherlands	1.00	1.04	0.90	1.00	1.09
Norway	0.92	1.11	0.80	0.91	0.96
Philippines	2.55	-	1.64	2.67	3.06
Portugal	0.91	1.00	0.84	0.93	1.03
South Africa	1.43	-	1.05	1.31	1.80
Spain	0.92	1.10	0.45	0.94	1.51
Sweden	0.38	-	0.11	0.19	0.74
Switzerland	0.97	0.91	0.92	1.00	1.05
Taiwan	0.74	0.70	0.26	0.57	0.98
United Kingdom	0.93	0.90	0.80	0.90	1.02
United States	0.95	0.96	0.81	0.94	1.04

*Values are shown if there are five or more observations

Accumulated Benefit Security Ratio

The accumulated benefit security ratio is the ratio of the market value of plan assets to the plan's accumulated benefit obligation. The accumulated benefit obligation is the actuarial present value of benefits attributed by the benefit formula to service rendered before the measurement date, based on current salary. It is different from the projected benefit obligation because it does not include any allowance for future salary increases.

Figure 17 shows the average accumulated benefit security ratio for 2006 and 2005 and 2006 percentiles (as of December 31, 2005).

Mortality Tables

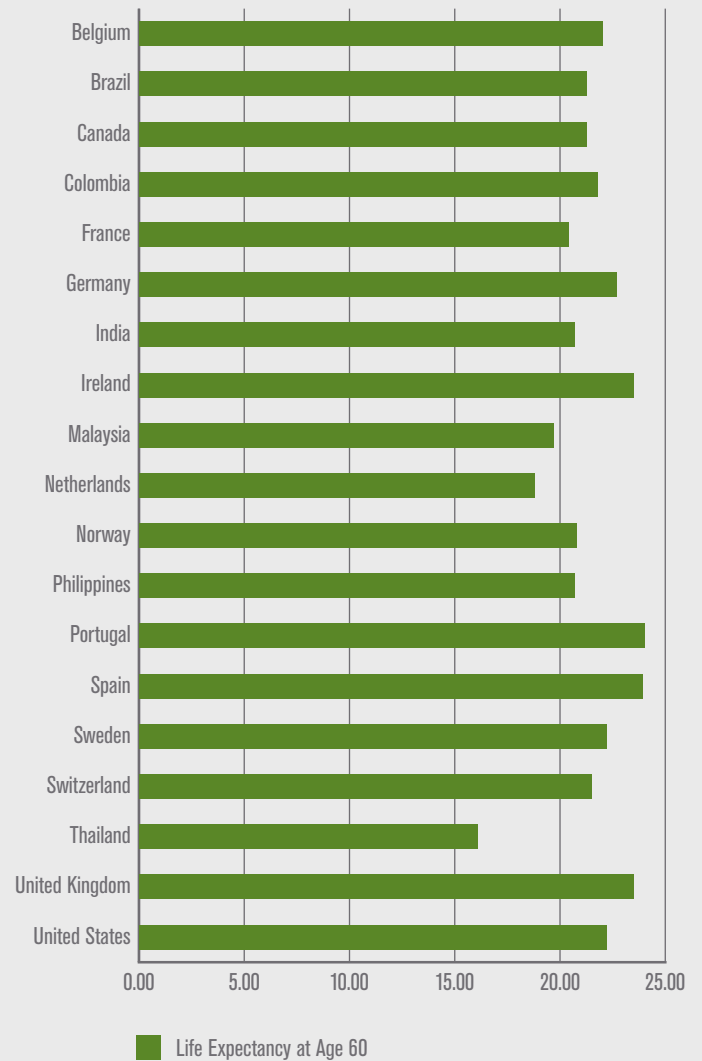
This year we started asking companies for the mortality table used for each plan. **Figure 18** shows the most prevalent mortality table used in each country.

Figure 18: Most Commonly Used Mortality Table by Country (With Five or More Observations)

	Table
Belgium	MR/FR
Brazil	UP94
Canada	UP94
Colombia	RP2000
France	TV/TD 99/01
Germany	Heubeck 2005G
India	LIC (a) (1996-98)
Ireland	PA92 with projection to 2010
Malaysia	M8388
Netherlands	GBMV 9500
Norway	K63
Philippines	GAM83
Portugal	TV88/90
Spain	PEM/F 98-99 -5
Sweden	FFFS 2001:13
Switzerland	EVK2000
Thailand	TM097
United Kingdom	PA92 with projection to 2010
United States	RP2000 with projection to 2005

Figure 19 shows the life expectancy for a male at age 60 as implied by the mortality assumption listed in **Figure 18**.

Figure 19: Life Expectancy of a 60-year-old Male



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