

2008 Global Survey Of Accounting Assumptions for Defined Benefit Plans

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Introduction

The *2008 Global Survey of Accounting Assumptions for Defined Benefit Plans* is the 19th annual survey of assumptions applied by major corporations for their defined benefit plans around the world.

Watson Wyatt Worldwide also conducts an annual study which relates to accounting assumptions used for U.S. pension plans. The results of that study are included in our report: *Accounting for Pensions and Other Postretirement Benefits*.

In the United Kingdom, we carry out two surveys of accounting assumptions used by U.K. companies with December 31 year-ends:

- For FTSE 100 companies
- For the whole market

Copies of these reports are available through any Watson Wyatt office.

This report covers accounting assumptions under various global standards such as:

■ Financial Accounting Statement 87 (FAS 87)

FAS 87 "Employers' Accounting for Pensions" established standards of financial accounting and reporting for employers that offer pension benefits to their employees, under U.S. generally accepted accounting principles (GAAP). While this standard is used across the world, it is mostly utilized by U.S. firms and/or multinational firms based in the United States.

■ International Accounting Standard 19 (IAS 19)

This accounting standard for employee benefits was set up by the International Accounting Standards Board. This standard is required for firms listed in Europe and is used among many international firms. This approach is similar to U.S. FAS 87 with subtle differences among the approaches to assumption setting.

For this report, 56 percent of the survey participants report under FAS 87, 40 percent under IAS 19 and 4 percent under other similar accounting standards.

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 or through various Watson Wyatt databases that maintain accounting assumptions.

Watson Wyatt believes that these surveys have elicited useful information and would be pleased to provide more detail. Please contact your local office, if desired. However, as many survey participants requested confidentiality, individual company data will not be released.

Countries Covered and Size of Plans

The 1,158 companies in this report have disclosed pension assumptions for their plans. The report reflects data as of December 31, 2007. The following 38 countries are represented:

Argentina	Luxembourg
Australia	Malaysia
Austria	Mexico
Belgium	Netherlands
Brazil	New Zealand
Canada	Norway
China	Pakistan
Colombia	Philippines
Finland	Poland
France	Portugal
Germany	Singapore
Greece	South Africa
Hong Kong*	Spain
India	Sweden
Indonesia	Switzerland
Ireland	Taiwan
Italy	Thailand
Japan	United Kingdom
Korea (South)	United States

* 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 Finland, Malaysia and New Zealand have returned to the study this year.

The number of members in the plans covered in this survey varies widely. Around 84 percent of the plans have 1,000 or fewer members. Around 8 percent have between 1,000 and 3,000 members, and the remaining 8 percent have more than 3,000 members.

Because U.S. results were derived from accounting reports that did not include information about the number of plan members, they are not included in the distribution of size above.

Background

In broad terms, the accounting standards discussed earlier are 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.

The standards covered in this survey define the discount rate differently, but it is generally interpreted as being based on AA corporate bonds. The exception is IAS 19, which requires the use of government bonds in countries where there is no "deep" market in corporate bonds.

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.

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 (for funded plans)

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 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 the issue of situations where, although not written into the text of the plan, a particular practice exists to provide benefits over and above those legally (in the sense of what is 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,” the assumptions must be consistent among themselves. So, it is common to determine an underlying long-term estimate of the level of price inflation (CPI), 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 assumed CPI.

Another set of assumptions which should not be overlooked is the demographic assumptions. 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 (annuity versus lump sum) in determining the importance of assumptions. This study, however, mainly explores economic assumptions, although we have again shown data regarding mortality assumptions. Increasing longevity and uncertainty in how it may develop mean this is an assumption which is continuing to receive increased attention.

Measurement Dates

The measurement date usually coincides with the end of the company’s fiscal year. However, some accounting standards (notably FAS 87) have permitted the measurement date to be as much as three months earlier than the end of the company’s fiscal year. It should be noted, however, that under SFAS No. 158, 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, although some companies have already adopted this change.

For the majority, the reported measurement date was December 31, 2007. In terms of observations, 83 percent were at December 31, 2007, 13 percent were in the three-month window before December 31, 2007, and 4 percent were in early 2008.

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., 2008, for almost all of the companies surveyed.

Background Economic Data

Figure 1 shows end-of-the-year bond yields in the 38 countries included in the survey, plus the Euro Zone.

Figure 1 | Background Economic Data — Bond Yields

As of December 31:	Bond Yields			
	Government		Corporate	
	2007	2006	2007	2006
Argentina	–	–	–	–
Australia	6.28%	5.88%	8.25%	6.75%
Austria*	4.71%	4.11%	5.48%	4.60%
Belgium*	4.71%	4.11%	5.48%	4.60%
Brazil**	6.15%	6.67%	–	–
Canada	4.20%	4.24%	5.68%	4.92%
China	4.65%	3.06%	–	–
Colombia**	5.85%	6.26%	–	–
Finland*	4.71%	4.11%	5.48%	4.60%
France*	4.73%	4.08%	5.48%	4.60%
Germany*	4.71%	4.11%	5.48%	4.60%
Greece*	4.53%	4.26%	5.48%	4.60%
Hong Kong	3.72%	3.73%	–	–
India	8.31%	7.92%	–	–
Indonesia	10.65%	10.57%	–	–
Ireland*	4.71%	4.11%	5.48%	4.60%
Italy*	4.71%	4.11%	5.48%	4.60%
Japan	1.92%	2.00%	2.17%	2.20%
Korea (South)	5.72%	5.20%	7.19%	5.60%
Luxembourg*	4.71%	4.11%	5.48%	4.60%
Malaysia	4.57%	3.96%	–	–
Mexico	8.36%	7.70%	–	–
Netherlands*	4.71%	4.11%	5.48%	4.60%
New Zealand	6.48%	6.01%	8.16%	7.07%
Norway	4.73%	4.36%	–	–
Pakistan**	9.96%	6.39%	–	–
Philippines	8.25%	7.75%	–	–
Poland	5.90%	5.22%	–	–
Portugal*	4.71%	4.11%	5.48%	4.60%
Singapore	3.29%	3.23%	–	–
South Africa	8.29%	7.55%	–	–
Spain*	4.71%	4.11%	5.48%	4.60%
Sweden	4.49%	3.74%	–	–
Switzerland	3.33%	2.60%	–	–
Taiwan	2.77%	2.12%	–	–
Thailand	4.50%	5.04%	–	–
United Kingdom	4.58%	4.60%	5.82%	5.12%
United States	4.53%	4.68%	6.48%	5.90%
Euro Zone	4.71%	4.11%	5.48%	4.60%

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

** U.S. dollar-denominated

Sources

Australia, Brazil, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Norway, South Africa, Sweden, Switzerland and Taiwan: *Bloomberg Professional Services* | Euro Zone countries and United Kingdom: *Bloomberg Professional Services for Government Bonds and iBoxx for Corporate Bonds* | Canada: *Bloomberg Professional Services for Government Bonds and CIBC Markets for Corporate Bonds* | China, Colombia, Greece, Pakistan, Poland, Singapore and Thailand: *The Economist Financial Indicators* | Philippines: *Philippine Dealing and Exchange Corp.* | United States: *30-Year Treasury for Government Bonds and Citigroup Index for Corporate Bonds*

Figure 2 | Inflation Assumptions — Averages and Percentiles

	Averages*		2008 Percentiles		
	2008	2007	25th+	50th*	75th+
Argentina	8.78%	9.25%	–	9.00%	–
Australia	2.73%	2.83%	2.50%	2.80%	2.80%
Austria	2.00%	1.75%	2.00%	2.00%	2.00%
Belgium	2.01%	1.98%	2.00%	2.00%	2.00%
Brazil	4.42%	4.56%	4.00%	4.50%	4.50%
Canada	2.47%	2.33%	2.50%	2.50%	2.50%
China++	2.00%	2.00%	–	2.00%	–
Colombia	4.68%	4.00%	4.50%	4.50%	5.00%
Finland++	2.00%	–	–	2.00%	–
France	2.02%	1.91%	2.00%	2.00%	2.00%
Germany	1.91%	1.90%	2.00%	2.00%	2.00%
Greece	2.41%	2.30%	–	2.50%	–
Hong Kong++	2.50%	2.50%	–	2.50%	–
India++	5.50%	5.50%	–	5.50%	–
Indonesia	6.18%	7.13%	6.00%	6.00%	6.00%
Ireland	2.29%	2.25%	2.25%	2.25%	2.50%
Italy	1.99%	1.96%	2.00%	2.00%	2.00%
Japan++	1.00%	0.93%	–	1.00%	–
Korea (South)	2.53%	2.49%	2.50%	2.50%	2.50%
Luxembourg++	2.00%	2.00%	–	2.00%	–
Malaysia	3.50%	–	–	3.50%	–
Mexico	3.72%	3.76%	3.50%	3.50%	4.00%
Netherlands	1.97%	1.97%	2.00%	2.00%	2.00%
New Zealand++	2.75%	–	–	2.75%	–
Norway	2.68%	2.50%	–	2.50%	–
Pakistan++	9.00%	8.00%	–	9.00%	–
Philippines++	7.00%	7.00%	–	7.00%	–
Poland	2.20%	2.50%	–	2.00%	–
Portugal	2.06%	2.04%	2.00%	2.00%	2.00%
Singapore	1.00%	1.00%	–	1.00%	–
South Africa	5.01%	5.00%	4.65%	5.00%	5.10%
Spain	2.26%	2.24%	2.00%	2.25%	3.00%
Sweden	2.00%	1.98%	2.00%	2.00%	2.00%
Switzerland	1.41%	1.49%	1.50%	1.50%	1.50%
Taiwan++	1.50%	1.00%	–	1.50%	–
Thailand	3.45%	3.50%	3.50%	3.50%	3.50%
United Kingdom+++	3.27%	2.95%	3.20%	3.30%	3.40%
United States++	2.85%	2.70%	–	2.85%	–

* Values are shown if there are five or more observations

+ Values are shown if there are 10 or more observations

++ Values provided by actuary's economic expectations

+++ RPI

Inflation

Figure 2 summarizes the results for the companies that provided an inflation assumption.

For some countries, including Argentina, Brazil, Colombia, Indonesia, Mexico and Pakistan, inflation has historically been very volatile, which has led some companies to select assumptions on a “real” basis (i.e., net of inflation). For these countries, we have added the median inflation rate shown in Figure 2, where applicable, to the “real” rate provided in order to present a comparable “nominal” rate for all locations. In reviewing this table, there was an increase of more than 25 basis points from last year for Colombia, Pakistan, Taiwan and the United Kingdom. There was a decrease of more than 25 basis points from last year for Argentina, Indonesia and Poland. For the United Kingdom, Retail Prices Index (RPI) is shown instead of Consumer Price Index (CPI).

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.

Under FAS 87 the discount rate is intended to represent the rate at which pension benefit obligations could be settled. The standard does not define the quality of the bond yields. Most plan sponsors base their discount rate on AA rated bonds. IAS 19 refers to high-quality corporate bond yields, which is generally interpreted to mean AA or better rated. U.K. standard FRS 17 prescribes the use of AA bonds. 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 beginning to be used by some companies for their large plans in the United Kingdom and Canada, and 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. Therefore, we present IAS 19 results separately.

Figure 3a and Figure 3b show the average discount rates for the 2008 expense and 2007 expense and the 25th, 50th (median) and 75th percentiles for the 2008 expense for plans using FAS 87 and IAS 19 accounting standards, respectively. These tables only include values for companies with December 31 measurement dates.

Figure 3a | Discount Rates for Plans Using FAS 87 — Averages and Percentiles

	Averages*		2008 Percentiles		
	2008	2007	25th+	50th†	75th+
Argentina	14.53%	15.26%	12.32%	14.40%	17.60%
Australia	6.58%	5.82%	6.00%	6.50%	7.00%
Austria	5.38%	4.55%	5.25%	5.40%	5.50%
Belgium	5.30%	4.52%	5.25%	5.40%	5.50%
Brazil	10.51%	10.61%	10.24%	10.43%	10.75%
Canada	5.60%	5.07%	5.50%	5.75%	5.75%
China	4.92%	3.96%	4.75%	4.85%	5.00%
Colombia	9.04%	8.67%	8.75%	9.25%	9.25%
Finland	5.54%	–	5.50%	5.50%	5.75%
France	5.38%	4.48%	5.25%	5.50%	5.50%
Germany	5.51%	4.54%	5.50%	5.50%	5.60%
Greece	5.29%	–	5.20%	5.25%	5.50%
Hong Kong	4.92%	4.39%	4.50%	4.85%	5.05%
India	8.54%	8.12%	8.50%	8.50%	8.60%
Indonesia	10.08%	10.75%	9.75%	9.75%	10.50%
Ireland	5.45%	4.63%	5.25%	5.50%	5.50%
Italy	5.34%	4.43%	5.25%	5.25%	5.50%
Japan	2.12%	2.19%	2.00%	2.00%	2.25%
Korea (South)	6.46%	5.36%	6.00%	6.50%	7.00%
Malaysia	5.12%	–	5.00%	5.00%	5.00%
Mexico	8.53%	8.84%	8.50%	8.50%	8.75%
Netherlands	5.49%	4.58%	5.50%	5.50%	5.60%
Norway	5.33%	5.07%	5.00%	5.50%	5.75%
Philippines	8.15%	8.35%	8.00%	8.05%	8.40%
Portugal	5.28%	4.59%	5.25%	5.25%	5.50%
South Africa	8.53%	8.83%	8.28%	8.50%	8.63%
Spain	5.47%	4.40%	5.25%	5.50%	5.70%
Sweden	5.18%	4.24%	4.75%	5.13%	5.50%
Switzerland	3.61%	2.97%	3.50%	3.50%	3.75%
Taiwan	2.74%	2.38%	2.75%	2.75%	2.75%
Thailand	5.38%	–	5.23%	5.50%	5.50%
United Kingdom	5.75%	5.09%	5.70%	5.75%	5.80%
United States	6.22%	5.80%	6.00%	6.25%	6.41%

* Values are shown if there are five or more observations

† Values are shown if there are 10 or more observations

Figure 3b | Discount Rates for Plans Using IAS 19 — Averages and Percentiles

	Averages*		2008 Percentiles		
	2008	2007	25th+	50th*	75th+
Australia	5.79%	5.00%	5.50%	5.50%	6.30%
Austria	5.29%	–	5.25%	5.25%	5.45%
Belgium	5.25%	4.47%	5.14%	5.25%	5.49%
Brazil	10.39%	11.11%	10.75%	10.75%	10.75%
Canada	5.56%	5.08%	5.50%	5.60%	5.75%
China	4.60%	–	4.50%	4.50%	4.75%
France	5.38%	4.53%	5.30%	5.40%	5.50%
Germany	5.46%	4.48%	5.40%	5.50%	5.60%
Hong Kong	3.41%	3.75%	–	3.45%	–
Ireland	5.48%	4.68%	5.40%	5.50%	5.60%
Italy	5.43%	4.49%	5.30%	5.40%	5.50%
Japan	2.01%	1.97%	2.00%	2.00%	2.25%
Korea (South)	6.68%	–	6.25%	7.00%	7.00%
Mexico	8.09%	8.84%	8.00%	8.00%	8.00%
Netherlands	5.46%	4.57%	5.30%	5.50%	5.60%
Norway	4.84%	4.35%	4.70%	4.73%	5.00%
Pakistan	10.00%	9.79%	10.00%	10.00%	10.00%
Philippines	8.25%	8.17%	8.00%	8.30%	8.35%
Portugal	5.30%	4.65%	5.25%	5.25%	5.50%
South Africa	8.53%	–	8.25%	8.50%	8.75%
Spain	5.40%	4.38%	5.25%	5.28%	5.60%
Sweden	4.33%	3.80%	4.25%	4.30%	4.40%
Switzerland	3.50%	2.65%	3.50%	3.50%	3.70%
Taiwan	2.68%	2.22%	2.60%	2.75%	2.75%
Thailand	5.55%	–	5.40%	5.60%	5.70%
United Kingdom	5.74%	5.09%	5.75%	5.80%	5.80%

* Values are shown if there are five or more observations

+ Values are shown if there are 10 or more observations

It can be seen that the average discount rate is lower under IAS 19 than under FAS 87 in Australia, China, Hong Kong, Mexico, Norway and Sweden. This is because the corporate bond market in these countries is not regarded as being “deep” enough. Thus, IAS 19 requires the use of government bonds instead of corporate bonds. The similarity of FAS and IAS discount rates elsewhere suggests that the countries are being regarded as having a sufficiently “deep” corporate bond market (United States, United Kingdom, Japan, Euro Zone, Canada).

Over the year, most long-term bond yields have trended upward; therefore, discount rates in most countries have also trended upward.

Duration of Liabilities

The duration of liabilities is the present value weighted average time until cash payments are received. It is also a gauge of the sensitivity to changes in the discount rate.

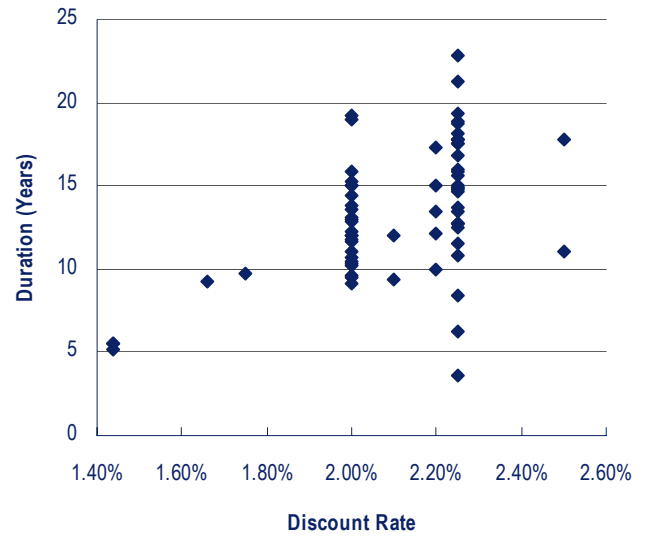
Figure 4 shows scatterplots of duration and discount rate for plans in the Euro Zone, Japan, the United Kingdom and the United States for all accounting standards.

Figure 4 | Scatterplots of Duration and Discount Rate

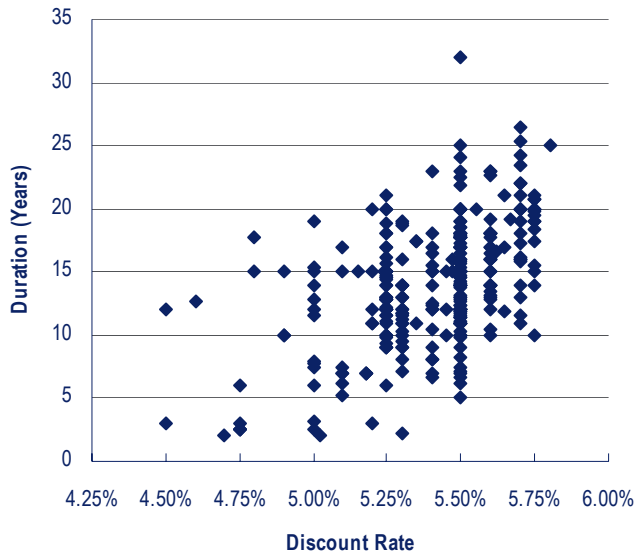
United Kingdom



Japan

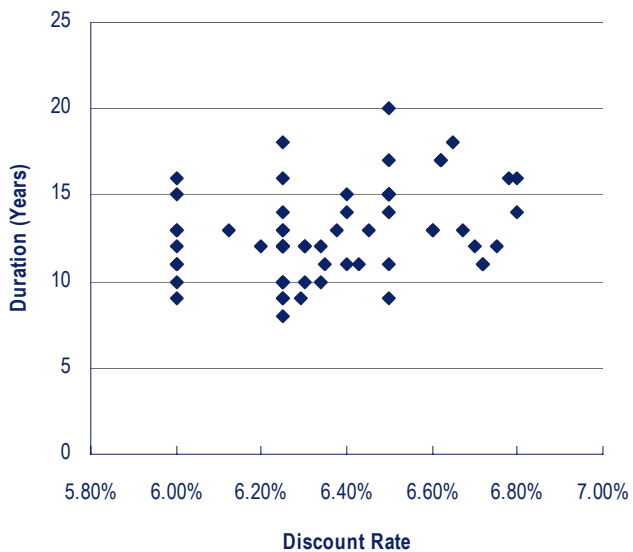


Euro Zone



This year's results are similar to last year's findings. It can be seen that there is only a weak correlation between liability durations and discount rate, suggesting that consistency in assumption setting is not as great as it could be. Yield curves usually show higher rates at longer maturities; therefore, longer durations should correlate with higher discount rates.

United States



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 while considering the plan's asset allocation.

The survey disclosed the following percentages of funded plans in those countries where both funded and unfunded plans exist:

Argentina	22%	Malaysia	78%
Australia	98%	Mexico	50%
Austria	45%	Netherlands	94%
Belgium	88%	Norway	70%
Brazil	77%	Pakistan	80%
Canada	81%	Philippines	85%
China	22%	Portugal	94%
France	29%	South Africa	87%
Germany	28%	Spain	93%
India	76%	Sweden	35%
Indonesia	62%	Switzerland	98%
Japan	75%	United Kingdom	91%
Korea (South)	67%		

Figures 5 and 6 show the broad split of assets at the accounting date. We present the average allocations split between equities, bonds, property and cash/insurance contracts/other. The weighted average of the expected long-term rate of return on each class gives an indication of the appropriate expected return on assets assumption.

In comparing Figure 5 with the results from last year's survey, there has been a marginal shift away from equities.

Figure 6 | Distribution of Equity Percentages

Country Averages	2008	2007
0-20%	13	8
20-40%	7	9
40-60%	5	4
60-80%	4	3
80-100%	0	0

Note: 2008 sample includes countries not included in 2007 sample

Figure 5 | Average Asset Allocation by Country

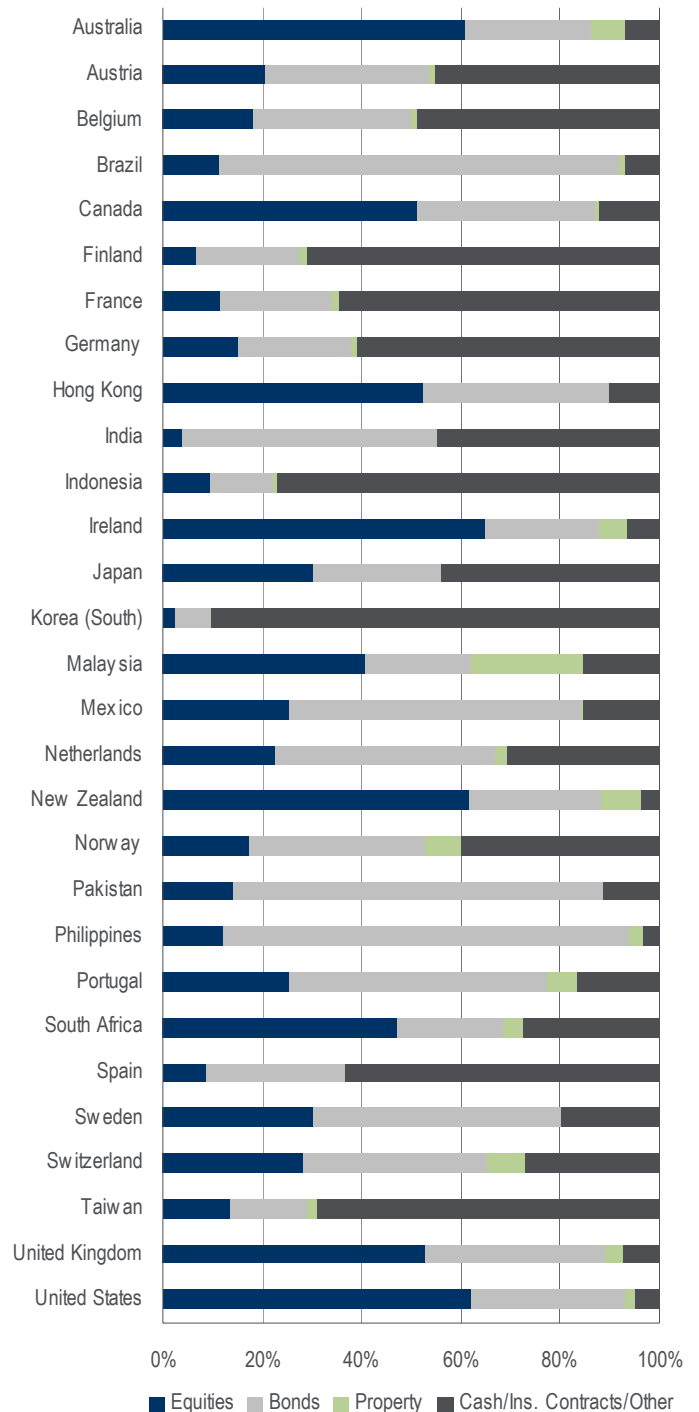


Figure 7 | Rates of Return — Averages and Percentiles

	Averages*		2008 Percentiles		
	2008	2007	25th+	50th*	75th+
Argentina	15.04%	–	–	15.00%	–
Australia	7.20%	7.10%	7.00%	7.25%	7.50%
Austria	5.14%	6.04%	4.50%	4.90%	5.55%
Belgium	5.11%	5.14%	4.50%	5.00%	5.75%
Brazil	11.65%	11.85%	11.00%	12.00%	12.00%
Canada	6.96%	7.28%	6.50%	7.25%	7.75%
Finland	5.06%	–	–	4.75%	–
France	4.76%	4.88%	4.00%	5.00%	5.00%
Germany	5.07%	5.04%	4.00%	5.00%	5.60%
Greece	4.71%	5.30%	–	4.75%	–
Hong Kong	7.16%	6.69%	7.00%	7.50%	8.00%
India	8.64%	7.62%	8.00%	9.00%	9.00%
Indonesia	14.26%	14.51%	13.50%	15.00%	15.50%
Ireland	6.70%	6.44%	6.42%	6.70%	7.00%
Japan	2.67%	2.60%	1.00%	3.00%	3.50%
Korea (South)	4.89%	4.55%	4.50%	5.00%	5.00%
Mexico	9.09%	9.80%	8.75%	9.25%	9.75%
Netherlands	5.56%	4.96%	5.30%	5.55%	5.75%
New Zealand	6.32%	–	–	6.32%	–
Norway	5.93%	5.45%	5.50%	5.75%	6.25%
Pakistan	10.03%	9.71%	10.00%	10.00%	10.00%
Philippines	8.96%	8.92%	8.00%	9.00%	9.50%
Portugal	5.58%	5.31%	5.20%	5.60%	6.00%
South Africa	9.13%	8.66%	8.75%	9.00%	9.50%
Spain	4.80%	4.69%	4.50%	4.75%	5.50%
Sweden	5.53%	5.06%	4.75%	5.38%	6.00%
Switzerland	4.60%	4.69%	4.00%	4.63%	5.00%
Taiwan	2.97%	2.80%	2.75%	3.00%	3.00%
United Kingdom	6.93%	6.80%	6.56%	7.00%	7.36%
United States	8.18%	8.19%	8.00%	8.25%	8.50%

* Values are shown if there are five or more observations

+ Values are shown if there are 10 or more observations

As expected, the plans in countries with the higher equity allocation are those with well-established domestic stock markets. Some countries — including Brazil, India, Mexico and Taiwan — have investment restrictions that influence the asset mix.

There are several countries where over 25 percent of the assets are shown in the cash/insurance contracts/other category. In many of these countries — Austria, Belgium, Finland, France, Germany, Japan, Korea, Norway and Spain — this simply reflects the use of insurance contracts as a funding vehicle by a significant number of companies.

Figure 7 shows the average rates of return for 2008 and 2007 and percentiles for 2008 for all accounting standards reported.

There was no observable change in the rate of return assumption over the year.

Figure 8 explores the levels of real returns that companies are using for all accounting standards reported.

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

Figure 9 shows the distribution across countries of the average real rates of return assumption.

Figure 9 | Distribution of Real Rates of Return

Rates	2008	2007
Less than 3%	8	9
3% to under 4%	12	9
4% to under 5%	5	5
5% to under 6%	2	2
6% to under 7%	1	1
7% to under 8%	1	1
8% and over	1	0

Note: 2008 sample includes countries not included in 2007 sample

As the assumption is heavily dependent on each individual plan's investment strategy, only limited conclusions should be drawn.

Figure 8 | Average Real Rates of Return

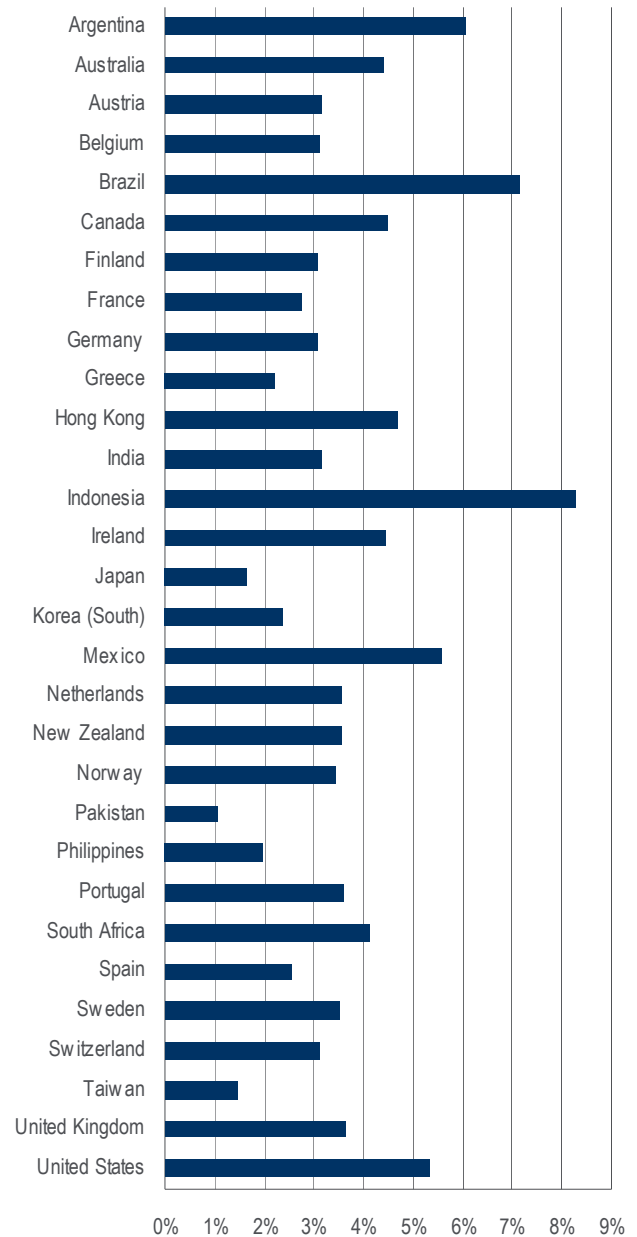


Figure 10 | Salary Increase Assumptions — Averages and Percentiles

	Averages*		2008 Percentiles		
	2008	2007	25th+	50th*	75th+
Argentina	11.20%	12.03%	9.08%	12.27%	13.50%
Australia	4.31%	4.06%	4.00%	4.00%	4.50%
Austria	3.01%	2.96%	2.75%	3.00%	3.00%
Belgium	3.42%	3.34%	3.00%	3.50%	3.75%
Brazil	5.76%	6.37%	5.00%	6.00%	6.50%
Canada	3.63%	3.68%	3.50%	3.75%	4.00%
China	4.94%	–	–	5.00%	–
Colombia	5.49%	–	–	6.00%	–
Finland	3.56%	–	–	3.30%	–
France	2.84%	2.97%	2.50%	2.75%	3.00%
Germany	2.77%	2.75%	2.50%	2.75%	3.00%
Greece	4.16%	4.41%	3.50%	4.25%	5.00%
Hong Kong	4.50%	3.93%	4.00%	4.50%	5.00%
India	7.58%	6.36%	6.00%	7.75%	8.00%
Indonesia	7.96%	9.15%	7.00%	8.00%	8.00%
Ireland	3.93%	3.82%	3.75%	4.00%	4.00%
Italy	3.05%	3.32%	3.00%	3.00%	3.30%
Japan	2.57%	2.61%	2.00%	2.50%	3.00%
Korea (South)	5.19%	5.39%	5.00%	5.00%	5.00%
Luxembourg	3.28%	3.36%	–	3.25%	–
Malaysia	5.80%	–	5.50%	6.00%	6.00%
Mexico	4.78%	4.69%	4.50%	4.75%	5.00%
Netherlands	2.76%	2.73%	2.50%	2.50%	3.00%
New Zealand	4.13%	–	–	4.00%	–
Norway	4.09%	3.38%	3.75%	4.50%	4.50%
Pakistan	9.64%	9.36%	10.00%	10.00%	10.00%
Philippines	7.71%	7.70%	7.00%	7.50%	8.00%
Poland	4.35%	3.40%	4.00%	4.50%	4.75%
Portugal	3.10%	3.14%	3.00%	3.00%	3.50%
Singapore	3.17%	3.75%	–	3.50%	–
South Africa	6.52%	6.88%	6.00%	6.50%	6.60%
Spain	3.38%	3.43%	3.25%	3.50%	3.50%
Sweden	3.31%	3.23%	3.00%	3.50%	3.50%
Switzerland	2.76%	2.49%	2.13%	2.50%	3.00%
Taiwan	3.49%	3.36%	3.00%	3.50%	4.00%
Thailand	6.76%	5.42%	5.20%	6.30%	8.00%
United Kingdom	4.41%	4.12%	4.18%	4.40%	4.75%
United States	4.16%	4.12%	3.79%	4.00%	4.50%

* Values are shown if there are five or more observations

+ Values are shown if there are 10 or more observations

Salary Increase Assumptions

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 benefit obligation disclosed in the financial statements, and it also affects the determination of pension expense for the following year.

Year-to-year increases in salaries result from:

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

Elements other than inflation may be expressed as a flat percentage increment or, in a more sophisticated approach, related to age, service and position, and may also vary between salaried and hourly employees.

Figure 10 shows the average values for the salary increase assumption for the 2008 expense and the 2007 expense and the percentile values for the 2008 expense for all accounting standards reported.

The salary increase is company- and plan-specific once the underlying country level of inflation is taken into account.

Figure 11 explores the levels of real rates of salary increases that companies have used. In order to estimate the long-term CPI to develop this data, for simplicity and convenience we have used the median reported inflation assumption that appears in Figure 2. Of the 33 countries with 2008 and 2007 values for average real salary increases, 15 realized an increase over the year, while the other 18 saw a decrease. The only country with a significant year-on-year change was India, where expected salary increases are much higher in both real and nominal terms.

Figure 12 shows the distribution across countries of the average levels of real rates of salary increases.

Figure 12 | Distribution of Real Rates of Salary Increases

Distribution	2008	2007
Less than 1%	6	8
1% to under 2%	23	17
2% to under 3%	8	5
3% to under 4%	1	0
4% and over	0	3

Note: 2008 sample includes countries not included in 2007 sample

Figure 11 | Average Real Salary Increases, 2008

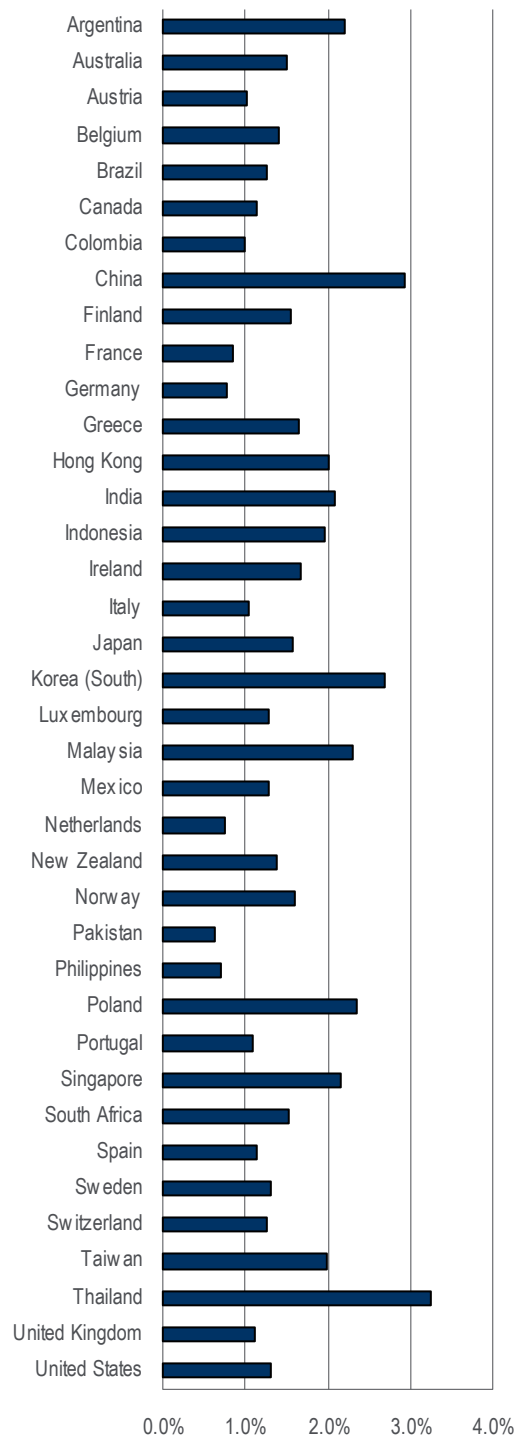


Figure 13 | Average Spread Between the Discount Rate and Salary Increase by Country, 2008

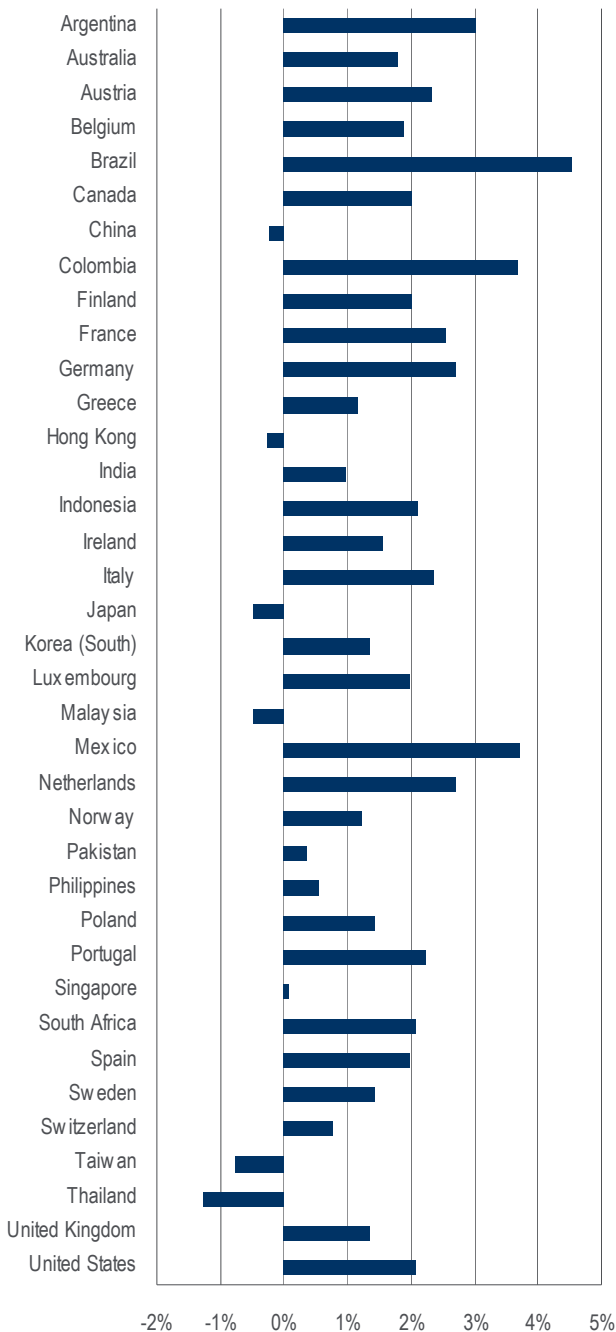


Figure 13 shows the average difference (spread) between the discount rate and the salary increase rate for all accounting standards reported.

Figure 14 shows the distribution of the spread between the average discount rate and the average salary increase rate. This is a key driver of the assessed liabilities. This spread has increased over the last year for most countries due to an increase in the discount rate during this time period, while expected salary increases have remained relatively unchanged.

Figure 14 | Distribution of Spreads

Distribution	2008	2007
Less than 1%*	11	17
1% to under 2%	12	14
2% to under 3%	10	1
3% to under 4%	3	1
4% and over	1	0

*Includes negative values

Note: 2008 sample includes countries not included in 2007 sample

Social Security Increase Rates

In many countries, the pension plan formula integrates with social security benefits and, hence, an assumption for the growth in these benefits is required. Figure 15 summarizes the results for those companies that provided a response.

Of the 15 countries with both a 2008 and a 2007 value, seven countries have seen an increase in the median value of the social security assumption, one has seen a decrease, while the other seven have seen no change.

Figure 15 | Social Security Assumption — Averages and Percentiles

	Averages*		2008 Percentiles		
	2008	2007	25th+	50th*	75th+
Austria	2.84%	2.50%	3.00%	3.00%	3.00%
Belgium	2.04%	2.08%	2.00%	2.00%	2.00%
Brazil	4.39%	4.50%	–	4.50%	–
Canada	3.19%	3.27%	3.00%	3.00%	3.50%
China	4.45%	–	4.00%	4.00%	4.00%
Colombia	4.70%	–	4.50%	4.50%	5.00%
France	2.30%	2.05%	2.00%	2.40%	2.50%
Germany	2.36%	2.29%	2.25%	2.50%	2.50%
Greece	2.50%	–	–	2.50%	–
Ireland	3.65%	3.47%	3.25%	3.75%	3.95%
Mexico	3.55%	3.61%	3.50%	3.50%	3.50%
Netherlands	2.08%	2.01%	2.00%	2.00%	2.00%
Norway	4.04%	3.03%	4.25%	4.25%	4.25%
Portugal	2.25%	2.20%	2.00%	2.25%	2.50%
Spain	2.25%	2.33%	2.00%	2.25%	2.50%
Sweden	3.18%	3.16%	3.00%	3.25%	3.50%
Switzerland	1.64%	1.67%	1.50%	1.75%	1.75%
United Kingdom	3.25%	2.95%	3.20%	3.25%	3.30%

* Values are shown if there are five or more observations

+ Values are shown if there are 10 or more observations

Figure 16 | Pension Increase Rate Assumption — Averages and Percentiles

	Averages*		2008 Percentiles			% of Plans with Non-Zero Responses
	2008	2007	25th+	50th+	75th+	
	Argentina	9.43%	–	–	9.00%	
Australia	2.84%	2.79%	–	2.73%	–	31%
Austria	1.69%	2.03%	1.00%	1.88%	2.00%	66%
Belgium	1.86%	–	2.00%	2.00%	2.00%	36%
Brazil	4.37%	4.56%	4.50%	4.50%	4.50%	86%
Canada	2.03%	1.49%	–	2.50%	–	6%
China	3.67%	–	–	3.00%	–	46%
Colombia	4.72%	–	4.50%	4.50%	5.00%	100%
Finland	2.32%	–	–	2.10%	–	63%
France	1.91%	1.96%	1.75%	2.00%	2.00%	14%
Germany	1.83%	1.76%	1.75%	1.75%	2.00%	95%
Ireland	2.47%	2.42%	2.25%	2.25%	3.00%	86%
Italy	2.69%	–	–	3.00%	–	21%
Mexico	3.70%	3.20%	3.50%	3.50%	3.50%	89%
Netherlands	1.82%	1.88%	1.65%	2.00%	2.00%	85%
Norway	2.11%	1.93%	2.00%	2.00%	2.50%	100%
Pakistan	4.00%	3.60%	3.00%	4.00%	5.00%	79%
Portugal	2.35%	2.19%	2.00%	2.00%	2.50%	73%
South Africa	4.12%	3.77%	3.78%	4.55%	4.83%	84%
Spain	2.25%	–	–	2.00%	–	24%
Sweden	2.04%	1.98%	2.00%	2.00%	2.00%	97%
Switzerland	1.14%	1.67%	1.00%	1.00%	1.50%	48%
United Kingdom	3.23%	2.97%	3.15%	3.25%	3.30%	91%

* Values are shown if there are five or more observations

+ Values are shown if there are 10 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. Typically this increase is a function of inflation in that country. Figure 16 reflects the results for those companies that provided a non-zero response.

Of the 16 countries that had both a 2008 and a 2007 pension increase assumption, four countries have seen an increase in median value of this assumption, two have seen a decrease, and 10 have seen no change.

The last column of Figure 16 shows the percentage of plans with non-zero responses. This gives an indication of the prevalence of providing pension increases.

In countries with mandatory pension increases, these percentages are, as expected, close to 100 percent.

For some countries, like Canada and France, the percentages are low, since pension increases can be granted at the company's discretion.

Funded Status of Pension Plans

Funded status provides a measure of the security of pensions 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 against the accounting measure of obligations. Local funding requirements may differ considerably.

Please note that, in many countries, plans are book-reserved (fully or partially) and are therefore deliberately unfunded. Results are shown for countries for which we have received information about 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 both Figures 17 and 18 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.

It is noticeable that in many instances the ratio has improved from last year. This is because of a decrease in liabilities driven by a global increase in bond yields and hence discount rates, coupled with another year of good asset performance.

Figure 17 shows the average projected benefit security ratio for 2008 and 2007 and the 2008 percentiles.

Figure 17 | Projected Benefit Security Ratio — Averages and Percentiles

	Averages*		2008 Percentiles		
	2008	2007	25th+	50th*	75th+
Australia	1.16	1.14	1.01	1.10	1.25
Austria	0.79	–	0.62	0.82	1.11
Belgium	0.80	0.80	0.65	0.81	0.91
Brazil	1.14	0.93	0.84	1.08	1.39
Canada	1.00	0.92	0.88	0.99	1.09
Finland	0.78	–	–	0.94	–
France	0.63	0.56	0.16	0.56	0.81
Germany	0.58	0.41	0.16	0.49	1.00
Hong Kong	1.17	1.18	1.04	1.19	1.38
India	0.96	0.98	0.67	1.01	1.19
Indonesia	1.04	0.73	0.73	1.00	1.29
Ireland	0.99	0.90	0.87	0.98	1.08
Japan	0.78	0.70	0.53	0.72	1.07
Korea (South)	0.90	0.61	0.53	0.68	0.94
Malaysia	1.11	–	–	1.04	–
Mexico	0.84	0.99	0.37	0.78	1.11
Netherlands	0.99	0.89	0.88	0.98	1.09
New Zealand	1.26	–	–	0.94	–
Norway	0.94	0.88	0.76	0.90	1.02
Pakistan	1.11	1.07	0.72	0.97	1.25
Philippines	0.86	0.98	0.58	0.83	1.05
Portugal	0.94	0.93	0.84	0.94	1.00
South Africa	1.25	1.26	0.99	1.21	1.47
Spain	0.80	0.65	0.67	0.96	1.02
Sweden	0.91	0.90	–	1.00	–
Switzerland	1.11	0.99	0.92	1.03	1.16
Taiwan	0.51	0.39	0.29	0.42	0.65
United Kingdom	0.96	0.87	0.86	0.96	1.05
United States	0.96	0.89	0.84	0.94	1.05

* Values are shown if there are five or more observations

+ Values are shown if there are 10 or more observations

Figure 18 | Accumulated Benefit Security Ratio —
Averages and Percentiles

	Averages*		2008 Percentiles		
	2008	2007	25th+	50th*	75th+
Australia	1.29	1.30	1.10	1.19	1.43
Austria	1.07	–		1.07	
Belgium	1.12	1.03	0.91	1.12	1.28
Brazil	1.18	1.07	0.86	1.20	1.41
Canada	1.09	1.01	0.99	1.08	1.19
Finland	0.75	–	–	0.90	–
France	0.98	0.72	0.37	1.03	1.28
Germany	0.60	0.46	0.16	0.56	1.01
Hong Kong	1.62	1.54	1.17	1.60	2.06
India	1.72	1.58	1.32	1.60	2.02
Indonesia	1.57	1.08	0.98	1.36	1.91
Ireland	1.29	1.08	1.10	1.17	1.27
Japan	0.91	0.80	0.55	0.84	1.23
Korea (South)	1.07	0.92	0.77	1.02	1.19
Mexico	1.20	1.22	0.53	1.03	1.68
Netherlands	1.09	1.01	0.98	1.03	1.26
Norway	1.30	1.15	1.08	1.19	1.34
Philippines	1.85	2.03	1.70	1.98	2.21
South Africa	1.57	1.50	1.22	1.43	2.02
Spain	1.13	0.81	0.71	1.27	1.44
Sweden	0.99	0.96	–	1.10	–
Switzerland	1.16	1.08	1.00	1.11	1.21
Taiwan	0.83	0.54	0.48	0.66	0.96
United Kingdom	1.04	0.95	0.94	1.02	1.14
United States	1.05	0.99	0.92	1.02	1.13

* Values are shown if there are five or more observations

+ Values are shown if there are 10 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 18 shows the average accumulated benefit security ratio for 2008 and 2007 and the 2008 percentiles.

Mortality Tables

Figure 19 shows the most prevalent mortality table in each country as well as the percentage of plans that are utilizing that table.

The most commonly used tables have been updated in France, Italy, Mexico, Netherlands, Norway and Sweden from last year.

Results for U.S mortality tables are not included in this year's report due to a lack of complete data to help determine whether basic or projected tables are the most common among RP-2000. We plan to extend the collection for U.S. mortality tables next year to include whether projected or basic tables are more prevalent.

Figure 19 | Most Commonly Used Mortality Table by Country

	Table	% Utilized
Argentina	GAM83	70.0%
Austria	Pagler&Pagler Generationentafel Angestellte	79.3%
Belgium	MR/FR	57.1%
Brazil	RP-2000	63.3%
Canada	UP94 with projection to 2015	75.0%
China	China Life Tables 2000-2003	95.2%
Colombia	RP-2000	84.6%
France	TH 03-05	40.0%
Germany	Heubeck 2005G	97.0%
Hong Kong	HKTL01	90.5%
India	LIC (a) (1994-96)	91.0%
Indonesia	TMI 1999	90.3%
Ireland	PA92C20	21.4%
Italy	ISTAT 2002	37.0%
Japan	Standard Mortality Table for New Corporate Pension Plans	82.1%
Malaysia	M8388	87.5%
Mexico	EMSSAH97	51.7%
Netherlands	AG Prognosetafel	58.3%
Norway	K2005	82.6%
Pakistan	EFU 61-66	100.0%
Philippines	GAM83	94.8%
Portugal	TV88/90	63.9%
Singapore	S97/02	100.0%
South Africa	PA(90)	77.8%
Spain	PEM/F 98-99 -5	65.9%
Sweden	FFFS 2007:24	27.2%
Switzerland	EVK2000	65.0%
Taiwan	TSO2002	77.4%
Thailand	TMO97	91.7%
United Kingdom	PA92MC	65.4%

Figure 20 | Life Expectancy of a 60-Year-Old Male

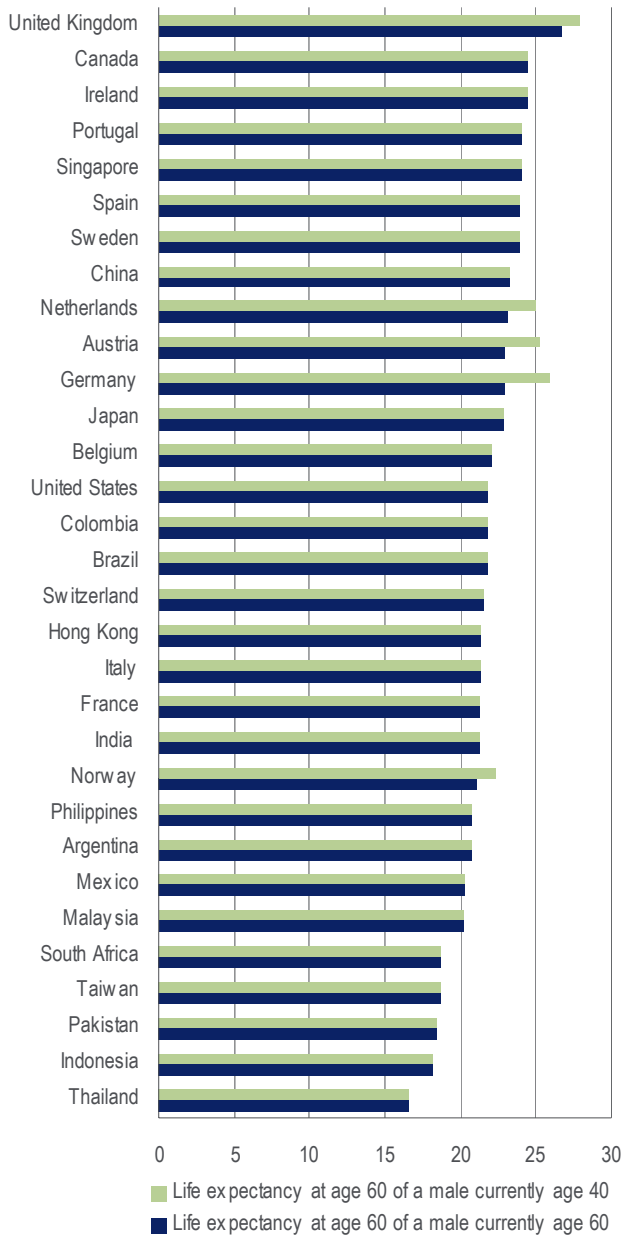


Figure 20 shows the life expectancy for a male currently age 60 as well as life expectancy at age 60 of a male currently age 40, implied by the mortality tables listed in Figure 19. It should be noted that some tables are generational tables while others are static. The latter do not include an allowance for improvement in life expectancy. Thus, life expectancy at age 60 will be the same for a male currently age 60 and a male currently age 40.

The graph shows that the majority of surveyed countries have implied life expectancies of between 20 and 25 years. The impact of the differences in this assumption will vary depending on whether the typical payment form is lump sum or annuity.

A majority of the Euro Zone countries appear near the top of the list. The Netherlands has had its life expectancy values increase over last year, mostly due to updated mortality tables being utilized.

U.S. life expectancy is based on the basic RP-2000 table without projections.

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