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Pension Funds stand firm in the middle of an economic upheaval

The Icelandic Pension Funds Association (IPFA) was positive towards the Icelandic Government's request last week regarding the participation in widespread economic actions by transferring up to 50% of their foreign assets back to Iceland, thereby strengthening the Icelandic currency, the krona. No agreement regarding this was made, however, since new information regarding the situation came to light over the course of the weekend, calling for an even bigger reaction on behalf of the Government than previously thought necessary.

It is no secret that the Icelandic nation is facing severe, financial difficulties, and the pension funds will take part in actions intended to solve these problems. The IPFA have encouraged the pension funds to meet the needs of borrowers, as much as the situation can allow for at each given point in time.

The markets' financial situation and the emergency laws set by the Icelandic parliament will affect pension funds, as well as all homes and businesses in the country. It is clear that the the pension funds' assets will diminish accordingly.

According to laws on pension funds, there should be a balance between their assets and their commitments. If an actuarial inspection should reveal that the difference between assets and pension commitments were more than 10%, or if they were more than 5% over a five year period, the pension fund in question would be required to take the actions necessary to regain balance.

A recent report on the pension funds' financial profits, published by The Financial Supervisory Authority in Iceland (FME), revealed that the pension funds' actuarial position was very strong at the beginning of the year and no pension fund needed to take precautions regarding the diminishment of pension benefits.

It should be clear that the funds have increased their pension benefits significantly over the past few years. However, the current situation has altered the situation and now it seems as some diminishment in the paymet of pension benefits must be made, although not until early 2009. The funds' strong, actuarial position last year helps a great deal under those circumstances so no final judgement should be made until the end of the year.