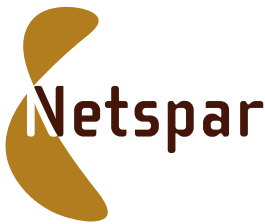


Netspar News

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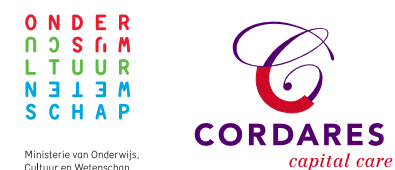
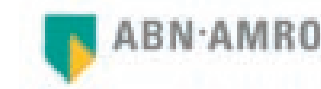
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Maria van der Hoeven on Netspar as MTI

Maria van der Hoeven, the Dutch Minister of Education, Culture and Science, answers four questions on Societal Top Institutes (MTIs) and Netspar.

What motivated the Minister to create and finance the Societal Top Institutes (in Dutch MTI's, *Maatschappelijke Topinstituten*)?

Minister: "Introduction of the Societal Top Institutes is intended to stimulate greater innovation among and between public, private and social partners in the Netherlands. The institutes should bring to bear new forms of cooperation between the government and knowledge institutes, from a societal perspective. The primary goal of the Societal Top Institutes is to forge a direct connection between excellent scientific research and organizations that use such research. The latter may include societal organizations, but will certainly involve governmental departments.

For a number of years already, the Netherlands has appointed Technological Top Institutes (TTIs) to forge links between excellent scientific research and client organizations, particularly in the private sector. These TTIs already have made an important contribution to the innovative capacity and competitive strength of the Dutch business sector. That success motivated the Wijffels Committee of the Innovation Taskforce to introduce a similar initiative aimed at societal issues. The Innovation Taskforce concurred with the recommendations of the committee and decided that the renewal in the innovation system brought about by the TTIs should be expanded to include societal sectors. Also Parliament shares the aim of directing greater attention to research geared toward addressing societal problems. Taking the above into consideration, I decided to provide pilot subsidies to a few select projects. In the meantime, the Ministry has asked the Dutch Science Foundation (NWO) to further develop the concept of the Societal Top Institute. This way, the concept becomes less abstract, and at the same time, a few institutes can serve as role models. Together with my colleagues, I have

"I have great confidence in Lans Bovenberg, who won the influential Spinoza Prize two years ago."
Photo: Maria van der Hoeven hands over the Spinoza sculpture to Lans Bovenberg in The Hague.



selected three projects, one of which is Netspar. The other two projects involve urban renewal and internationalization of law."

Which factors convinced the Minister to select Netspar as a Societal Top Institute?

Minister: "A Societal Top Institute combines excellent scientific research with active involvement in the most important questions facing society. Such an initiative also forges connections with client organizations, which rely on such research. Netspar confronts the issues surrounding pensions and population aging. The way in which Netspar approaches these issues— not only as problems, but also as possibilities for societal innovation — is particularly inspiring. This creative approach is reflected

in Netspar's multidisciplinary approach: an enterprising combination of economic and social sciences. Netspar seeks to gather top researchers from across the country to address the issues it has identified. Netspar's selection was based on advice from the Interdepartmental Committee on Priority Issues, which identified the priorities of government departments. The Ministry of Social Affairs and Employment recommended Netspar, and NWO backed up the recommendation with a positive evaluation of Netspar's scientific quality. Further, I'd like to add that I have a great deal of confidence in Lans Bovenberg, one of Netspar's scientific directors, who won the influential Spinoza Prize two years ago."

Continued on page 9

Netspar Researchers Need Statistical Data

Strong and conflicting opinions exist about almost all key research issues facing Netspar: the dynamic influences of pension systems and social insurances in aging societies on economic growth, labor force participation, financial markets and societal well-being. All academic and non-academic partners of Netspar share the view that a discussion about vested interests, challenging opinions and innovative insights would be beneficial, provided that the usual requirements for scientific debate have been met: respect for the interests of all, transparency, independence, and empirical support. A crucial element in this context is the availability of empirical data, which can be used to test and either falsify or confirm hypotheses and theories about pensions and insurance economics. The focus of this second issue of *Netspar News* is the importance of empirical data. The Magazine provides perspective on the importance of data from the researchers' point of view in the contribution written by Arie Kapteyn and the interview with Jan Potters. The cooperation of De Nederlandsche Bank and Tilburg-based CentERdata is also discussed. Last but not least, *Netspar News* provides some information on foreseen cooperation between Statistics Netherlands (CBS) and Netspar in testing an exciting facility for researchers to access confidential micro data.

Rob Bakker

Data

The Untapped Potent

One of the goals of Netspar is to provide the best possible data infrastructure for public policy research. Even after seventy or eighty years of empirical research, the data used by economists often leave much to be desired. Netspar is involved in a joint venture with Statistics Netherlands (CBS), that will combine an entirely new data infrastructure.

by Arie Kapteyn

Statistics

Many micro datasets have been collected over the years by statistical agencies, such as Statistics Netherlands. The purpose of such efforts typically has been to satisfy some sort of informational need to support government policy. An example would be the collection of expenditure data to estimate weights in a consumer price index. In the past, using such data for research was often difficult, as many restrictions were imposed on their scientific use. That situation has gradually improved. For instance, the Socio-Economic Panel (SEP) conducted by Statistics Netherlands has collected data on the socio-economic position of households between 1984 and 2001. These data have been used in various studies of labor supply, poverty, saving, retirement and several other topics.

Survey Data

Although data like the SEP contain valuable information, they may sometimes fall short, from a researcher's viewpoint, with regard to the sampling frame, variable definition, or conditions for use of the data. Increasingly, however, researchers are able to collect their own data. An exciting recent example is the Survey of Health, Ageing and Retirement in Europe (SHARE), which collects data in 12 European countries on individuals over the age of 50. The survey is run by a multi-disciplinary consortium of some 150 researchers (including several Netspar participants), who control the complete design of the study with financial support from the European Commission and several national funding sources. The resulting data are freely available for any interested researcher.

Administrative Data

A third category of data that is gradually becoming more common and more popular is administrative data. As the name implies, these data are collected for administrative purposes, (e.g. by the tax authorities or the employment office).

Only rarely is one able to link survey data and administrative records. Both concerns over confidentiality and practical impediments prohibit this in many cases. As a result, studies tend to use either the one or the other. Used in isolation, either type of data has limitations. Studies relying exclusively on administrative data often have large samples available and detailed information on their variables of interest, but often suffer from the lack of information on other variables that may be needed for analysis. A further problem with register data is that they originate from administrative processes and thus do not always use the variable definitions and units of analysis needed for research purposes. Survey data, on the other hand, may be lacking in reliability, detail, and precision. In particular, they may suffer from non-response bias or recall error on important variables like employment histories or earnings. For research purposes, combining survey and administrative data creates substantial new possibilities for analysis.

LINDA

The Scandinavian countries have thirty years of experience with using register data for statistical purposes. The statistical offices in Denmark, Norway, Sweden and Finland have succeeded in making information from various registers more compatible and

tial of Administrative Data

Arie Kapteyn, Netspar director: "Survey data are far from flawless, and just using survey data can be quite misleading."

ensuring the link among various sources. With colleagues at RAND and at the University of Uppsala I recently conducted an experiment where respondents were drawn from a dataset of Swedish register data called LINDA and then interviewed over the phone. Ultimately, the purpose of such an exercise is to combine the power of accurate administrative data with behavioral and subjective data collected in surveys to create powerful opportunities for policy research. Imagine, for instance, that one has administrative records of an individual's earnings, income and marital history; this can be combined with survey information on well-being, and mental and physical health. Such data are much more powerful than either survey data or administrative data in giving us insight into the causes of for instance work disability or retirement behavior.

The particular set-up of our LINDA experiment also made it possible to assess the quality of both the administrative data and the survey data, since we collected information in the survey about earnings and income that was also available in LINDA. As one would expect, survey data are far from flawless, and just using survey data can be quite misleading. However, if administrative data suffer from linkage



errors (the information of person X is linked to person Y), then even a fairly small amount of error may generate misleading conclusions. By combining both sources of information, one can devise ways to correct for both sources of errors and arrive at conclusions that are much more accurate and reliable.

Netspar-CBS

Researchers in the us and in Europe are gradually developing the technology for combining administrative data with other sources of information. In this respect, the

most ambitious undertaking Netspar is involved in right now is a joint venture with Statistics Netherlands that will combine an entirely new data infrastructure exploiting Statistics Netherlands' Social Statistics Database, which consists of administrative data from various sources together with a number of existing or to still to be conducted surveys. The LINDA example shows its feasibility and its potential for fundamentally improving the quality of information upon which we build our policies.

"Combining survey and administrative data creates substantial new possibilities for analysis with much more accurate and reliable conclusions."

Importance of Data to DNB

by Lex Hoogduin*

De Nederlandsche Bank (DNB) collects a vast amount of statistics in its own area, and often uses statistics published by other national and international organizations; its main data suppliers include the IMF, Statistics Netherlands (CBS), Eurostat and the OECD.

But DNB needs more data. The institutions referred to above primarily produce data that are aggregated at the national level. For some time now, DNB has been using surveys to enhance its understanding of the behavior of households and enterprises, on both an individual and an aggregated level, and so to help shape its policies. Since merging with the Pensions and Insurance Supervisory Authority last year, DNB is also responsible for the supervision of pension funds, which explains why pensions are one of the priorities in DNB's research agenda. Sound research can be conducted only in a network, so the establishment of Netspar was just what we needed. DNB not only sponsors Netspar; it also actively participates in it and contributes research carried out by researchers.

With regard to pension research, we are interested in data that reveal more about the financial behavior of households. What do people know about their pensions, how do they take decisions about their pension savings and their retirement date, and how would they react to reforms in our pension system? What can we expect from intergenerational solidarity?

In coming to grips with these questions, we use data obtained from a panel of about 2000 households set up and maintained by CentERdata at Tilburg University. DNB began to sponsor this panel some years ago and we are glad we did. It has resulted in a fruitful cooperation with Marcel Das and his colleagues and with other (Netspar) researchers using this panel (see page 7). Since then, the annual 'regular survey' of the financial situation of households (the savings survey), which has been held since 1993 among the panel, has been known as the DNB Household Survey. DNB reports on the results in the September issue of its *Quarterly Bulletin*. The survey enables us to study panel data across an ever longer time series, allowing us to analyse the financial behavior of households over time.

In addition, DNB uses this panel for other studies, covering topics such as household payment patterns, DNB's image among households, and perceived inflation. Besides conducting traditional surveys, DNB sometimes carries out experiments, regarding experimental economics as an interesting way of acquiring knowledge. DNB values the fact that national and international academic researchers may use the panel, and may access all research based on the survey data free of charge. This has generated an international network of researchers using the panel. Such a network is essential for the quality of the research, which in turn benefits DNB.

*Lex Hoogduin,
Executive Deputy Director DNB

Lex Hoogduin (m) at the Netspar Opening Conference, March 30.



"The establishment of Netspar was just what we needed."

The DNB Household Survey

by Marcel Das

The DNB Household Survey (DHS) has collected data on financial behavior of households since 1993. The DHS is derived from annual interviews with participants in the CentERpanel. The questionnaire is administered every year to the CentERpanel households during six weekends, yielding up to 2.5 hours of interview time with each of the respondents in total. Areas covered include the following: demographics and work; housing and mortgages; health and income; assets and liabilities; and a large number of economic psychology topics. The lengthy questionnaire has resulted in a unique amount of information on a wide variety of topics. The technology also allows easy addition of new modules in separate weekends; this information can be combined with the DHS data.



Marcel Das, Director
CentERdata
"The data are used
by more than 100
researchers."

The data are currently used by more than 100 researchers; approximately 40% are Dutch and 60% are non-Dutch. Several researchers, moreover, have used or are planning to use the CentERpanel for experiments that are related to financial decisionmaking of households. A number of these researchers are affiliated with Netspar. Related to the DHS, economists carry out experiments to test theories of financial behavior or to gauge and improve data quality. Examples include response effects through follow-up bracket questions in case of 'don't know' or refusal responses, anchoring effects, the effects of pre-loading the data, the use of risk aversion measures in the explanation of portfolio choice, the measurement of expectations and their effect on behavior, and interest sensitivity (as in the case of revolving credit card debt). Altogether, the DHS (with its various related experiments) is developing into a laboratory in which two major lines of research can be pursued in ways that probably are not

available elsewhere. The first line of research deals directly with financial decisionmaking by households. Both the quantity and detail of the data being collected and the flexibility to add new questions or run new experiments provide unique opportunities for the testing of existing theories of financial behavior and the development of new ones.

The second line of research is methodological and is related to data quality. Data quality is a multi-faceted concept including unit and item non-response, the issue whether the data are representative of the population of interest, the size and nature of measurement error, selection and panel attrition effects, psychological biases (e.g. primacy and recency effects, and anchoring), respondent fatigue, etc. The flexible nature of the Internet set-up (in particular, the rapid turnaround times) facilitates research in this area, because in many cases issues can only be settled by the collection of new data. With the CentERpanel, the marginal cost and the time involved in the collection of such data are much smaller than they would usually be with other existing data collection methods.

CentERdata

CentERdata is an independent survey research institute, headed by Marcel Das (photo). CentERdata's core business is collecting data through a panel of some 2000 Dutch households: the *CentERpanel*. This panel makes it possible to ask the Dutch population a wide range of questions in a convenient and timely way. Results can be delivered within one week. Data collection through the CentERpanel is completely web-based. Based on collected demographics, the panel will be refreshed from time to time with households from this database. The CentERpanel is at the forefront of survey technology, with the DHS being its flagship for both the collection and production of (financial and economic) data and for methodological research. Since the return on investment in the DHS is increasing over time, an extension of the DHS will pave the road for many research projects that are highly valuable from a scientific point of view and at the same time very relevant for society and public policy. The goal for the near future is the improvement of data collection, data dissemination, and survey design, and collaboration with leading (internet) survey organizations in the world (such as the survey research centers at the University of Michigan and RAND, Santa Monica).

Data from Experiments

Research in Netspar will make extensive use of experimental economics. This is a relatively novel method for data collection. An interview with Jan Potters, one of the leading scholars. Jan is professor of Economics and in this area coordinator of the research theme Behavioral and Experimental Economics at Tilburg University.

Is an economic experiment like an experiment in psychology?

Jan: "Both study the choices of people in a laboratory setting. This allows a much sharper view on the factors that influence choices. In the lab one can vary the variable of interest and keep other factors constant. This is rarely possible with field data, where events do not take place on command and usually many factors change simultaneously. A difference with psychology is that subjects' choices in an economic experiment directly affect their earnings and possibly also those of others in the experiment. Consider for example, people trading in an asset market or subjects playing a prisoner's dilemma for real money. This is also a difference with questionnaires in which people may give socially desirable answers or may not even take the question seriously. In this sense we believe that actions, even in a laboratory setting, speak louder than words."

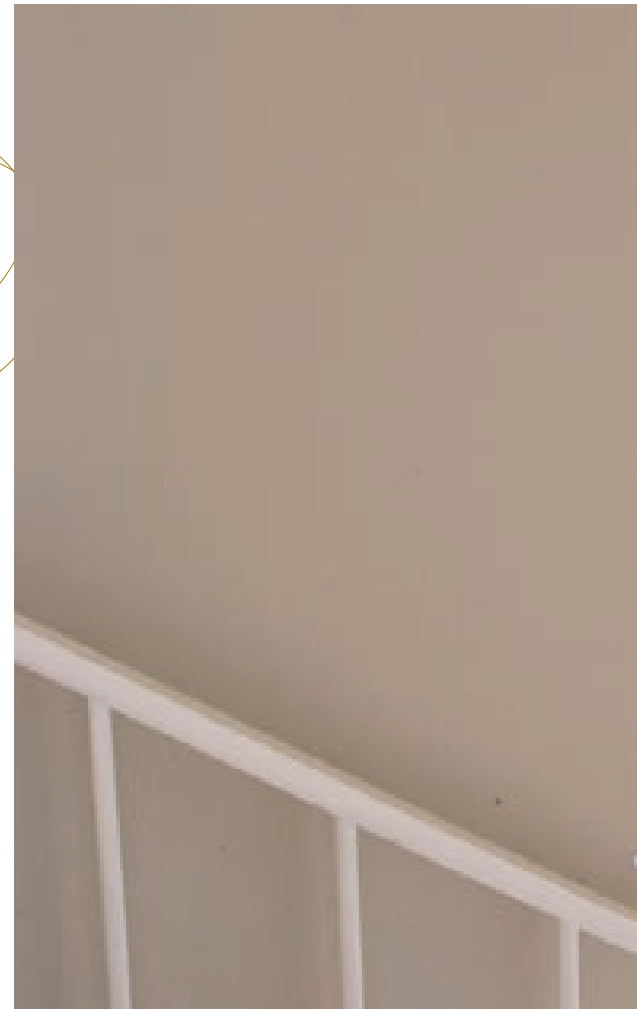
What are the most important insights from experiments?

Jan: "Real people don't behave like *homo economicus*. Their rationality, their will-power and their egoism are bounded. For instance, people misperceive the basic laws

of chance. They weigh losses more strongly than gains. They tend to be myopic and biased toward the present. They care not only for their own income, but also for the income of others. This may not all come as a big surprise to most of you, but economics has used the *homo economicus* principle for a very long time. Even to date. Why? One reason is the belief that learning and market competition will eradicate non-rational behavior. Another reason is the belief that deviations from rational choice are not systematic and thus can not be explained. A final reason is that non-rational behavior cannot be modelled properly. It has turned out, however, that none of these reasons are very convincing and that innovative theories are needed to understand "real" economic behavior, like participating in a collective pensions contract."

Why are experiments important for Netspar?

Jan: "I am convinced that experimental economics will contribute to the understanding of people's savings and pension decisions. Let me mention two themes in my own research. One is how people deal with risk. This can be studied adequately in experiments, where risk can be carefully controlled and decisions can be observed perfectly. One result we found is that people do not always make better





investment decisions when they receive more detailed information about asset returns. People tend to put too much weight on separate pieces of information, and fail to integrate them into a bigger picture. A completely different theme in my research, but also very relevant to Netspar, is the scope for solidarity. When are people willing to support others even if this comes at a cost to themselves? In our experiments, we found more solidarity than one might expect, according to standard economic theories of rational behavior. Solidarity, however, is not unbounded. In future work we hope to uncover how factors like inequality, demographics, and uncertainty affect these bounds."

Is there a possible role for Netspar's partners?

Jan: "For some questions students are not the appropriate subjects for an experiment. For example, if one is interested in the portfolio choices of banks and pension funds, students may lack the necessary knowledge and experience. So, we are looking forward to cooperating with Netspar's private partners to undertake economic experiments together. Could be rational!"

Jan Potters: "Actions in a laboratory setting speak louder than words."

Interview

with Maria van der Hoeven
(continued from page 3)

Why does the Minister consider societal innovation to be so important? How can a network such as Netspar contribute to societal innovation?

Minister: "A Societal Top Institute is all about promoting science aimed at addressing important societal problems. In the Netherlands, we have the tendency to view innovation in a limited way – as if it were a technological prerogative. Yet, we need also societal innovation. In fact, they actually need each other: innovation involves both technological and social factors. The subject that Netspar investigates, pensions and the aging of the population, is particularly timely, and therefore worth ample consideration. Unique in Netspar is that it addresses two aspects: the societal arrangements that have grown up over the years around pensions, and the life cycle of individuals and the way in which they distribute tasks and responsibilities. In its approach, Netspar emphasizes respect for enduring values, such as solidarity and respect between generations and trust among individuals. What I find most interesting is that Netspar resists the tendency to exclude these issues from the strict bounds of science."

Could the Minister provide an indication of the basis upon which Netspar will eventually be evaluated?

Minister: "Formally speaking, the usual quality requirements apply to the specific subsidy given to Netspar. The subsidy is granted through NWO, and NWO will monitor the quality according to its usual standards."

In any case, Societal Top Institutes should make an actual connection between excellent scientific research and the demands of society. In Netspar's case, the issues will be in the sphere of my colleague from Social Affairs and Employment. The "easy" answer is thus: "if my colleague is satisfied, then so am I." As Minister overseeing scientific policy, however, I do have a few wishes of my own. Research results must, wherever possible, be translated into societal added value. This is what we call valorization. It is therefore important that researchers and their organizations are aware of the possible societal benefits of their research and take account of this in their work. I am convinced that the Societal Top Institutes can contribute this added value to society. Finally, the three pilot projects that have been selected, Netspar included, will also play an important role in the further development of what it means to be a Societal Top Institute."

ING House, June 7th & 8th

Pension Workshop Draws Experts Nationwide

By Margaret Kavanagh

Economists and pension experts from throughout the Netherlands converged on Amsterdam on 7 and 8 June 2005 for the first in a series of Netspar Pension Workshops. ING Bank, one of the corporate sponsors of Netspar, hosted the two-day event, which offered participants an opportunity to examine in depth the subject of pensions and the current and future state of the retirement system in the Netherlands.

A Star-Studded Program

Two internationally acclaimed economists and pension experts, Olivia Mitchell, professor at the Wharton School, University of Pennsylvania, and professor Axel Börsch-Supan, director of the Mannheim Research Institute for the Economics of Aging (MEA), were on-hand to present the findings of their research and to exchange views with workshop participants. Rounding off the two-day event was the presentation by Wouter Bos, member of the Dutch Parliament and leader of the Labor Party. Wouter Bos' speech, entitled 'Aging and the Future of the Welfare State,' was followed by a spirited panel discussion, which generated hard-hitting questions and challenges to the guest speaker from both panelists and members of the audience.

The Beatles: Baby-Boom Prophets?

"Will you still need me, will you still feed me, when I'm sixty-four?" When the Beatles sang those lyrics in 1967, the first wave of the post-war baby-boom generation were just entering adulthood, and the last thing on their minds was the prospect of becoming old, unwanted and obsolete – a burden on society. Now those same people are inching closer to that magic age, and too frequently they're discovering that the answer is a resounding "No." No one needs them, and certainly no one wants to feed them. Employers want

young blood and the government considers them "a problem." This series of workshops is designed to examine the looming crisis in the pension system as baby boomers retire in droves, and to explore solutions that will benefit both the economy and retirees.

Axel Börsch-Supan – A Multifaceted Multitasker

In addition to his duties at MEA, Börsch-Supan serves as coordinator of the Survey of Health, Aging and Retirement in Europe (SHARE), a comprehensive data collection project that derives financial support from the European Commission, the U.S. National Institute on Aging, and several national agencies. He also serves as a member of the Council of Advisors to the German Ministry of Economics and was co-chairman of the Pension Reform Group of the German Social Security Reform (Rürup) Commission.

PAYG Pension Schemes

In four presentations over the two-day event, Börsch-Supan focused primarily on pay-as-you-go (PAYG) pensions, drawing on his own research in Germany and other European countries. He concludes that distortions in PAYG systems have a significant impact on both microeconomic and macroeconomic performance. He argues that the system as it now stands shifts the burden to future generations, and urges reforms that would place more responsi-



Axel Börsch-Supan: "Healthcare policies will have to change, with an increased focus on preventing disease."



Paul McCartney at Live 8, June 2005, where he and U2 gave a rousing performance of *Sgt. Pepper's Lonely Hearts Club Band*. Paul McCartney wrote 'When I'm Sixty-four' when he was about 15. He put lyrics to it later in honor of his father's 64th birthday. Paul will turn 64 on June 18, 2006. The 'old' Beatle will twist and shout till he's down and out!

bility on individuals who are able to pay more. He also demonstrated how a later effective retirement age would result in a higher return on investment, specifically in human capital in the form of training, retooling and life-long learning. He projected additional indirect positive effects on economic growth, in part because productivity tends to increase as workers age and gain experience. Börsch-Supan asserted that pension reform would reduce the current decline in savings by about one-third. While such reforms could produce a decline in the rate of return on savings, he said, the decline will be significantly smaller when taking into account the mobility of international capital.

SHARE Provides Extensive Data on Europe's Seniors

In a brief interview between sessions, Börsch-Supan spoke of his long-standing interest in the issues of housing, household savings behavior, and pensions. His involvement with SHARE stemmed from the need for empirical data on health and aging in Europe and expanded into the continent-wide program that began in 2004. "Interest in the data we're collecting

has been astounding. There's been a tremendous demand for licenses to use the data as the issues of health, aging and retirement behavior continue to take center stage." When asked what direction the data collection effort will be taking, Börsch-Supan replied: "We need to look at how health and the economy interact with each other. For example, how is disability related to health? Is there a causal relationship between lower incomes and poor health? How is wealth related to the use of healthcare services? Governments, insurers, policy-makers are all looking for answers to these and a host of other questions affecting our increasingly aging society." Europe has the highest proportion of older citizens, and the average age continues to climb. Within the original 15 memberstates of the European Union, 16 percent of the population is 65 years of age or over, a figure expected to reach 28 percent by 2050. "The issues we're discussing today and the research we're doing at MEA and through SHARE could play a significant role in shaping the future of Europe." Axel Börsch-Supan spoke of the need to eradicate the pervasive "entitlement mentality," which seems to assume that the

When I'm Sixty-four
The Beatles (Lennon/McCartney)
Album: *Sgt. Pepper's Lonely Hearts Club Band* (1967)

When I get older, losing my hair
Many years from now.
Will you still be sending me a valentine
Birthday greetings, bottle of wine.
If I'd been out till quarter to three
Would you lock the door?
Will you still need me, will you still feed me,
When I'm sixty-four?

You'll be older too,
And if you say the word,
I could stay with you.

I could be handy, mending a fuse
When your lights have gone.
You can knit a sweater by the fireside
Sunday mornings go for a ride,
Doing the garden, digging the weeds,
Who could ask for more?
Will you still need me, will you still feed me,
When I'm sixty-four?

Every summer we can rent a cottage,
In the Isle of Wight, if it's not too dear
We shall scrimp and save
Grandchildren on your knee
Vera, Chuck & Dave

Send me a postcard, drop me a line,
Stating point of view
Indicate precisely what you mean to say
Yours sincerely, wasting away
Give me your answer, fill in a form
Mine for evermore
Will you still need me, will you still feed me,
When I'm sixty-four?



Panel discussion, moderated by Jet de Rañitz (Netspar). Visible panel members (from left to right): Jan Nijssen (ING), Henriette Prast (DNB/Tilburg U) and Frans Beerling (Cordares).

pretty fabulous travel, which enables me to compare systems, attitudes and expectations across cultures and societies."

Baby Boomers Ill-Equipped for Retirement

Too often people have taken for granted the retirement benefits offered by employers and by the government in the form of Social Security, a situation that Mitchell views as dangerous and short-sighted. She maintains that "companies will not be the nexus of benefits and pensions in the future", and even the social security system is in danger of insolvency. She warned: "Social Security benefits payouts are dramatically increasing because the baby boomers are aging. By 2018 the system will be taking in less in tax contributions than it is paying out. The bottom line is that many baby boomers simply cannot afford to retire."

The goal of retirement risk management is to reduce economic insecurity in old age. The onus has shifted to individuals themselves. "Unfortunately, most people do not understand the complexities of retirement planning, and the vast majority of people do not have enough money saved to support them through their retirement years."

The Perfect Storm

Olivia Mitchell discussed the two primary types of pensions: Defined Benefits (DB), which she argues is experiencing "a perfect storm" as assets decline and liabilities increase – a disaster no longer waiting to happen – and Defined Contributions (DC). Previously, most companies offered DB pensions. They seemed to offer a high level of security to workers that they would have enough money to survive during their post-retirement years: they also, however, served as an incentive to retire relatively early, enabling an infusion of fresh blood, as younger workers began climbing the corporate ladder. Even before the fallout from some infamous pension fund failures, most companies had switched to a DC system, which leaves much of the decision-making for investments in the hands of people who are ill-equipped to make those decisions.

money to take care of everyone post-retirement will somehow magically appear. "Someone has to pay for these services, but no one wants to be the bearer of bad news and suggest that people work longer, take more responsibility for their own savings, or pay higher taxes. The first step is to abolish early retirement benefits and to offer incentives for people to work longer. It's also clear that healthcare policies will have to change, with an increased focus on preventing disease."

Pensions: A Microcosm of the Economy

Professor Olivia Mitchell, executive director of the Pension Research Council at the Wharton School, once quipped: "Just don't

get old, don't get sick, don't retire...and you'll be fine." While said in jest, it is becoming increasingly clear that Mitchell isn't too far off the mark. Her main areas of research and teaching are private and public insurance, risk management, public finance and labor markets, and compensation and pensions, with a U.S. and international focus.

When asked how she became interested in the field of pensions, Mitchell said: "Pensions are the microcosm of the economy as a whole. They serve as the contact point among a whole range of disciplines. Working in this field gives me the opportunity to do a little economics, a little psychology, a bit of ethics, and some



Olivia Mitchell: "Don't get old, don't get sick, don't retire, and you'll be fine."



Wouter Bos argued in favor of the 'Scandinavianization' of public services

Employees are suddenly faced with a laundry list of choices, which they aren't able to adequately assess, so they either just opt for whatever choices come first on the list or, worse, they over-invest in their own company stock, leaving them financially vulnerable. In addition, inexperienced investors often overlook the administrative costs, which can seriously erode pension build-up. Mitchell called for better and earlier education for employees, getting them thinking about their retirement options at the beginning of their careers rather than at the end – when it's too late to undo the damage. "They need to be encouraged to save more, invest better and protect themselves against outliving their assets."

Wouter Bos Offers Labor Party Perspective

In the final presentation of the workshop, Wouter Bos addressed the political and social ramifications of a nation in which so-called "gray pressure" – the relationship between the number of people aged 65 and older compared with those in the productive ages of 20 to 64 – continues to escalate. As Bos pointed out, "currently, five working people are paying for each person over [the age of] 65. By 2040, these five working people will have to support two 65-plussers."

Six-Point Plan for Pension Reform

Wouter Bos, representing the largest opposition party in the Netherlands, offered a six-point plan for addressing this growing concern, which is affecting not only the Netherlands, but also the majority of industrialized nations. The plan calls for

1. A structural budget policy
2. A balanced reform agenda
3. Rehabilitation of the role of social dialog
4. A rational choice for solidarity
5. Make or break for the life-course savings scheme
6. 'Scandinavianization' of public services

A considerable portion of Bos' presentation focused on provisions of the Scandinavian welfare state with excellent public services, which he believes can be applied to the Netherlands. The fundamental principle of reciprocity rather than entitlement is a key element and serves to promote labor participation by all members of society, including those who traditionally have been excluded. Greater number of women and ethnic minorities in the work force, improved and affordable childcare and implementation of an Earned Income Tax Credit for low-income families are among the priorities on the agenda. In concert with these policy changes, Bos proposed extending the number of hours part-time employees work, as well as devising a formula for tying public pension benefits to the total number of years worked. He views this as an incentive to keep people working longer and contributing to the economy if they are able to do so. More flexibility would give people more choices and more control over their careers and incomes.

Selective Migration

One of the most controversial of Bos' proposals was the notion of a "selective migration policy," combined with "citizenship ladders," which would actively encourage the immigration of those best

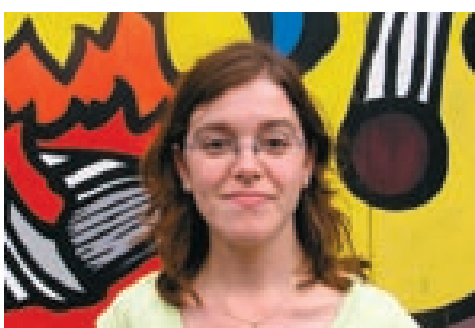
able to contribute to the Dutch economy, while discouraging – or even barring – those who would be a drain on the economy and a disruptive influence on society. With a more creative approach to immigration, he suggested, the Netherlands would see an increase in solidarity rather than the divisiveness that has crept into the social fabric.

Decentralization of policy creation and implementation to municipalities is the key to achieving the benefits that the Labor Party expects to result from these sweeping changes. Bos criticized the current government's reform proposals as too little, too late. "They are a bit good in everything, but not good enough in anything." More power in the hands of municipalities will, he said, result in an easier transition to a more equitable system, which will serve "to tackle the problems of living, working, health, integration, nationalization and education in an integrated manner." Social partners should be consulted, but their influence on social insurance, including the premiums that are charged, should be limited.

Panel Offers Hard-hitting Commentary

At the conclusion of Bos' presentation, a panel discussion, moderated by Jet de Ranitz, administrative director of Tilburg University's Center and Netspar, offered insights and analyses of some of the Labor Party's key issues, including the call for collective risk sharing and some of the provisions of the so-called 'Scandinavianization' of the Dutch retirement system. Panel members included Coen Teulings (University of Amsterdam, director of SEO, the Institute for Economic Research, and program director of Netspar), Henriette Prast (De Nederlandsche Bank, Tilburg University and Netspar), Jan Nijssen (global head, pensions of ING Group Amsterdam), and Frans Beerling (director of pensions and collective bargaining regulations at Cordares, formerly SFB Group), bringing a wide range of viewpoints and perspectives to the critical issues surrounding pensions. Members of the audience were also invited to join in the discussion and share their views on these compelling issues.

Top Talent Recruited



From top to bottom: Katherine Carman, Norma Coe, Joachim Inkmann, Bas Jacobs and Gema Zamarro.

Netspar, in close cooperation with the Faculty of Economics and Business Administration of Tilburg University, has been highly successful on the job market in Philadelphia (USA) this year. Six young talented researchers accepted a tenure track offer: Katherine Carman (Harvard), Norma Coe (MIT), Joachim Inkmann (LSE), Bas Jacobs (European University Institute), Frederic Vermeulen (Tilburg) and Gema Zamarro (CEMFI Madrid). All six will be involved in the research activities of Netspar. Five brief profiles. (CvD)

Katherine Carman
(Harvard, Cambridge MA, US)
Katherine: "The aspect of Tilburg that impressed me the most was the excellent research community. Netspar and CentER provide excellent support for research. I was very impressed by the professors at Tilburg; their collegiality was a key part of my decision to come to Tilburg. I was also very impressed by the quality of the research produced at Tilburg. I think this is an important indicator of the University's commitment to supporting research. I am excited to be a part of this vibrant research community."
Katherine received a PhD in economics from Stanford University in 2003. Her primary research interests are in the fields of public economics and health economics. Her current research examines whether physical education requirements help to prevent childhood obesity. "My research falls primarily in the field of public economics. I am interested in the way that social relationships affect economic behavior and outcomes and public policy. For example, I am currently studying the effects of divorce and widowhood on individuals' standard of living and health."

Norma Coe
(MIT, Cambridge MA, US)
Norma: "I chose Tilburg because the Faculty is highly ranked within Europe, and has a great reputation in the US. It came highly recommended by my advisors (Jim Poterba, a.o.). I foresee a lot of overlap of interests with other faculty, which makes for a dynamic and interesting environment. It is exciting to join at the beginning of Netspar, which I think will be a great research organization whose work will inform the policy debate both within and outside the EU."
"My main research interests involve the interaction of public and private insurance markets, and how these programs change behavior. My previous work has been in the health insurance and pension arenas. I will continue a line of research on private long-term care insurance and how it interacts with the Medicaid program (the public insurance program that covers nursing home care in the US). I also plan to examine how the expansion of public health insurance to veterans in the US has changed the labor market decisions of near-retirement-aged Americans, and to study the differences between private and public nursing home care in the US. I hope to expand these projects to an international context while at Tilburg."



TT... Tenure Trackers, Top Talent: full speed ahead!

Joachim Inkmann
(LSE, London)

Joachim: "I was looking for an outstanding and challenging research environment in my field of interest. Tilburg University, with its highly regarded Center, certainly meets these requirements. But more than anything else, the chance to participate in Netspar more or less from the very beginning set Tilburg apart from its competitors. Netspar seems to produce a degree of enthusiasm and high expectations, which is rarely seen in the social sciences."

Joachim: "I plan to continue my research in pension finance. I am particularly interested in decisions related to occupational pension schemes. What is the optimal strategic allocation of the pension plan assets and how should contributions be determined? Different pension plan stakeholders have different objectives. Which role can trustees play to combine these objectives? How do employees react to institutional changes in their occupational pension schemes, e.g. a transition from a Defined Benefit to a Defined Contribution plan? Any answer to these and similar questions has to combine institutional knowledge with finance and empirical work using both time series data and cross section and panel data. It is in this intersection of research fields in which I plan to work."

Bas Jacobs
(EUI, Florence)

Bas: "I have chosen Tilburg because there are quite a lot of people working in public economics compared to other Dutch universities. I expect that Tilburg provides the best environment to further develop myself academically."

"My research interest is mainly in public finance: optimal taxation and redistribution of incomes in dynamic life-cycle models with savings, education and labor supply. My activities: I cross the borders between public economics, labor economics, human capital theory, life-cycle theories of savings and theories of economic growth. In my future research I want to investigate the consequences of risks in financial savings and risky returns to human capital investments and the implications of these risks for pension, education and redistributive policies."

Gema Zamarro
(Cemfi, Madrid)

Gema: "I applied to Tilburg University because of its prestigious reputation in economics, particularly in econometrics. The fact that the position is for Netspar was an extra reason for me to prefer Tilburg. I liked the idea of being part of this new network from almost its beginning, of being able to work with people from different areas but with common interests, and I thought this was a great opportunity for me to learn a lot. I thought the Netherlands was a country I would like to live in. My research interests are in labor economics, the economics of education, microeconometrics and policy evaluation."

Cordares Expands beyond the

Cordares intends to take its pension and income insurance services also to clients in business sectors other than construction. The company was formed in 1952 as the Sociaal Fonds Bouwnijverheid, one of the first independent administrators of group pension schemes. With funds invested of € 17,5 billion and a million members, Cordares is one of the largest pension institutions in the Netherlands.

All-embracing Concept

Cordares' strategic renewal has been prompted by the growing need for flexibility, the new legislation and regulations combined with more onerous supervisory requirements, the continuity requirements and the need to spread risk. Sharpening the company's business focus will enable it to respond much better to European trends. The company aims to position itself in the market with an all-embracing concept for the administration of DB and DC schemes for company and industry-wide pension funds.

Knowledge and Expertise

Cordares holds strong trump cards that enable it to provide high-quality services to new clients both within the construction industry and outside it. During the 50 years of its existence it has built up multifaceted expertise in managing and administering extremely efficiently pension and other schemes arising from collective bargaining agreements in a number of branches of industry. Independent studies have shown over a series of years that by means of an excellent price-quality relationship Cordares has built up a cast-iron reputation in the cost-efficient administration of difficult pension records. The improvement in results



has arisen to a significant extent from the excellent performance of its IT business. The company has also for many years ranked as one of the top five asset managers as regards the returns on the assets entrusted to it.

Innovative Approach

In the Netherlands there are around 700 pension funds which, because of the diversity of their arrangements, hardly lend themselves at all to integration. Nevertheless, by uncoupling their management from their administration it is possible to bring about the desired economies of scale and at the same time to put more integration in place. In the 1990s SFB Group was one of the first major pension institutions to professionalise in a clear, businesslike client/contractor relationship. It is precisely from this innovative initiative that interesting opportunities for growth are now arising for Cordares. With its multifaceted knowledge, Cordares aims to cater to the increasing demand for life-course schemes by means of income insurance products.

Construction Industry

Joep Schouten,
chairman Executive
Board Cordares



Market Position

In managing and administering pensions and the assets associated with them, Cordares is choosing to combine organic growth with growth through acquisitions. In the context of organic growth, it aims to interest the whole industry and the corporate pension fund market in its administrative and asset management services. Cordares' primary focus is on sectors with high employee mobility. In the context of acquisitions, the firm aims to enter into mergers with similar companies. These acquisitions, together with Cordares' multifaceted expertise and track record, will enable it to respond better to opportunities in the European Union. The first results in this context were announced in the form of the merger with ASW, the administrator of the Housing Corporations Pension Fund, to be closed by the end of the year.

Social Engagement

Although Cordares is opting for a commercial market approach, at the same time it aims to show its social involvement more strongly. Its new market identity is in keeping with the modernisation of the

Dutch pension system, the individualisation and aging of society and developments in the European Union. Cordares can deploy its own strengths to move with the times and adapt to circumstances, with corporate governance and transparency always paramount. In this respect, the company gives firm support to the Netspar Network not only because of its permanent interest in research results on pensions, aging and retirement, but also because of the economic value of this knowledge and expertise for the international performance of Dutch pension institutes.

Pension Fund Governance

As an unlisted company, Cordares has voluntarily chosen to apply the Tabaksblat corporate governance code. Because of the social dimension of its activities, this pension administrator wants to operate as transparently as possible vis-à-vis shareholders, supervisory directors, clients, staff and members. In that approach, the firm aims for the professional implementation of pension fund governance and corporate governance, so that careful arrangements are made for the management and structure of the pension system.

Cordares – Key Figures 2004

Invested funds under management	€ 17.5 billion
Members	1 million
Turnover 2004	€ 197 million
Pre-tax profit	€ 18.7 million
After-tax profit	€ 12.5 million
Return on fixed-interest securities	7.8 %
Return on shares	9.8 %

For further information
please contact:
Hanneke Wullink,
manager corporate communications
T 020 583 24 72
our website: www.cordares.nl

Opening Conference: Pensions in the 21th Century



1. Lans Bovenberg delivered his 'baby': "Netspar is born today after quite an eventful pregnancy."

2. James Poterba (middle) received the Efact Honorary Award 2005, presented by Magiel van de Groes, at that time chair of student association Efact. Right: Theo Nijman, Netspar director and chairman of the conference.

3. James Poterba (professor of Economics at Massachusetts Institute of Technology) presented his keynote address, entitled: *Individual Decision Making and Risk in DC Pension Plans: Evidence from the US*.

4. Impression of the morning session in building Y. Seminars were given by Axel Börsch-Supan (University of Mannheim): *Macroeconomic Implications of Aging on*

Global Labor and Capital Markets; Luis Viceira (Harvard): *The Term Structure of the Risk Return Trade-off*, and Olivia Mitchell (Wharton): *Challenges Facing US Retirement Programs* (photos of Mitchell and Börsch-Supan on pages 10 and 12).

5. Coffee break in building Y during the morning session.

6. Dutch Prime Minister Jan Peter Balkenende gave a lecture on Societal Innovation. JPB: "We cannot accept that people in their thirties and forties continue to contribute to generous early retirement schemes for people in their fifties. We need a new form of solidarity, with a new balance between the rights and duties of different generations."





6



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7. Moderator Richard Engelfriet challenged the PM to a vivid discussion with five students of the Faculty of Economics and Business Administration. JPB: "Why do we end our working career so suddenly when we reach a certain age? Why hasn't a part-time pension been introduced? We could work fewer hours, but until a later age. Even beyond the age of 65 if we want to..."

8. Alexander Rinnooy Kan, member of the executive board ING Group, presented his lecture: *The Pension Challenge: Meeting Individual Needs from Collective Strengths*.



9

9. Roderick Munsters, chief investment officer of ABP, gave a lecture on *Safeguarding Dutch Pensions: Possible Netspar Research Issues*.



8

10. Netspar directors Arie Kapteyn (l) and Lans Bovenberg, PM Jan Peter Balkenende and dean Theo Verhallen (r). JPB in his speech: "The government welcomes the creation of Netspar. We would like to look upon you as critical, innovative and constructive partners in the debate on our pension and social insurance system. By pooling knowledge, we can also play an important role in the international debate on pensions, social security and demographic aging. The Innovation Platform believes this is a key area for innovation."



10

Short News

SVB Conference 2005: Children and Social Security 'Spoiled or oppressed?'



Sociale Verzekeringsbank voor het leven

The Netherlands has an abundance of social security schemes aimed at children. How do these schemes contribute to our children's upbringing? To what extent are children 'oppressed', or rather 'spoiled' in this individualized society? Furthermore, do Dutch citizens on the whole support these schemes?

The issue of children and social security covers a vast area. This has motivated the Sociale Verzekeringsbank (svb) to put this issue on the agenda of the annual svb Conference. Different perspectives will be discussed: social, economical, political and philosophical. Maria Henneman will lead a number of debates. International scientist Gosta Espin-Andersen will introduce a new approach to social security, the central element of which is investing in children. svb will also present a scientific publication containing new research.

Date: Friday 18 November 2005.

Location: Nieuwe Kerk on Spui, The Hague.

Time: 13.00 to 17.00 hours.

Further information: www.svb.nl

Remote Access Facilities at Statistics Netherlands

Netspar will participate in a pilot project to test the possibilities for remote access to micro data from the Dutch statistical office (Statistics Netherlands/CBS). This project CBSOnSite@Home will start from mid-

September. In the project, researchers from Netspar, observing strict terms, will be able to perform analyses on anonymous individual micro data situated at Statistics Netherlands, from a dedicated workstation in their own location.

Working at a remote location, the researcher will not be able to download data from the server at Statistics Netherlands. Instead, he will be able to formulate and directly submit queries on the data and inspect the output on screen. He then will be able to compose an output file and submit a request to the host to send that output file to him. If the output passes a confidentiality check, Statistics Netherlands will send it to the researcher by mail. Remote access will be an extension of the existing service that enables researchers to analyze micro data on site, on the premises of Statistics Netherlands.

Interpolis Pension Seminar

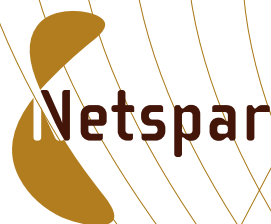
Every year, Interpolis Pensioenen organizes a seminar for all pension fund executives. This year's seminar, entitled *Looking at Pensions in a Different Way*, takes place on September 27th and focuses on the financial market, which has been affected directly by recent legislative changes. What developments can be expected and how can pension funds respond appropriately? Challenging themes and a practical case study will guarantee an interesting afternoon!

Date: 27 September 2005.

Location: Congrescentrum Amstelveen.

Starting time: 13.30 hours.

Contact: Linda Matser (phone 06-20445708)



Netspar Calendar

Please note the upcoming *Pension Days* in 2005 at Tilburg University: 6 October, 3 November, 24 November, and 15 December. In 2006, Pension Days are scheduled as follows: 16 February, 9 March, 30 March, and 20 April. The next *Pension Workshop* will take place on 18 and 19 January 2006 at Maastricht University.

Pension Days and Workshops are open to all partners of Netspar. Attendance at the Pension Days for those who are not affiliated with one of the Netspar's partners is by invitation only. For more detailed information, please, check the Netspar website from time to time: www.netspar.nl