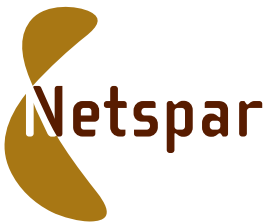


# Netspar News

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## Theme: Supervision

What influence will the *Financieel Toetsingskader* (FTK), the supervision framework for Dutch pension funds and life insurers that came into effect this year, have on the future position of pension funds in the Netherlands? To what extent are pension funds and insurance companies self-regulating? Which challenges is the insurance industry facing as it strives to meet the new solvency criteria of the FTK? What will be the effect of the shifting responsibility in retirement plans towards workers? Are employees willing and able to deal with more retirement plan choice or should pension funds guide them? These and other questions will be answered in four articles that involve supervision, the theme of this Netspar News issue.



## Theme: Supervision

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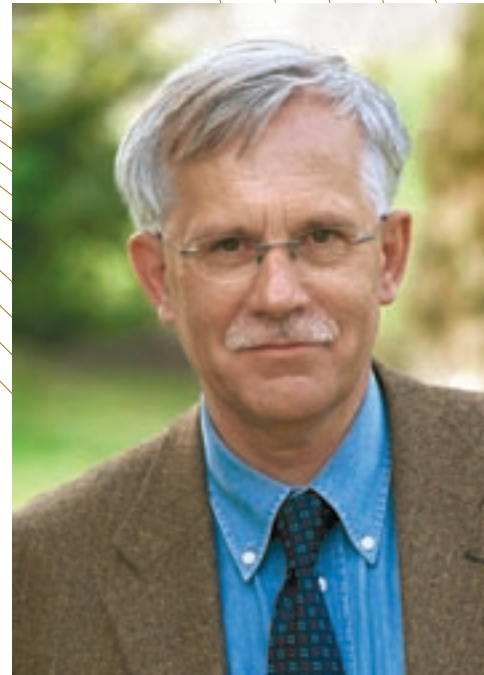
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# Jean Frijns: "Good Governance makes Pension Funds Self-regulating"

Jean Frijns has an amazing portfolio of activities. In addition to serving as a Netspar Fellow, he was, until June 2005, the Director of Investments and a member of the Board of Directors at the Algemeen Burgerlijke Pensioenfonds (ABP). Frijns is also chairman of the Monitoring Committee of the Corporate Governance Code (Tabaksblatcode) for listed companies, and serves on a wide range of boards and commissions. In September this year, Frijns was appointed Chairman of the supervisory board at Kempen Bank; he also is a member of the investment committee at PGGM and several other pension funds, and is an adjunct professor at VU Amsterdam.



Jean Frijns; an amazing portfolio of activities.

## By Margaret Kavanagh

Jean Frijns talked with Netspar News about the current and future position of pension funds in the Netherlands and the Financieel Toetsingskader (FTK), the supervision framework for Dutch pension funds and life insurers that came into effect this year.

### Four fundamental dimensions

Frijns outlined what he considers to be the four fundamental dimensions that determine good governance of pension funds:

- 1 The legal position of participants
- 2 Internal division of responsibilities and power— checks and balances
- 3 Transparency and market discipline
- 4 The extent to which a fund is self-regulating, not reliant on external supervision.

Opinions vary on what constitutes good governance. Frijns said he believes there are certain universal principles of governance

that can be applied in diverse situations. So what are these best practices as they pertain to pension funds? "I think it is essential that we consider the overall mix of instruments that is available rather than relying on a single instrument that may no longer be the most effective for the evolving situation."

### No need for external supervision

According to Frijns, if the first three dimensions are improved, then the fourth will take care of itself. He contends that the legal position of participants is critical if pension funds in the Netherlands are to maintain the extremely high level of trust that members historically have had for pension funds. So far, that trust has been well-deserved, but that can change if individuals are uncertain about how their money is being handled. "If you have a strong legal position," he said, "you don't have to worry too much about the governance." As for transparency and market discipline, "These are the factors

that help stimulate companies and financial institutions to adhere to best practices." Frijns feels strongly about the inadvisability of using external regulators. "Turning over responsibility for governance to an external regulator isn't the second best option," he said, "it's the third. We have over 800 pension funds in the Netherlands. An external regulator would have to establish very specific rules that would fit no one."

### Optimism for the future

Overall, Frijns says he is optimistic about the future of pension funds in the Netherlands, despite the changes that will inevitably take place as a result of new regulations from the European Union, the evolving role of the social partners, and the changes brought about from a more diversified labor force. He believes there will be more clearly defined rights of individual participants, more choices that reflect an increasingly heterogeneous society, and the transparency, discipline and accountability that will translate into effective internal governance.

"If you have a strong legal position, you don't have to worry too much about the governance."



## Theme

Clarity Is Paramount to Initiator and Labor MP Staf Depla

# "Keep Indexation Label Simple at the Start"

"What matters is that the participants get clear information on the quality of their pension scheme. Many people still think that their pension is fully guaranteed. An absence of full clarity on their prospects will undermine the present collective pension system."

By Leen Preesman

Clarity (towards the participants in a pension scheme) is the keyword for labor member of parliament Staf Depla (46). Together with his liberal colleague Bibi de Vries, Depla recently submitted the amendment for a 'indexation label' in the new Pensions Act. In close cooperation with the pensions sector, Social Affairs minister Aart Jan de Geus will now design an information tool that shows the chances of indexation, as well as the probability that the scheme can make its ambitions come true. "Active and deferred members, pensioners as well as potential members, must understand to what degree of certainty their pension scheme is inflation-proof," Depla explains. "The label should be based on the uniform method of the continuity analysis. It must offer clarity on the likelihood that the pension scheme will compensate for inflation. It should also indicate the future indexation, like the risk indication in the 'Financiële Bijsluiter', which nowadays has

to accompany financial products with investment risks. The label should of course leave the legal product characteristics in the pension contract intact."

Depla doesn't know exactly how the pension label should be shaped, he admits. "People should be able to judge the quality of a pension scheme in one glimpse," he says. "I would like to compare the label with that of a refrigerator, which indicates its energy efficiency. I had a system using colours in mind. But it requires experts, like Netspar's scientists, to work out a fine-tuned solution. After all, they have been involved in the development of the Financiële Bijsluiter." The MP is aware of the complexity of the issue. A pension scheme with a high indexation promise, but also with a high franchise, a low build-up percentage and a risk-based surviving relatives pension, could be less attractive than the other way round, he acknowledges. "Everything the sector can add is welcome, but we should keep it simple initially. Otherwise, the

development of the label will take years, and it must be ready by January 1, 2008. The better shouldn't be the enemy of the good!"

What Staf Depla doesn't want as a base for the label is the indexation matrix of pensions regulator De Nederlandsche Bank (DNB). "These are just legal rules, which are excellent in the communication to pensions funds and insurers. But they are totally incomprehensible to ordinary workers, who need to know how pensions will follow inflation," he explains. "The matrix must make clear whether the promised money is available. The label, however, must show the outcome of the combination of the available money and the ambition of the pensions provider." Whilst DNB and fellow-regulator the Authority Financial Markets (AFM) stick to the – slightly modified – matrix, Depla favours the proposal by Netspar researchers: measure buying power in terms of price inflation. "I am convinced that it will work," he says. "Their explanation assisted

"The label requires experts, like Netspar's scientists, to work out a fine-tuned solution."



Staf Depla

me to exactly formulate the difference between the matrix and the label."

The MP acknowledges that an indexation label is no guarantee for a future pension. Several things can go wrong if there is a horizon of decades. Returns on investments can decrease; life expectancy can change, and so may interest rates. "The label doesn't change contributions or schemes. But it will, for example, provide an indication if participants need additional pension insurance over time," Depla stresses.

"What the label should offer is clear information. It can't provide for an individual entitlement. Offering a right to a benefit would be an unconditional promise— with a rise of contributions or a lowered promise as a result."

Netspar Researchers Nijman, Werker and De Goeij:

## "Make Indexation Clear in Terms of Buying Power"

Make indexation clear by measuring buying power in terms of price inflation, so that participants can compare pension schemes. The buying power could be shown in a limited number of classes, based on pessimistic and less pessimistic scenarios.

This is the vision set forth by Netspar researchers Theo Nijman, Bas Werker and Peter de Goeij in *An Alternative Benchmark for Indexation Quality of Pensions*, a contribution to the debate on the indexation label, which is part of the new Pensions Act. The label is meant to clearly show participants their prospects at a particular pension scheme. According to the researchers, the proposed standard could simply be extended to help individuals visualise the uncertainty in the promised buying power in, for example, defined contribution schemes with investment and conversion risks.

"Over time, the measure for indexation could also be extended to a criterion for pension quality, which relates the buying power of the built-up pension rights to the buying power of the present salary," they explain.

"Implementation of any standard requires assumptions on the policy of pension funds, which are quite similar to those of an asset liability management study, which most schemes carry out periodically."

The researchers stress, however, that a field survey is important in ascertaining whether the proposed standard for indexation quality is clear to the participants.

## Choices in Pension Plans

# Are We Willing to Choose and

Risk and responsibility in retirement plans is shifting from employers towards workers, and pension plans are moving from DB (Defined Benefit) to DC (Defined Contribution) systems. What effect does this development have on individuals? Are employees willing and able to deal with more retirement plan choices? Once they have more responsibility in defining their pension plans, what will be the main obstacles? Two Netspar researchers investigate these and other questions, providing a short impression of recent research on decision making (Henriette Prast, Netspar and DNB) and risk aversion (Jan Potters, Netspar and UvT) in the pension domain.

### Henriette Prast – *To choose or not to choose*

Many individuals do not appreciate having the possibility of making choices for retirement savings and investments. They prefer to delegate choices to a pension fund. The main reasons: 1) they do not want to think about retirement or spend time on retirement planning, 2) they are afraid that they would save too little for retirement, and 3) they are unable to make good investment choices. In general, individuals are quite risk-averse in the pension domain – more risk averse than in other domains, or in life in general. Even if they would bear the risk – which they do not appreciate – many employees are not willing to make choices themselves. This seems to be the worst of both worlds.

People have a planner-do-er problem. Their 'planner' has a long horizon and takes both current and future welfare or utility into account when making (saving) decisions. The 'do-er', in contrast, is a 'one-day fly' (as in the Vodafone commercial), and takes over the show when the possibility of immediate gratification presents itself. The

do-er is located in the old part of the brain, whereas the planner is located in our prefrontal cortex. Neuroeconomic research using MRI scans shows how the do-er takes over when immediate benefits are available, even if this harms future utility. Think of smoking, drinking too much, saving too little...

International research shows that individuals are looking for help when it comes to retirement saving. They seem to appreciate being "tied to the mast" by an external authority that helps them save adequately for retirement. Pension funds should therefore devote time and energy to develop default options for pension savings and investments. This would facilitate retirement saving and help individuals to overcome their self-control problem. Pension funds could, for example, in collaboration with employers, develop automatic enrollment in pension schemes. This would respect freedom of choice (individuals can opt out if they like)– but empirical evidence indicates that about 80% of individuals tend to choose for a standard option where they do not need to make an active choice.



# to Take Risks?



## Jan Potters – *Taking risks is a matter of time*

People's savings behavior and their portfolio decisions are affected by their attitude toward risk and time. Eline van der Heijden, Wieland Müller and I are using the CentERpanel to investigate (among other things) whether there is a relationship between people's risk attitude and their time preference. One hypothesis is that risk-averse people tend to be more present-oriented (as the future typically is more uncertain and risky than the present). An alternative hypothesis, though, is that risk aversion and far-sightedness are positively correlated. Both can be seen as manifestations of prudence, which entails an unwillingness to take unnecessary risks and a tendency to be patient and to take precautions for the future.

In this study, 1637 members of the CentERpanel (an instrument used by CentERdata in Tilburg for survey research; the panel consists of over 2000 households in the Netherlands) participated in an experiment in which their real money was at stake. Each panel member had to make a series of decisions in which the choice options varied from the risk involved, as well as to the timing of the payments. The

choices allow for an assessment of participants' risk preference as well as their time preference.

The experimental results suggest that there is no systematic relationship between people's risk preference and their time preferences. People who are more risk-averse are not more or less patient than those who are less risk-averse. This suggests that people's attitude toward risk and their attitude toward time are truly independent preference parameters. Although they are not related to each other, both risk and time preferences are related to background variables. For example, women tend to be more risk-averse than men, and people with higher education tend to be more patient than those with a lower education.

The article of Henriette Prast is based on the following publication: Risk-Return Preferences in the Pension Domain: Are People Able to Choose? Maarten C.J. van Rooij, Clemens J.M. Kool, Henriette Prast, *Journal of Public Economics* (forthcoming).

The research project of Jan Potters, Eline van der Heijden and Wieland Müller is called: Myopia, Loss Aversion, Time Discounting, and their Relation to Socio-economic Variables ([www.netspar.nl/research/micro/2006/summary/potters](http://www.netspar.nl/research/micro/2006/summary/potters))

Supervision

# Streppel Favors One Supervisor for EU



Jos Streppel

Netspar News spoke with Jos Streppel, Chief Financial Officer (cfo) and a member of the Executive Board of AEGON N.V., about the new Financieel Toetsingskader (FTK), and the challenges the insurance industry faces as it strives to meet the new solvency criteria set down by the Dutch Central Bank, and future demands imposed by the EU.

By Margareth Kavanagh

### Setting the standard

Streppel is an authority on these matters, not only because of his many years in the business, but also for his active participation in the numerous industry workgroups that are attempting to find solutions for the regulatory conundrum, without jeopardizing profitability. The two primary groups are the cfo (Chief Financial Officers) forum, which includes representatives of the 20 largest insurance companies, and the cro (Chief Risk Officers) forum. The purpose of the cfo forum is to discuss accounting systems and embedded value, while the cro forum addresses economic modeling in light of the future solvency supervision standards (IFRS 2 and Solvency II), which are expected to be launched in 2008 and 2010, respectively.

### Speaking with one voice

The Dutch insurance industry speaks with one voice, according to Streppel. "That wasn't always the case," he said. "We got our act together sometime between 2002 and 2005. We're working very hard to get the new supervision standards completed, not only for the regulators, but also for ourselves. If the markets are unable to interpret what an insurance company does— what the risks and the returns are—the cost of capital will rise and we'll be unable to compete with other financial services institutions."

### Europe needs to get its act together

"If we want to have an integrated European capital market that can compete with the Asian and U.S. capital markets, we have to get our act together as soon as possible. That means a single supervisor for all of the European Union, and solvency standards that are risk-based. It's the only way we can ensure a level playing field. At this moment, every country has its own supervising authority. So far, the U.K., Sweden and Switzerland are the only countries with risk-based approaches in place. We're almost there. Our pension funds are already risk-based, and a year from now, the insurance companies will be as well.

### FTK compliance

When asked why the insurance industry seems to be lagging behind pension funds in implementing the FTK requirements, Streppel said: "For pension funds, implementing FTK is relatively easy. A pension fund executes one — or at most, two — corporate contracts. But insurance companies have hundreds, if not thousands, of individual contracts. So there's really no comparison between us and the pension funds."



# Campaign Pension Changes Based on Netspar Research



Will my pension be retained when changing jobs?

When changing jobs, employees find their pension plan very important, although they actually know very little about their pension. This is the remarkable result of a survey conducted by the foundation Stichting Pensioenkijsker.nl in cooperation with Netspar. This result, along with the new Pension Act that will take effect on January 1 2007, has prompted the foundation to launch a campaign informing their employees about pension changes when changing jobs.

In accordance with the new Pension Act, both the employer and the pension provider will be obliged to inform employees more fully about the details of their pension. The results of the survey: 'Pensions When Changing Jobs', which was conducted amongst almost 700 employees, suggest that such a requirement would not be an excessive response. Remarkably, a huge number of employees barely know a thing about the state of their pension: a large proportion doesn't even know if it's sensible to transfer their existing pension to their new employer.

70% of the people surveyed thought that their pension plan was 'fairly' to 'very' important. More than a third, however, didn't know whether their pension would be retained when changing jobs, and more than 53% didn't have even the vaguest idea whether it would influence their widow's pension. Of those who thought they did

know, 43% gave the wrong answer.

This result has prompted *Pensioenkijsker.nl* to let all of their employees know about the effects on their pension when they change jobs, which explains why 'Pensions When Changing Jobs' has become their autumn campaign theme. Two consumer brochures have been developed for this campaign. 'A New Job, a New Pension?' informs employees who change their jobs about matters related to pensions. 'First Job... and Pension?' focuses on employees who have just begun their careers. *Pensioenkijsker.nl* has also developed a special toolkit for P&O workers, which contains, for example, additional informative brochures about pensions when changing jobs and a pension terminology list. These brochures, as well as the toolkit, can be downloaded from [www.pensioenkijsker.nl](http://www.pensioenkijsker.nl).

### Transparency on pensions is rewarded

Non-transparency regarding the AOW, the life cycle plan, the introduction of the new Pensions Act; for most people the subject 'pensions' is very difficult to understand. Centraal Beheer Achmea has now tried to solve this problem by introducing the Golden Megaphone. From now on this Pension Insurer will hand out this statue every year to a specific company who contributes to a transparent pension market. On November 16, Stichting Pensioenkijsker.nl was the first company to receive the Golden Megaphone.

Riemen (szw) and Van Essen (PGGM)  
on splitting up pension funds

# Divorces in Pension Land?



Netspar asked Drs. Heino van Essen (chair PGGM) and Drs. Gerard Riemen (Head of the Pension Policy Department of the Dutch Ministry of Social Affairs & Employment, szw) to answer some questions on the actual issue on splitting up pension funds.

**By Clemens van Diek**

*Market forces in pension funds: what can we expect?*

**Riemen:** "The main goal of the statutory outsourcing that is provided for in the Explanatory Leaflet 'De Verkenning' (produced by the szw on 29 October 2004) is to create market forces between the companies where the asset management and the administration are placed (a pension provider). Such a pension provider is a free and competing enterprise that offers its services on the (international) market."

**Van Essen:** "Market forces can influence several decisions: (1) the decision by social partners whether or not to engage in collective bargaining of pension schemes, either on a company level or on an industry-wide level; (2) the choice of a separate legal body, insuring the risks and responsible for ALM (company pension fund, branch-wide pension fund, life insurance company); and (3) the decision by pension funds whether or not to contract out their activities (fully or partially) to a professional provider. These market forces can be strengthened by imposing free competition on the parties involved."

*Won't pensions become the plaything of market forces, with all the inherent risks?*

**Riemen:** "No. The supplemental pension is set up in the same way as the current model is: as a term of employment. What is typical of a fund is that it is collectively organized by the employers and the employees for the sole purpose of insuring against the risks of old age, disability and death."

**Van Essen:** "Schemes based on solidarity can easily be influenced by the interests of commercial providers. Some of the dangers are higher costs and lower service, as a result of fragmentation and a short-term investment horizon – not to mention stakeholders of commercial insurers wanting their share in returns on the invested money..."

*What are the pros and cons of splitting up pension funds?*

**Riemen:** "One advantage of the statutory outsourcing model (especially for partners and management) is that it becomes clearer what a pension fund is. An additional advantage for the social partners is that – because of the release of the fencing-off of the domain – they will be totally free to determine the loyalty scheme with regard to the supplemental pension established by the terms of employment. Another advantage concerns all three parties. After all, a clear separation of responsibilities is

**Heino van Essen** has been appointed as of March 1, 2006, as Chairman of the Executive Directors of PGGM, one of Netspar's partners. Van Essen, who succeeded Karel Noordzij, already was a member of the three-strong Executive Director team. He is responsible for the staff department and the pensions business.

**Gerard Riemen** is Deputy Director of the Directorate for Industrial Relations at the Ministry of Social Affairs and Employment, and Head of the Pension Policy department. Riemen studied Social Security Science at Tilburg University (degree in 1988) and Economics (degree in 1989), is working at the Ministry of Social Affairs and Employment since 1990 and is involved with pension issues since 2000.



established by the way the pension fund is governed. This way, the fund management and the company management are never the same."

**Van Essen:** "I focus on branch-wide funds. Their strength lies in their awareness of the specific needs of the employers and employees they are serving. Once they are split up, there may be a certain danger that customers feel 'treated by the number', especially if they enter into a contract with a provider who has contracted several other funds as well.

On the other hand, the split-up constitutes a transparent governance model, with checks and balances between social partners responsible for the policy of the fund, on the one hand, and a professional board responsible for the quality of the services, on the other.

As a consequence of Dutch pension law, another advantage is that the providers to pension funds are free to provide other income-related products and services related to pensions."

*Do pension funds differ in their opinions about this?*

**Riemen:** "Pension funds actually don't have widely differing opinions about this model. It's not without reason that this model bears a strong resemblance to the model that the vast majority of branch pension

funds have already voluntarily opted for. There are also large enterprise pension funds that outsource their administration. Therefore, in its reaction to the Explanatory Leaflet 'De Verkenning', the labor foundation 'Stichting van de Arbeid' shows that it isn't opposed to the model, but merely denounces the compulsory element.

**Van Essen:** "Branch-wide pension funds hardly differ in their opinion about this subject: most of them have either contracted out or have split up already. Company pension funds have often contracted out their activities as well; if not, their administration is often embedded in the HR department, while the investment process has been contracted out."

*What would be the consequences of a possible split-up for PGGM?*

**Van Essen:** "PGGM is indeed seriously considering a split-up. The intention is to contract out to a separate legal body, which is to be established by the same social partners as represented in the board of the pension fund. Consequently, the office and its employees, including the executive board, will be transferred to the new body."

*When the borders are open, would Dutch funds be able to 'conquer' Europe?*

**Riemen:** "In the new model, cross-border participation is, of course, still possible. But that doesn't mean the funds will conquer Europe. The pensions providing funds, however, can conquer the European market."

**Van Essen:** "Historically, Dutch pension funds are dedicated to the company or the industry for which they are established. So by nature they do not aspire to 'conquer' Europe as if they are profit-driven enterprises. Despite their recently acquired 'European passport', they are firmly embedded in a social system that differs strongly from country to country."



## Netspar-UMBS Academy

# Three-day Modules for Professionals

On March 19, 2007 the Netspar-UMBS Academy will open its doors in Maastricht with a post-graduate three-day course, designed for professionals and board members in the pension and social insurance sector. The Academy is a joint initiative of Netspar and Universiteit Maastricht Business School. Several three-day modules will be scheduled each year, and additional courses can be offered on demand. Each module has a central, current theme that will be interactively approached by prominent international professors.

### Risk and responsibility are moving

The pensions and insurance sector is in a state of flux. Retirement income used to be something that could be taken for granted. Nowadays it is clear that the pension contract is to be reconsidered. Many argue that later retirement and lower pensions are required, simply because retaining living standards of all current pensioners requires too high a level of contributions from companies and employees. Risk and responsibility in retirement plans is shifting from employers towards workers, pension plans are moving from Defined Benefit to Defined Contribution systems and the relations between three pillars of the pension provision (basic state pension, occupational pensions, and private savings) are being reconsidered.

These and other issues are discussed and examined by many different parties: the government, politicians, financial institutions, lobby groups, the business world, employees and academics all over the world.

The Netspar-UMBS Academy, a joint initiative of Netspar and Universiteit Maastricht Business School, offers stimulating education and knowledge sharing on current subjects in the dynamic pension and insurance world.

### A unique initiative

Professor Rob Bauer is the Academy's director. Bauer is professor of Finance at Universiteit Maastricht and is also employed at the Dutch Pension Fund ABP. He states that this initiative is unique. "Retirement is a buzzword nowadays. You can read about it in the press almost every day. Yet, this subject has not been taught on an academic level at most universities in a unified framework until recently, when Tilburg University started a master program in the Economics and Finance of Aging. The new academy in Maastricht offers thematic courses on pension- and life insurance related issues to professionals working in the financial industry and or as board members of, for instance, pension funds and insurance companies. To my knowledge, no postgraduate course is currently offering this type of education."

### First module on Fair Valuation

In 2007 there will be two three-day modules and possibly an additional one-

day event for pension fund board members. In the following years at least three three-day modules will be scheduled. Potentially, the academy will offer additional modules on demand.

Each module has a central, current theme that is approachable for each target group. These themes include, for example, 'Fair valuation and pension management', 'Life cycle investing', 'International comparison of pension systems', 'Solvency risks for insurers and pensions funds', 'Behavioral aspects in the choice of retirement provisions', 'Analysis of annuity markets' and 'Early retirement policies'.

The first module is centered on a topic that has triggered increasing attention for retirement issues: Fair valuation (of pension fund assets and liabilities). Rob Bauer: "Since it is the first module, we kick-off on March 19 with a special event with distinguished speakers. We will invite board members of the Netspar partners to make an interactive case on fair valuation and pension fund governance."

### The Netspar-UMBS Academy in a nutshell

- Unique post academic education in the field of pensions and insurance
- Interactive, thematical approach
- International top lecturers and participants
- Each series of courses specifically developed for the target group

### Target groups:

- Managers and policy makers of pension funds, insurance companies, public sector, and supervisory boards
- Professionals from the financial sector and the public sector and government (investors, economists, controllers, actuaries)

More information: [www.umbs.nl/academy](http://www.umbs.nl/academy)

**"The new academy offers thematic courses on pension- and life insurance related issues."**

# Education

## Master in Full Swing

# Internships Available!



Theo Nijman (r) in conversation with two of the MSc students

The MSc program Economics and Finance of Aging made a successful start in September with no less than 30 students participating in the full program. But also many students from other programs take courses from the Netspar master program as electives. For example, almost 50 students attended the course *Introduction to Economics and Finance of Pensions and Aging* taught by Lans Bovenberg and Sweder van Wijnbergen. As 50 percent of the students participating in the full program are non-Dutch and one-third is non-European, the program is a truly international one.

### Working hard and socializing

Although they have to work very hard, many students found the time to attend the reception on September 14, where Theo Nijman welcomed the students on behalf of Netspar. The reception provided an excellent opportunity for students to meet the instructors in the program and the Netspar staff.

To encourage the implementation of a new and ambitious program like this, Netspar has formed a sounding board, consisting of a number of students participating in the program and the program director. This group meets regularly to discuss the program and to suggest improvements.

### Internships

Currently, the program management is organizing internships with Netspar partners. These internships form a unique and important element of the Netspar master program: most students will conclude the program by writing an MSc thesis based on an internship with a Netspar partner, and supervised by a Netspar researcher. This set-up ensures that students write their thesis on a subject that

is relevant for the sector and also stimulates interaction between Netspar researchers and partners. The Netspar partners were also invited to propose internship projects, resulting in a number of interesting proposals.

It is still possible to send in internship proposals, for instance, by making use of example internship topics set up by Netspar researchers. Examples include Housing as a Pension Income, Pension Benefits in terms of Health Care and Housing Services, Long term Portfolio Choice with VaR Constraints, Pricing and Welfare Effects of Annuities in case of Macro Longevity Risk, and Determinants of Longevity Risk. The complete list of example topics, including a short description, as well as further information, is available at our website: [www.netspar.nl/master/internships](http://www.netspar.nl/master/internships).

If you want more information about the internships, please contact Fred Hoogeland ([F.W.Hoogeland@uvt.nl](mailto:F.W.Hoogeland@uvt.nl)) or Bertrand Melenberg ([B.Melenberg@uvt.nl](mailto:B.Melenberg@uvt.nl)).

Employees of Netspar partners can join the (separate) courses free of charge. More information: [www.netspar.nl/master/internships](http://www.netspar.nl/master/internships)

## Partner Profile

Jan Marc Berk, Head Financial Research

# De Nederlandsche Bank



Jan Marc Berk

De Nederlandsche Bank (DNB) aims to safeguard the stability of the Dutch financial system and of the institutions that affect that system. Uniquely equipped to accomplish this mission, DNB combines a variety of interconnected tasks that yield important synergies. We contribute to defining and implementing the single monetary policy of the countries that have introduced the euro. We are entrusted with oversight of the payment system and strive to ensure its smooth operation. Last but not least, we make sure that financial institutions are, and remain, financially sound. In executing these tasks, DNB seeks to take into account the most recent academic and other relevant insights. By conducting and supporting research in these areas, we also keep the quality of our human capital up to date. DNB therefore can be characterized as a knowledge-intensive and independent institution, implying that we are also a valuable economic advisor to, for example, the Dutch government. DNB, while part of a European family of central banks, remains firmly anchored in Dutch society, ready to use high quality economic arguments to contribute to public policy discussions in the Netherlands.

Prudential supervision by DNB is aimed at protecting the interests of consumers of financial services. Disturbances in the financial system may have considerable adverse effects on individuals and the economy in general. This requires sound supervision, although supervision alone cannot rule out all incidents. In recent years, supervision has become more market oriented, prospective, principle based, efficient and risk oriented. The latter implies that supervisory resources are allocated to areas where the risks are considered to be relatively high. This may relate to specific themes that temporarily require additional supervisory resources: integrity is currently an example. The main tool we have for assessing the risk profiles of institutions is the supervisory tool called FIRM, which is the acronym for Financial Institutions Risk analysis Method. Our risk-oriented approach is also supported by national and international supervisory frameworks, such as Basel II for banks, Solvency II for insurance companies and the Financial Assessment Framework (or in Dutch 'Financieel Toetsingskader') for pension funds. The Financial Assessment Framework, which was developed at the behest of the industry supervisor several years ago, has become a solid part of the new Pension Act and will be fully implemented starting next year.

As mentioned above, a solid foundation of knowledge and the availability of high quality financial-statistical information are essential for the proper performance of DNB's tasks. Research is key in this respect. To keep focus, DNB has defined four areas meriting additional research: the structure of (European) supervisory systems, the functioning of the insurance market, the development of payments in Europe and the sustainability of our pension system.

With respect to the sustainability of our pension system, DNB aims to add value to the general debate on pensions, aging and macroeconomic policy. This is of course related to DNB's role as an independent economic advisor. Specific themes that DNB is currently actively researching relate to optimal pension deals and risk sharing, social developments that influence the second pillar of our pension system, international comparisons of pension systems and the design of optimal supervisory tools. Besides laying the groundwork for a continued high quality execution of the tasks described above, these research programs signal DNB's commitment to being a knowledge-intensive institution, which in turn has benefits in terms of recruitment and talent management.





#### DNB and Netspar

Seen from this perspective, it goes without saying that DNB is fully committed to Netspar. We participate actively in Netspar's research program, by dedicating three DNB researchers specifically to this task. Several other DNB staff members also participate in Netspar, and we have internships available for students interested in studying (policy- or research-) problems related to pensions, aging and retirement. Furthermore, we are currently investigating the possibilities Netspar offers in terms of education— for example, via the Master's program on the Economics and Finance of Aging and the brand-new Netspar UMBS Academy. We consider Netspar to be an important discussion platform, from an academic as well as a policy perspective. For instance, Netspar has launched discussions on the supervision of pension funds, the transparency of indexation policy and the promotion of the Netherlands as an important player in the European pension market. In short, we are very satisfied with Netspar and the catalyst function it performs.

#### Annual conference in March 2007 co-hosted with Netspar and IOPS

This catalyst function of Netspar has proven to be invaluable for the annual conference that DNB is organizing in Amsterdam on 22 and 23 March 2007, together with Netspar

and the International Organisation of Pension Supervisors (IOPS). The conference title is 'Exploring the future of pension finance and the dynamics of institutional pension reform'. It aims at providing guidance for decision-making in the area of pension reform. The fact that the International Organisation of Pension Supervisors

(IOPS) is also co-hosting the conference gives an extra international dimension to the conference setting. We trust that this conference will be instrumental in increasing our understanding of the economic issues surrounding pensions, aging and retirement.

#### Annual Conference 2007:

### Pension Finance and Pension Reform

**DNB – IOPS – Netspar**

**March 22–23, 2007 – Amsterdam, The Grand**

In 2007 the annual Netspar conference will be jointly organized with De Nederlandsche Bank (DNB) and the International Organisation of Pension Supervisors (IOPS). The conference is entitled *Exploring the future of pension finance and the dynamics of institutional pension reform*. The following renowned opinion makers on pensions will contribute to this promising event: Keith Ambachtsheer, David Blake, Zvi Bodie, Axel Börsch-Supan, Lans Bovenberg, Jon Exley, Jeremy Gold, Richard Hinz, Raimond Maurer, Olivia Mitchell and Luis Viceira. The keynote speech will be delivered by Lucas Papademos, vice president of the European Central Bank.

Topics that will be covered are:

- Recent developments in pension finance and actuarial science
- Institutional design of the pension system
- International dynamics in the field of pension supervision

This conference will aim to provide guidance for future decision-making. It targets prominent scholars on pension theory, established practitioners, as well as influential policymakers and supervisors. More information: [www.netspar.nl/events](http://www.netspar.nl/events)

Successful Pension Workshop Netspar and PGGM

# "Pension Providers Must Deliver More than Pensions"



Heino van Essen, PGGM

The Pension Workshop, in Zeist on June 12-13, 2006, combined the highest level of scientific research with discussions of the potential impact on society and the implications for public policy on retirement and pensions. The two-day event, jointly sponsored by Netspar and PGGM – the Netherlands' second leading pension fund –, was attended by nearly 100 pension scholars and practitioners from across the country.

**By Margareth Kavanagh**

PGGM, co-sponsor of the workshop, played a key role in the two-day event. Heino van Essen, Chairman of PGGM's Executive Board, opened the public session of the workshop. In addition, René van de Kieft, CFO of PGGM's Executive Board, took part in the panel discussion, which rounded out the workshop's activities; Paul Wevers, PGGM's Director of Corporate Communications, served as MC of the panel discussion, while several PGGM employees were among the audience.

Professors Peter Diamond, of the Massachusetts Institute of Technology (MIT), and Michael Hurd, Director of the RAND Center for the Study of Aging and a research associate with the National Bureau of Economic Research (NBER), served as the academic lecturers.

Jan Willem Oosterwijk, Secretary General of the Netherlands Ministry of Finance, was on hand to discuss the government's perspective on the issues of pensions and social security in the Netherlands in light of an increasingly aging population.

### **A day and a half of hard-core science**

The first day and a half of the workshop, which was open only to Netspar researchers and practitioners from Netspar's public- and private sector partners, focused on science. Michael Hurd discussed the development of the life-cycle model (LCM) and its predictions about consumption and saving by singles and couples following retirement. In a later lecture, Michael Hurd reviewed the empirical evidence regarding the validity of the LCM in real-life situations. With a wide range of variables, including financial status and health, it is often difficult to apply the LCM to predict actual saving and consumption behaviors of the elderly.

### **U.S. Social Security system scrutinized**

Peter Diamond, one of the world's most highly respected pension experts, discussed the U.S. Social Security system (the U.S. public pension system) and the reforms that have been proposed to bail out a system many consider to be on the brink of

insolvency. In his three academic lectures, Diamond discussed various aspects of the U.S. system, including eligibility rules, tax incentives and benefits, comparing defined contribution plans with defined benefit plans. A key component of Diamond's lectures involved the notion of inter- and intra-generational risk-sharing. There is a wide range of variables that must be considered in any pension scheme, whether public or private, and the willingness to share risks in order to more equitably share benefits is essential.

### **PGGM Chairman launches final session**

Heino van Essen kicked off the final afternoon's program, which was open to the public and the press. Van Essen discussed PGGM's position in the Netherlands' pension system, asserting that both employers and employees demand more freedom of choice in their pension schemes: "Pension providers must deliver more than simply pensions," he said. He broached several questions regarding the role of government, the social partners and pension funds. "At what point do these roles converge?" he pondered. "And how can the government, social partners and pension funds strengthen each others' input to their mutual benefit and the benefit of pensioners?"





Have a break!

#### The government's perspective

The last segment of the workshop focused on the policy implications of pension decisions. In addition to Hurd and Diamond, Jan Willem Oosterwijk, Secretary General of the Netherlands Ministry of Finance, addressed the gathering. Oosterwijk discussed the role of the government in delivering social benefits to the post-retirement population. The theme of his speech was sustainability: economic, financial, and social sustainability. He addressed the issue of solidarity and posed the question: how much government intervention is desirable? Oosterwijk praised the three-pillar Dutch system, citing its outstanding reputation in international circles. Despite the system's solid reputation, changes will have to be made to ensure continued sustainability, he conceded—particularly in light of demographic changes, most notably the declining birthrate and increasing average age of the population.

#### Expert panel responds to audience questions

The final item on the information-packed agenda was an open panel discussion, moderated by Paul Wevers, of PGGM. Members of the audience asked questions on a wide range of topics, eliciting responses from the expert panel, which included Peter Diamond, Michael Hurd, Jan Willem Oosterwijk and René van de Kieft. Panelists discussed the hidden costs inherent in pensions and how they can be offset. It was suggested that workers could lose as much as 25% of their pension payouts as a result of such costs. In addition, the issue of an emerging class of elderly poor was raised, with panel members proffering ideas for preventing such a development, or at least mitigating the adverse effects on less well-off retirees.

The trustworthiness of government, or the perception of its trustworthiness by the people, and the issue of choice vis-à-vis increased costs were also broached. Panelists were asked to comment on pension portability in the European Union, which raised the issue of labor mobility, which is much less common in Europe than it is in the U.S. It was suggested that defined contribution—rather than defined-benefit plans essentially preclude problems related to portability. At the conclusion of a very intense two days of serious discussions and analysis, the participants continued to debate these important issues informally over drinks and hors d'oeuvres.

Separate interviews with Peter Diamond and Michael Hurd are available on the website: [www.netspar.nl/events/interviews](http://www.netspar.nl/events/interviews)

**"How can the government, social partners and pension funds strengthen each others' input to their mutual benefit and the benefit of pensioners?"**



# Exploring the Dutch Pension Landscape



This brainstorm meeting on October 5 explored the future of the Netherlands as a pension country. The impact of European directives on the Dutch pension landscape was one of the issues discussed. The new European IORP directive views a pension fund as a financial institution that offers pensions and other related products. This may have consequences for the way the Netherlands implements the compulsory participation of employers in sectoral pension funds. Various ways to make this compulsory participation and collective pension funds compatible with European competition rules were discussed in order to maintain the strong aspects of the Dutch pension system.

It is also not clear whether the current Dutch rules for dividing the market between pension funds (who can provide compulsory, collective pension products) and insurers (who can provide individual pension products) are sustainable in light of European competition rules. Various alternatives were discussed, also in light of the desire of social partners to offer participants of pension funds integrated financial products (i.e. combinations of collective and individual products).

**Governance structure of pension funds**  
Europe provides not only challenges to the current Dutch pension landscape but also opportunities for attracting business in Europe. Several ways to take advantage of these opportunities were investigated. It was noted that the Dutch pension system, which still involves some defined-benefit elements, is quite different from pension systems in most countries, which tend to be based much more on defined-contribution systems. Apart from European regulations,

European business opportunities, and the need to protect the strong aspects of the Dutch pension system, the current governance structure of pension funds was discussed. How will the governance structure of Dutch pension funds evolve in the years to come in the light of European trends, increased individualization, aging and the need for professional internal supervision?

### **More discussion on Netspar Debating Days**

In future meetings, Netspar will continue to discuss the opportunities and challenges provided by European regulations and market developments for the Dutch pension system and its possible impact on the structure of the pension industry. To encourage this discussion, Netspar will organize two debating days each year. The first one is scheduled on April 26, 2007 in the new Geldmuseum in Utrecht. Representatives from academic and non-academic partners, as well as international academics, will act as discussants. Netspar also will commission papers about these topics that will be available to Netspar partners. In fact, Netspar partners will be asked to comment on these papers before they will be published.

# How to Eliminate the Sustainability Gap

From left to right Syp Wynia (columnist Elsevier), Frank Kalshoven (columnist De Volkskrant and director Argumentenfabriek) and Coen Teulings (CPB and Netspar) debating in The Hague.



An animated discussion on Wednesday October 11 took place at the *Rijksacademie voor Financiën en Economie*. Netspar and the Academy jointly organized this event with reference to the publication of the 12th report of the 'Studiegroep begrotingsruimte'

Laura van Geest (Treasurer, Ministry of Finance) summarized the results of the report prepared by the study group on fiscal policy, which consists of high-ranking civil servants of various ministries and representatives of the Dutch central bank and Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau). One of the main conclusions is that the Dutch government should announce during the next cabinet period (2007–2011) how it will eliminate the sustainability gap of about 2% of GDP as computed in a recent CPB report on aging. In his role as discussant, Sweder van Wijnbergen (Netspar and University of Amsterdam) provided various critical remarks on the report of the study group. In his view, the report did not adequately take to heart the lessons of the past two decades during which fiscal policy has often destabilized the macro economy by acting in a pro-cyclical fashion. Among other things,

he advised the government to better correct the spending ceilings for the business cycle. He also indicated that the study group should have analysed in more depth the various possible measures to contain the sustainability gap, addressing time inconsistency of policy makers and the option value of waiting.

As a renowned columnist, Frank Kalshoven argued in favour of an independent fiscal policy board in analogy of an independent central bank in order to protect young and future generations against short-sighted

politicians. This led to a lively discussion. As member of the concluding panel, Coen Teulings (CPB) noted that in the Dutch policy setting, the independent CPB and various study groups already help the government to pay sufficient attention to long-run implications of fiscal policy. He also observed that the recent CPB report was probably too optimistic about the costs of aging in view of a rather low estimate for the growth rate of health spending.

**"Protect young and future generations against short-sighted politicians"**

# Short News

## Workshop Choices in Pension Contracts January 26, 2007 – Amsterdam, VU

In many countries worldwide, participants of pension schemes have a wide variety of choice options. They can, for example, choose how much to contribute to the scheme, how to invest the funds, when to retire and whether or not to take their retirement income in the form of an annuity.

Choice options have advantages as well as disadvantages for the participants. During a workshop on January 26, 2007 ABP, VU Amsterdam and Netspar discuss the pros and cons of choices in pension contracts. This workshop is part of a three-day conference where researchers discuss a number of pension topics. On Friday morning professionals from the pension and research sector will survey a number of pressing research questions. The afternoon workshop and a debate with students will be the interactive wrap up of the conference. The keynote speakers are:

- Mark Rutte (Leader Dutch Liberal Party VVD),
- Edith Snoey, (Chair ABVAKABO FNV),
- Dick Sluimers (Acting chairman of the Board of ABP),
- Gur Huberman (Columbia University, Graduate School of Business).

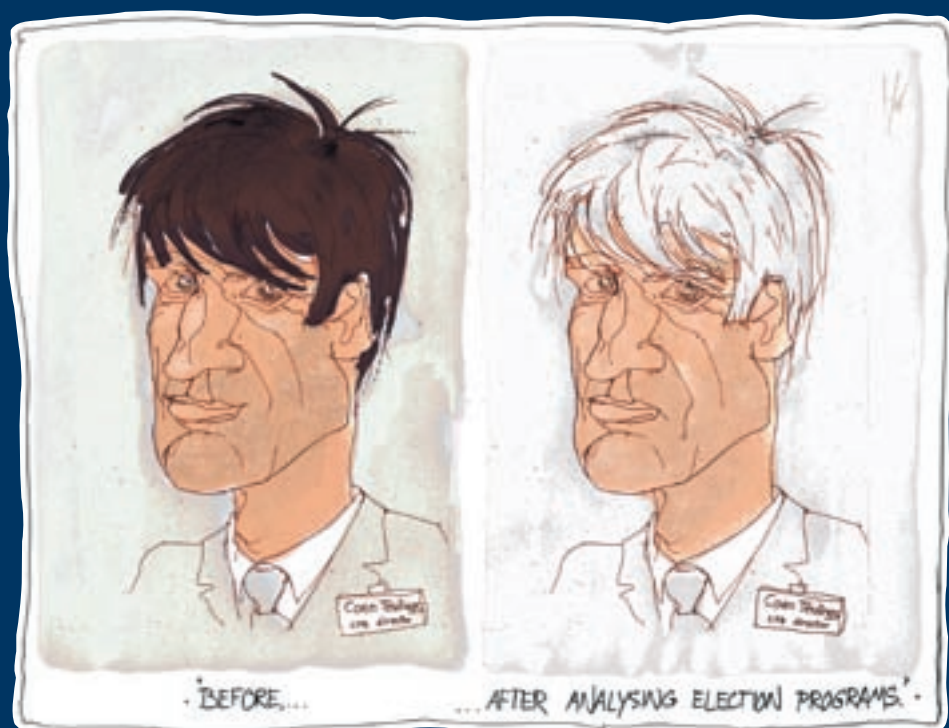
Netspar members and interested from the pension and insurance sector are invited to attend the full-day program or just the afternoon session on the 26th.

More information: [www.netspar.nl/events](http://www.netspar.nl/events)

## Ex-Minister Bert de Vries New Netspar Fellow

Netspar benefits from the advice of four senior pension industry professionals. Recently a fifth fellow was appointed: former CDA-politician Bert de Vries. De Vries was chairman of the CDA in the Lower House from 1982 to 1989 and Minister of Social Affairs and Employment in the third Lubbers cabinet (1989 to 1994). Subsequently he was chairman of the svb (Sociale Verzekeringsbank) and of the pension fund ABP. In 2005 De Vries published *Overmoed en Onbehagen*, a book that criticized the aging policy of the Balkenende cabinet. From his vast experience Bert de Vries will assist Netspar on how to facilitate interaction between academia and practitioners and serve as Netspar's ambassador.

The other four Netspar fellows are: Dick de Beus (ex-PGGM), Jean Frijns (ex-ABP), Jan Nijssen (ex-ING), and Jan Overmeer (ex-AEGON).



Netspar Partners

