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Netspar has been successfully evaluated, and thanks to this positive result all partners have prolonged their commitment.

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The rise in life expectancy has contributed importantly to the aging of western populations. Aging poses great challenges to the modern welfare state, not only by threatening the sustainability of pension systems but also by inducing a greater demand for social services, including health care. How can we alleviate the societal consequences of the aging of populations? If we live longer, can we live in good health as well? What are the effects of conditions early in life on our health in later life? What are the consequences of longevity for social insurances? Three articles will try to give an answer to these questions.

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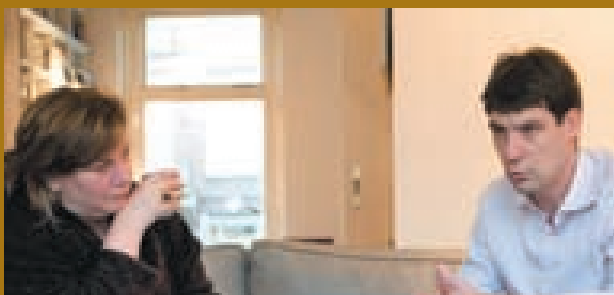
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Netspar has initiated a number of instruments to deepen the relationships with its partner institutions. One of these instruments is a task force that aims at sharpening pension issues.



Netspar Successfully Evaluated

All Partners Have Prolonged their Commitment

The first three years of Netspar have been successfully evaluated. We are very pleased with the fact that, following this result, all of our partners have prolonged their commitment to Netspar. The Dutch government and the private partners from the pension and insurance sector jointly raised € 14 million to finance Netspar's plans for the period until April 2011. These plans aim at developing Netspar as an international knowledge network in order to promote strong pension systems in Europe and to expand the innovation chain.

Scientific and national significance

A special evaluation committee consisting of representatives of Netspar partners and NWO assessed Netspar's first three years, based on the input provided by the partners, the Scientific Council and the Netspar staff. Another relevant source of information was the Self Evaluation written by the Netspar directors. In May, the Evaluation Committee presented its findings. The overall judgement was very positive. Both the scientific and the national significance for the sector were considered 'very good'. Following this positive result, all private partners prolonged their commitment to Netspar: 5 million euro in total. Accordingly, the Dutch government funded the development of the research network, with a grant of 9 million euro.

Expanding social innovation to a European level

The new financial injection enables Netspar to focus on internationalisation of our research activities and on expanding and exporting Dutch pension knowledge. Stronger capital-funded occupational pension systems in other European countries would strengthen the political support for European regulations that better suit the Dutch pension system and may lead to important business and investment opportunities for Dutch insurers and pension administration companies. Netspar aims to export and import knowledge on aging and pensions by cooperating with international researchers, by acquiring EU research funding, and by organizing international conferences.

As a major first step, the European Science Foundation selected Ageing, Health, Pensions in Europe in 2007 as one of two new topics in the Forward Looks research program. Netspar will be actively involved – together with other European research institutes – in defining the European research agenda on pensions, aging and health for the next five- to ten years. This agenda will enable funding agencies to plan their resources to meet future needs.

Intensifying the knowledge transfer

In addition to intensifying the partner contacts, Netspar aims at expanding its network with new partners. Netspar also intends to enhance links with the Dutch financial sector by cooperating with Holland Financial Centre (HFC), a joint initiative of several Dutch financial institutions aimed at making the Netherlands a more attractive location for the financial industry. The intended cooperation between Netspar and HFC will focus on exporting and importing pension expertise.

The commitment of our partners will help Netspar become the intellectual conscience of the pension and insurance sector and a preferred supplier at the beginning of the sector's innovation chain!

The commitment of our partners
will help Netspar become the intellectual conscience
of the pension and insurance sector

Health and Aging

Living Longer in Good Health



Johan Mackenbach

'Since health problems are sometimes traceable all the way back to the womb, healthcare should actually start before birth. However, most seeds of unhealthy behaviour are sown in young adulthood. It's during the late teen years that people usually develop habits for later in life, such as smoking and drinking – but also good habits, like the practice of sports.'

By Leen Preesman

'This is the age group we'll focus on. We will try to find out how the period of ill-health during old age can be shortened,' explains Johan Mackenbach, head of the department of public healthcare of Erasmus University Rotterdam (EUR). Mackenbach is also the theme coordinator for the six PhD students at EUR and Netspar who are looking into how the healthcare system can be used as part of the solution for population aging.

How to increase good health

The 20th century's rise in life expectancy is one of the great successes of public health, but it has contributed significantly to the aging of Western populations. Aging poses a great challenge to the modern welfare state, putting increasing pressure on the sustainability of pension systems and social services, including healthcare. Solid evidence suggests, however, that many manifestations of ill health later in life can be prevented through lifestyle improvement and early detection, as well as treatment with drugs and surgery, and functional rehabilitation through training and replacements, such as hips and joints. According to Mackenbach, 'If we want to cushion the economic effects of population aging, we need to increase the life expectancy in good health. In that case, people can also contribute longer to society.' He points out, 'The solutions we are looking for will allow people to be active longer in society, to look after

a dependent partner and to live longer independently.' With regard to pension funds, 'it could mean that participants are able and willing to continue working longer, and therefore prolong the period they pay contributions.'

Average age still rises

'The first signs of health problems usually appear around the age of 60. They often make people pause to consider whether they actually want to continue working until the official retirement age of 65. If we could shift this moment of reflection to 65, or even 70 years of age, then an important factor for early retirement would be removed.'

Statistics show that the average life expectancy continues to rise. Between 1989 and 2005, the average life expectancy of a Dutch male increased by three years to 76.7 years, while the average life expectancy of his female counterpart rose by 1.1 years to 81.2 in the same period.

The main cause of this long-term trend is the increase in prosperity and living conditions, according to Mackenbach. 'The next important factor is public health: the prevention of illnesses through, for example, measures against smoking and for traffic safety. And there is, of course, medical healthcare. Its significance for life expectancy has grown, particularly due to new effective treatments of cardio-vascular diseases.'



Best approach seems to be preventative measures.

According to Mackenbach, average life expectancy has been rising at an even higher rate during recent years. 'We think it may partly be due to the mild winters, which result in a lower mortality among the elderly,' he says.

Compression of ill-health period

'Parallel to the rise of average life expectancy, the compression of the period of ill-health in the Western world, including the US, has also been considerable', the scientist continues. 'This is probably caused by improved healthcare, and the development of replacements, such as hearing aids and artificial joints, as well as the treatment of cataracts.'

'In the Netherlands, the period of ill-health and other limitations has, during the past 14 years, undergone a postponement of sorts: it now commences 3.5 years later. However, compared to other countries, the figures seem to be too good to be true. Therefore, we need to check whether this improvement is real. But as similar developments have been observed in other Western countries, an improvement seems certain.'

Intensify fight against smoking, alcohol and obesity

Mackenbach believes that, at the moment, the best way to shorten the period of ailing is through preventative measures. 'We must intensify the fight against smoking, excessive alcohol use and obesity (as well as the high blood pressure that often comes with it). Furthermore, we must stimulate physical exercise,' he stresses. 'Not only the healthcare system, but also employers and life insurers should play a role in this, because they will benefit from improvements as well.'

Mackenbach notes that, 'not all preventative measures lead to shortening of the period of ill-health.' Smokers tend to die quite quickly. And if they stop smoking, their period of health problems is extended. But if they kick their habit, the period of ailing starts later. So, on balance, giving up smoking is still better.' He adds, 'The same goes for overweight people who manage to get rid of their extra kilos. Even if this happens in middle age, it will still have a positive effect on their life expectancy in good health. Also changes in living conditions and health behaviour during middle age help to improve the health of the elderly.'

Nothing ventured, nothing gained

As the research started only in September last year, the scientists can't provide as yet any detailed solutions. Mackenbach is optimistic: 'In three years' time, we expect to have a much clearer picture of the most effective methods. By then, we must also be able to provide a proper indication of the costs and returns for employers and insurers.'

The lead researcher doesn't provide an opinion about who should pay for the compression of morbidity. 'It's clear that at least part of it must be bought in advance through increased healthcare. For after all, nothing ventured, nothing gained...!'

As far as Mackenbach is aware, there is no policy based on the issue in place anywhere else in the world. 'Scandinavian countries are more active in dealing with workers' healthcare through lifestyle programs and fighting unhealthy labour conditions,' he says.

How to Postpone the Bad News?

The Relation between Health and Socioeconomic Status



Maarten Lindeboom

In the Netspar Panel Paper *Birth is the messenger of death – But policy may help to postpone the bad news*, Maarten Lindeboom and Gerard van den Berg investigate the relation between health and socioeconomic status (SES). More in general they investigate the dynamics of work, health and SES at advanced ages. An interview with Maarten Lindeboom.

by Gerardo Soto y Koelemeijer

The title of your article sounds dramatic. What can we expect on the basis of the title?

The first part is a Syrian saying. The idea was to indicate that early-life conditions are important for mortality and health at advanced ages. The subtitle indicates that we actually can take precautions. Early-life conditions (ELCs) can be important in two ways. They can have a direct influence on health and mortality, or they may have more of an indirect influence. Consider how ELCs influence education, which in turn influences health and thus SES, which in turn influences work and again health.

We all are familiar with the chicken-or-the-egg problem. The same relation may be found between SES and health; it's clear that SES can affect health, but also the other way around is true. How to proceed?

The ideal case would involve using an experiment. Since we deal with people, however, this is obviously impossible. As a second-best solution, we try to approach the pure experimental set-up by looking at variations in nature. When variations can be found with respect to early-life conditions, which are independent of mortality, one can measure the effect of ELCs on health and mortality. In the literature one can identify three types of so-called instrumental variables, all of which represent a shock. The first is season of birth. The month of birth has no other effect on health outcomes later in life than

by way of the early-life conditions of the child. Disastrous events are the second type of variation (e.g. epidemics, famines and wars). There are studies based on the Dutch hunger winter (1944–1945), the Dutch potato famine (1846–1847), China's great famine in the early 1960s, the 1918 influenza epidemic and so on. A third type is the fluctuation in economic conditions. The literature indicates that both paths, direct and indirect, are most likely important. The literature also indicates that in the early stages in life, the relation from SES (mainly education) to health may be very important, whereas in later stages in life (middle- and old ages) there may be important effects from health to SES. Concerning the latter, health problems can lead to more expenditure on care and labor outflow. Early in life, it turns out that one aspect of SES, namely education, is very important, since education not only increases income and labor market opportunities, but also positively affects health-enhancing behavior.

What kind of policy can help to postpone the bad news?

Policies should focus on vulnerable families, since this can be effective in improving the health of the next generation. Furthermore, education is undoubtedly one of the strongest determinants of social and health outcomes later in life. The literature suggests that the effect of education on health (behavior) is causal, and likely to be of core importance for later-life health. Educational interventions, especially when targeted at vulnerable families, can be very effective in improving health and social outcomes.

The effect of education on health is causal and of core importance for later-life health.



Early-life conditions can have a direct influence on later-life health.

As a result of aging societies, there is a trend going on in Europe towards working longer, in order to sustain public finances. In 2006, the OECD presented a report entitled 'Live longer, work longer.' You state, however, that younger or future cohorts do not necessarily live longer in better health. Can you explain this apparent contradiction?

The statutory age of retirement is 65. This was determined in 1957, however— when life expectancy was only a 'few' years above the retirement age. Life expectancies have increased considerably over the last fifty years. Furthermore, we work less, which means that the retirement age could be increased, even if future cohorts might not live longer in better health. Finally, it may be true that working longer is better for our health.

We all know stories about people who die around their age of retirement. Perhaps retirement can be experienced as a shock to some people, since so many changes in one's life take place. Can it somehow be shown that this is indeed the case— or is it a myth?

In general, this is not true. It is, however, the case that dramatic events in the last stages of life are important for morbidity and mortality. Examples of these shocks are the loss of a child or a partner. Research has indicated that mortality risks increase sharply just after these events, and that it takes several years for the surviving partner to overcome these shocks and to neutralize the risks.

In evaluating one's own health, some people might overreact, and choose to retire earlier. This is known as justification. People also tend to adjust to the social norms of their environment. What kind of policy measures could be devised to sidestep these problems?

The question could really be stated as follows: is this about actual health differences or do people merely perceive their health to be bad? The follow-up question is then why this is so. It is important to focus on increasing the labor force participation among the elderly, but one can also wonder why about 20% of the

50–55 year olds do not participate. Human capital (including health and education) is likely to be key. The government should in this case invest in the human capital of people, starting very early in life. This accomplishes two things: not only improving health at advanced age, but also increasing the set of labor market opportunities. Also important is investment in non-cognitive competences, such as discipline, motivation etc. If it turns out that there is nothing wrong with the workers' health, and that what we see is strategic report behavior, then active labor market policies may be more effective in improving participation rates.

PhD Thesis Norbert Hari

Modeling Mortality

The population of many countries will undergo dramatic changes in the coming decades due to continuous increases in life expectancy. Low fertility rates and the fact that people seem to live longer contribute to an increasing share of elderly people in the total population in the future.

By Clemens van Diek

In his dissertation, Norbert Hári analyzes the interaction between ageing and financial markets, and considers the implication of longevity and related risks on the value of financial instruments linked to human survival, such as life annuities. The central theme is longevity risk. Institutions offering products that depend on the lifetime of an individual meet with micro-longevity risk, simply because lifetime is uncertain. This type of risk falls significantly when portfolio size is increased. Mortality patterns may also change over time due to, for example, improvements in standards of living or in the medical system, which might create a significant exposure to macro-longevity risk – a risk that clearly cannot be diversified by increasing the portfolio size.

Hári presents an overview of the evolution of life expectancy for selected European countries, with an emphasis on the Netherlands. Table 1 shows a clear pattern of increasing life expectancy for all countries in the second half of the 20th century. The expected lifetime at birth shows an improvement of more than ten years in the case of Austria, Belgium and France between 1950 and 2000. Spain experienced an improvement of more than 15 years. Most of these increases were likely due to medical advances and better standard of living. In all countries, the expected lifetime for women is higher than that for men. In 2050, the life expectancy in most countries

(except for Hungary) is expected to exceed 81 years for men and 85 years for women.

Table 2 shows that women with average education at the age of 20 are expected to live 5.4 years longer than men. The difference in expected lifetime is presented among cohorts with different educational levels. Twenty-year-old higher-educated men are expected to live five years longer than men with the lowest education. Besides the differences in educational level, gender or age, other characteristics, such as different area of residence (rural/urban areas) or ethnicity, may also cause mortality rates to vary.

Gender	Male	M	M	M	Female	F	F	F
Year of birth	1950	1975	2000	2050	1950	1975	2000	2050
Austria	62.2	67.7	75.0	82.8	67.3	74.7	81.1	87.2
Belgium	63.8	68.8	74.6	82.1	68.9	75.2	80.9	87.5
Denmark	69.1	71.3	74.4	81.4	71.5	77.0	79.1	85.2
UK*	66.5	69.7	75.7	82.4	71.3	75.9	80.4	86.7
Germany**	n/a	68.1	75.3	82.0	n/a	74.7	81.2	86.8
France	63.4	69.0	75.3	82.3	69.2	76.9	82.8	87.9
Hungary	59.9	66.3	67.4	78.1	64.3	72.4	76.0	83.4
Italy	64.0	69.5	76.6	82.8	67.5	75.9	82.5	87.8
Spain	59.4	70.5	75.8	81.7	64.2	76.3	82.7	87.3
Netherlands	70.3	71.5	75.7	81.1	72.6	77.7	80.8	85.2

Table 1: Life Expectancy at Birth in EU Countries

Table 1 presents gender-specific historical and forecasted expected lifetime at birth in years, in selected EU countries.

* England and Wales. ** West Germany (1975, 2000). Source: Hari, p. 3.



If future probabilities of survival were known with certainty, then the expected lifetime and the expected number of people dying in a given year would also be known with certainty. However, the lifetime of an individual and the realized number of deaths in a pool are uncertain ex ante. In an infinitely large pool, on average, people die according to expectation (Law of Large Numbers). However, survival probabilities in the future are far from certain. This creates an additional source of uncertainty. In order to measure and manage this risk, we need to model and forecast survival probabilities. This is the central theme of Hári's thesis. When calculations are made of the contribution rates of the policyholders of a given life annuity contract or of the price of a life insurance contract, the uncertainty around the forecasts must be incorporated into the prices. For instance, pension funds or annuity providers are exposed to a substantial amount of loss if the survival

prospects of the existing policyholders improve significantly and the effect of the realized improvement was not incorporated into the pricing and reserving calculations. Conversely, life insurers may face the risk of an unexpected drop in future survival rates.

The dissertation models the macro-longevity risk and introduces a stochastic model for human mortality rates. Furthermore, the author analyzes the importance of mortality improvement and mortality risk (macro- and micro-longevity risk and parameter uncertainty) on solvency positions of pension funds of various sizes. Finally, he measures the present value of a single year of participation in a collective pension scheme consisting of heterogeneous participants with respect to survival characteristics, and quantifies the incentives for individuals that participate in such systems.

Norbert Hári (1977, Hungary) graduated in 2000 in Economics from Budapest University of Economic Sciences. After obtaining a Master's degree in Finance from CentER Graduate School (Tilburg University), he joined Center's PhD program, and conducted research at the Department of Finance in Tilburg. He currently works at ING Group as a market and insurance risk analyst. In January 2007 he defended his thesis *Modeling Mortality: Empirical Studies on the Effect of Mortality on Annuity Markets*, supervised by Prof. dr. Bertrand Melenberg, Prof. dr. Theo Nijman and Dr. Anja de Waegenaere. CentER Dissertation Series ISBN 978 90 5668 187 7 Tilburg University, 140 p. If you would like to order the book, please contact the Netspar office (see colophon).

	Low education	Lower secondary education	Higher secondary education	High education	Difference high-low education	Average
Men						
0 yrs	73.1	76.0	76.0	78.0	4.9	75.0
20 yrs	53.6	56.5	56.5	58.5	5.0	55.5
65 yrs	11.1	13.4	13.3	14.8	3.7	12.4
Women						
0 yrs	79.5	82.0	82.1	82.1	2.6	80.5
20 yrs	59.9	62.3	62.5	62.3	2.6	60.9
65 yrs	16.4	18.5	18.6	18.5	2.1	17.1

Table 2: Expected Lifetime, Education and Gender in the Netherlands
Table 2 gives the expected remaining lifetime in years for the newly born and for people having reached the age of 20 and 65, grouped along different educational backgrounds and gender in the Netherlands. Source: Hari, p. 9.

Union Chair and Top Economist Agree on Many Issues

Paternalism or Own Responsibility?

The nature of the Dutch pension system and the approach that pension fund participants take to their pensions seem to necessitate a fair amount of paternalism on the part of policymakers. Without at least some kind of guidance *casu quo* supervision, full freedom of choice or a purely market-based system are accidents waiting to happen. The chair of the largest Dutch union federation FNV, Agnes Jongerius, and the director of the Netherlands Bureau for Economic Policy Analysis (CPB), Coen Teulings, show a remarkable degree of consensus.

By Leen Preesman

'What is wrong with enlightened paternalism, as long as it is transparent?' Agnes Jongerius asks. 'Individual freedom of choice is not the supreme good— it's the outcome that really counts. A pension is so complicated that making the necessary choices by myself makes me nervous. I'd rather have my pension be arranged for me. And, in my opinion, defined-benefit-based collective mandatory schemes result in a better deal for workers than defined contribution arrangements do.'

Coen Teulings agrees in principle. 'For these kinds of issues, one should make an exception,' he says. 'Although I am an economist, I'm not able to properly organize my own pension. Experience has taught us expressly that the results are bad if people are allowed to take their own investment decisions. They deal erratically with financial risks, and they tend to keep on postponing crucial decisions for

Teulings: 'We should be permanently on our toes.'

their old-age provision.' He continues, 'That's why we should leave our pensions to the pension funds, which also offer us the significant benefits of large-scale investments. Only a few basic choices for a pension should be allowed; more and detailed options will drive up costs.'

Jongerius points to other developments that support her case for paternalism. 'Nowadays, the pensions regulator De Nederlandsche Bank (DNB) looks much more thoroughly into whether pension funds fulfil their promises,' she says. 'And the new uniform pension statement (UPO), as well as the rules on communication about the likelihood of future indexation, are examples of good paternalism.'

Integrated products

In Teulings' opinion, the pensions industry should offer their participants more integrated products, aimed at financial planning. 'This innovation should include products that, for example, help a participant pay off a mortgage, or allow for an increase of pension saving for a worker on an average salary scheme who got promoted late during her career, or for an employee whose income has dropped before he retires,' he points out. The pension provider should take the initiative for such innovation — with the support of social partners representing employers and employees — in a kind of... paternalistic system, he acknowledges.

For her part, the FNV chair recognizes the benefits of individual responsibility, albeit within a collective framework. 'In hindsight, the entire VPL (VUT, Pre-pension, Levensloop) project was actually a blessing in disguise,' she concludes. 'The abolished early retirement schemes (VUT and pre-pension) had a limited scope, and were very much based on the traditional pattern of the working husband/partner. The new tax-friendly life-course saving scheme 'levensloop' offers a range of individual choices, such as leave for (parental) care and education. This has increased the fairness of the new system.'

Clarity about ownership

Any lack of clarity about ownership of assets in collective mandatory schemes — such as the employers in OPTAS (the port workers' scheme) claiming the scheme's assets for art purposes, or the government taking assets from ABP (the civil service scheme) — doesn't justify a switch to market-based arrangements, Jongerius and Teulings agree. Jongerius: 'The ABP case was triggered by the less-than-cost-covering contributions at the time. The government can't pull this off again nowadays.'



Agnes Jongerius (left) and Coen Teulings

'The OPTAS case was just an incident,' Teulings adds. 'During the past year, much progress has been made in increasing the reliability of pension funds as well as the transparency of the schemes. However, the new financial assessment framework (nFTK) should be aimed at guaranteeing pension funds' participants intrinsic value rather than nominal security,' he thinks.

Fair governance

Jongerius and Teulings also agree that creating a governance system that is fair to all participants in a traditional defined-benefit system is very complicated. The compromise developed by the labour foundation (Star) consists of a participants' council, an accountability body as well as a supervisory or visitation committee.

To Jongerius, this way of being accountable is inevitable. 'The present assertiveness of people requires such a system,' she thinks. 'They don't take it for granted any longer that a pension fund's board will do what is right for them'. However, she emphasises that pension fund governance must reflect a continuous process of improvement.

Jongerius: 'The new tax-friendly life-course saving scheme 'levensloop' offers a range of individual choices.'

'Paternalism requires responsibility,' Teulings responds. 'Because of the very large assets involved and the complicated nature of modern asset management, investment committees must have sufficient skills. While the risk profile increases, the transparency decreases and accidents are more likely to result. Therefore, we must ensure that every expert has a colleague checking his job. We should be permanently on our toes. And given what is going on in the financial world at the moment, I can't imagine that the present system of pension fund governance is already complete. That's why there is an important role for the regulator and for pension funds' boards for further improvements.'

'The financial interest of the participants is so important that we can't leave governance to the market,' Agnes Jongerius concludes. Teulings' view on the issue is less clear-cut, however. 'Both the market model and the supervisory model carry the risk of indolence,' he says. 'One player might rely on the other in the mistaken belief that the other knows what he is he doing, and vice versa. In the other case, DNB could loosen its hold on the reins, in the expectation that the pension funds will automatically comply with its tight rules,' he explains. 'The only solution is to always be sharp-eyed!'

Neither Jongerius nor Teulings is worried about middle-aged workers investing insufficiently in their own human capital, due to generous arrangements for early retirement. Jongerius: 'Since we are in a transitional phase of the VPL legislation, schemes such as the flexible pension and exit arrangements (FPU) will disappear over time. After that, workers must assume responsibility by making their own choices. They must, however, be provided with proper information about the consequences.'

Valuation and Risk Management for Insurance Companies and Pension Funds

By Margaret Kavanagh

In 2006, Netspar came up with the idea of theme-based working groups that would serve to stimulate entrepreneurship, commitment and coherence. Every year Netspar allocates €1 million each to three theme-based projects, which operate over a three-year period. The themes involve all three of Netspar's key facets: research, education and knowledge exchange, and the theme working groups are made up of researchers from seven universities and institutes across the country.

One of the first themes was Valuation and Risk Management for Insurance Companies and Pension Funds, headed by Antoon Pelsser, Professor of Actuarial Science at the University of Amsterdam (UvA). Netspar News spoke with Pelsser about this theme and his role in devising it and overseeing its implementation.

Not your stereotypical actuary

Actuaries are burdened with an unflattering stereotype: skinny nerds with green visors, sleeve garters and pocket protectors – and there is no shortage of jokes about their lack of personality and charm: The difference between accountants and actuaries: actuaries lack the accountants' bright and vivacious personality. Apparently Antoon Pelsser didn't get the memo. He's a tall, charming, bear of a man with nary a pocket protector, visor or sleeve garter in sight. Pelsser looks as if he'd feel more at home on an ice hockey rink or a basketball court than at a Star Trek convention – although the truth is that singing in his church choir is his true passion. Attaining a full professorship long before his 40th birthday, Antoon Pelsser took an unusual route to the academic summit, spending 14 years in the financial services industry before settling into academia full-time. 'I like to keep one foot in both industry and academia,' he explains, and it is this duality that confers on him credibility on both sides of the fence, as well as a solid network that facilitates the translation of academic research into real-world practice – the very purpose for which Netspar was founded. 'I guess my 'unique selling point' is that I understand the math – the abstract stuff – but I also know how and where to apply it. That's the gap that I'm trying to bridge.'



Antoon Pelsser

Academic accolades

Pelsser earned his Ph.D. in 1996 while working at ABN Amro, and in 1999 was awarded the prestigious Christiaan Huygens prize by the Royal Dutch Academy of Sciences (KNAW) for his dissertation on Methods for Valuing and Managing Interest Rates and Other Derivative Securities. Given his extensive industry experience and outstanding academic credentials, it's easy to understand why the University of Amsterdam asked Antoon to design a research proposal for Netspar's theme program.

This theme is designed to stimulate research in the area where finance and actuarial science meet. The primary application of the theme is risk management and asset and liability management by pension funds and insurance companies, focusing on internal risk management and external supervision and regulation. With the insurance industry as his 'natural habitat,' as he puts it, Pelsser hopes to help Netspar to achieve an equilibrium in issues that serve both the pension funds and the insurance companies.

Insurance Companies and Pension Funds

In theory, Netspar's themes are supposed to bring together researchers from universities throughout the country. But Actuarial Science is a highly specialized field; nowhere else in the country is this kind of research being done. Until very recently, UvA was the only Dutch university with an Actuarial Science program. Tilburg University is now offering graduate degrees in Quantitative Finance and Actuarial Science, and Tilburg University Hans Schumacher has been assigned to work on this theme.

Opportunity knocks

The Netspar grant couldn't have come at a more opportune time – just as new regulations are being imposed on the financial services industry. The money is being used in large part to update and expand the Actuarial Science curriculum at UvA to include new developments in the industry and to incorporate ideas from around the world. Pelsser: 'We have been able to fund a post-doctoral fellowship, an assistant professorship, and five part-time Ph.D. candidates. Without this grant, I might have been sitting here by myself. Now we're able to do the research that is essential to address current needs, as well as build for the future.'

Industry buy-in

'The industry is very open to the work we're doing. They are actively involved through the Sounding Board linked to the theme, which met for the first time last December, and was a resounding success. We had an outstanding dialogue from which we identified three or four research ideas, which we will flesh out in our workgroup. We've received very valuable feedback on the research projects we're working on. The practitioners are practically begging us for

anything we can give them. Because the industry is moving so fast, everything we do is very much in demand.'

'We work with the industry on problems over a one-year timeframe, which is ideal, as they simply don't have time to even think about future problems. The industry is facing so many immediate issues – most notably the Solvency II project at the EU level, and the Dutch Central Bank's implementation of new supervisory requirements, particularly in regard to risk management.'

Pushing or pulling?

Although the insurance sector has always been considered rather conservative, 'the fact is that the industry is pulling academia much more than we're pushing them. There is so much going on in the industry, partly because of downturns in the stock markets and the plunge in interest rates. The entire industry knows that the way in which they perceive and handle financial risk needs to improve. Through this theme, we are able to provide guidance on developing new and improved practices and can be instrumental in increasing knowledge and understanding of some of the significant changes that are taking place within the industry.'

Free conferences draw big crowds

One way in which Pelsser and his research group have brought about the all-important knowledge transfer is through conferences that have brought together industry practitioners, academic researchers and representatives of regulatory agencies. Because he has maintained his connections with the industry, Pelsser has been able

to persuade some of the major players to speak at his events, which is seldom the case with purely academic conferences. The first of these one-day conferences drew about 100 people – mostly practitioners – while the second event pulled in 150 attendees.

'The events offered a combination of good academic content and solid practical information. We wanted to offer them information that would be of value to them in their work, and the response has been overwhelmingly positive. Our speakers included top executives of major insurance companies, academic researchers, and representatives of the Dutch Central Bank. And because we have the Netspar grant, we were able to offer the conferences free of charge – always a plus with Dutch audiences. We plan to organize at least one or two more events of this type before our tenure is up.'

A catalyst for research

Pelsser views the role of this theme as '... a catalyst to facilitate much-needed research. Actuarial Science is such a small specialty that the € 1 million goes a long way and has enabled me to establish my own research line. The work that the Ph.D. candidates are doing is immediately applicable to the industry, while I have the luxury of engaging in more abstract, over-arching research. We have been able to encompass a much wider spectrum of applied and theoretical work. It's been exhilarating and we're really just getting started.'

Pelsser: 'Because the industry is moving so fast, everything we do is very much in demand.'

Internships Link Ivory Tower with Real



Tineke de Jonge, svb's Internship Coordinator

Internships – in one form or another – have served to link the diverse worlds of business and academia for at least a century. Internships benefit both academic institutions, by giving students a taste of the 'real world' before graduation, and the companies that participate in these programs, by providing free or very low-paid staff to work on specific projects for which there is often not enough manpower or resources. In addition, they serve as a kind of extended job interview for prospective employees, as it is very common for an intern to be offered a job at the company at the conclusion of the internship.

A vital element

An internship forms a vital element of Netspar's Master's program in Economics and Finance of Aging. Students base their Master's theses on an internship with a Netspar partner institution. Last year (2006–2007), Netspar arranged internships for 23 students. In general, interns are supervised by a Netspar researcher/lecturer and a supervisor at the participating company. The Sociale Verzekeringsbank (the Social Insurance Bank – svb) offered five internships to Netspar students. Netspar News spoke with Tineke de Jonge, svb's Internship Coordinator, about their experience as a 'mentor company.' According to de Jonge, last year was the first time that svb used interns. While on the whole the experience was positive for the company, it was apparent that some students lacked the discipline required in the business world. Perhaps the biggest problem, however, was their apparent lack of understanding of the Dutch pension system!

A fresh perspective

In general, according to de Jonge, svb... 'enjoyed having the students around. They're from another generation and have a lot of new ideas. They can be very inspiring for someone who has been stuck behind a desk for 20 years.' She also said that there is no question that both sides benefit, though the relatively short time that the interns spent at the company often meant that they were unable to see projects through to completion.

De Jonge said that svb would participate again, although this year they have devised topics that are of importance to the company, rather than trying to design internships around the students' particular needs. She hopes, moreover, to involve more than one department in the program, in order to give students a broader choice of work experiences. When asked if she had any advice to offer Netspar in preparing its students for their internships, de Jonge said, 'Teach them something about the Dutch pension system. We have them for only a few months, and if much of that time is spent teaching them basic information that they should have learned in their coursework, it's a waste of time for everyone.'

World



Siert Jan Vos (left) and
Veronique Achmad (right)

Students chime in

We also spoke with three students who did internships last year as part of their M.Sc. graduation requirements. Siert Jan Vos, one of the five svb interns, worked in the department (FVP) that helps the unemployed collect any pensions to which they are entitled. Vos' only responsibility during his tenure at svb was to work on his thesis, although he said he gained a great deal of insight into the workings of pension funds, which he hadn't learned through his coursework. He commented on the wealth of practical information, which he said would be essential before a university graduate could be of much use to a business in the real world. Vos is now pursuing a Ph.D. at the University of Amsterdam, working on one of Netspar's macro research themes. When asked if he had any advice to offer regarding the program, he said, 'The university should provide students with internship options earlier, to give them more time to adequately prepare.' As for svb, he said: 'I had a great time there and learned a lot. I wouldn't change anything.' Vos advises students to read as much as possible about the company where they will be working: 'You can learn a lot from the employees, but you need to have some basic knowledge about the company and its business to understand what's going on.'

Challenging work and good support

Veronique Achmad did her internship at PGGM, and was offered a job after graduation. She now works as a Junior Actuary, working on important policy issues and researching the company's future investment mix. Although the work she's doing bears little resemblance to the work she did as an intern, Achmad considers the time she spent there as valuable, as it gave her a good feel for the general atmosphere of the company. 'My colleagues at PGGM made me feel very much at home. The work was challenging enough, and I got a lot of support from my PGGM supervisor.' When asked for suggestions for improving the internship program, Achmad echoed the sentiments voiced by both de Jonge and Vos regarding a lack of specific information about the Dutch pension fund system and how pension funds work. 'A more micro view from the perspective of the pension fund or insurer would have been helpful,' she said. She also advises students 'to be proactive in choosing their internship assignments. Companies really appreciate it when you come up with topics that are of interest to you, rather than waiting for them to contact you.'

An easy choice

Mark Schouten did his internship at AEGON, where he is now working in the Asset & Liability Management (ALM) department. 'Before starting the internship,' he said, 'I had no real idea of the work I would enjoy most, but the internship was a very nice experience, and when they offered me a job, the choice was easy!' Unlike the experience of some of his fellow students, Schouten's internship work was very similar to the work he is doing now. He said that the AEGON employees made him feel like a part of the team and engaged in discussions with him about the work he was doing. 'This makes an internship a nice experience. Of course, working in a 'real' job is different because you're involved in more areas than 'just' your thesis research. The work is challenging and comparable to my research during my internship and the Master's degree as a whole.' Schouten's advice to future interns: 'Just do the internship at the company of your preference and make the most of it!'

Responsible Investing Theme for Netspar- UMBS Academy

The elegantly restored 15th century castle, Kasteel Vaalsbroek, will be the setting for the next Netspar-UMBS Academy from May 28 through 30, 2008. The theme for this module is Responsible Investing, and the target audience for this intensive course includes investment professionals working at pension funds, insurance companies or banks, as well as governmental and regulatory bodies that deal with the issue of responsible investing. Investor-relations managers or CSR managers who interact with investors are also invited to participate in this three-day event.

By Margaret Kavanagh

Responsible Investing defined
Responsible Investing can be defined as investing based on financial, social, governance and environmental considerations, or investing aimed at influencing companies, governments and other relevant players based on these considerations. In the past decade, institutional investors— particularly pension funds— have increasingly confronted this phenomenon. The public, customers, the media, and peer organizations exert pressure on investors, in one way or another, to engage in responsible investing. However, many investors assert that asset management should be based solely on safety, quality, liquidity and returns of the portfolio as a whole. This suggests that investors should not accept restrictions that

negatively affect the risk–return profile of their entire investment portfolios. Nonetheless, a growing number of investors have formulated a so-called ESG (environmental, social and governance) policy.

Comprehensive and interactive

After brief introductory remarks by Netspar-UMBS Academy Director Rob Bauer, the participants will get right down to business with a presentation on Corporate Responsibility (CR), which lies at the heart of responsible investing. Harry Hummels, of the European Center for Corporate Engagement (ECCE), will provide a comprehensive overview of the concept of Corporate Responsibility, including some of the dilemmas faced by those making investment decisions. This presentation will be followed by an interactive case study on the subject, co-moderated by Bauer and Hummels. Such interactive case studies form the basis for the Academy's educational process, which compels participants to engage actively in the subjects under discussion, rather than to merely listen passively to experts in the field.



A growing number of investors have formulated an ESG (environmental, social and governance) policy.

No rest for the weary on day two

On day two, the entire morning session will be devoted to the subject of the Universal Ownership of companies. Jim Hawley, Co-Director of the Elfenworks Center for the Study of Fiduciary Capitalism, will discuss the Universal Ownership Hypothesis, a reference to the burgeoning trend toward collective ownership of companies by institutional investors— most notably pension funds, mutual funds and insurance companies. This new pattern of universal ownership raises important policy questions, which will be discussed in great detail. In the afternoon, Jeroen Derwall, of ECCE, will address another key element in the decision-making process of institutional investors: whether an investor's ESG policy can influence investment returns, either negatively or positively, in the long run.

Devising policy

On the third day, Harry Hummels will be back with a presentation on devising an effective ESG policy. Should clients (banks, insurers) and participants (pension funds) be involved in the process? Should they give more weight to a well-articulated exclusion policy or should they focus mainly on integrating extra-financial information in the mainstream investment process? Again, participants will apply some of the concepts that have been discussed using another interactive case study on responsible investing. Jan Overmeer, Chairman of the Netspar-UMBS Academy Advisory Board, will wrap up the event with brief closing remarks.

Sound intriguing? Register now!

The Netspar-UMBS Academy began in March 2007, and offers stimulating education and knowledge sharing on current subjects in the dynamic pension and insurance world. For more information or to register for the upcoming module, please contact:
The Netspar-UMBS Academy
Phone: +31 (0)43 388 3871
e-mail: info@umbs.nl
website: www.umbs.nl/academy

All modules of the Netspar-UMBS were evaluated very positively. Jeroen Bogers (ABN AMRO) wrote about the first module Fair Valuation and Pension Management : 'The set-up of the course is exactly what is needed for professionals in the pension and insurance sector: To the point, relevant, touching academic issues without losing sight of practice. The Netspar-UMBS Academy is already from the start the most relevant source of knowledge for professionals in this sector. '

Dutch Ministry of Social Affairs and Employment

The Ministry of Social Affairs and Employment of the Netherlands encourages employment, modern industrial relations and an activating social security system. This mission statement implies a whole range of activities, including the responsibility for the Dutch pension system. This responsibility is for the system as a whole, and not for individual pension schemes based on that system. Responsibility for individual pension schemes typically lies with those who engage themselves through a pension contract: employers and employees – in short: the social partners. The government has laid down a legal framework for pension arrangements in the Pension Act and in tax legislation. This framework encourages employers and employees to set up collective pension schemes; it provides confidence in pension providers and promotes the financial sustainability of pension arrangements and of public finance. Within this framework, social partners design pension arrangements for employees. Pensions are thus part of the conditions of employment negotiated between employees and employers, and as such are related to industrial relations. It is for that reason that, within the Ministry of Social Affairs and Employment, pensions have been placed in the directorate for Industrial Relations.

Maarten Camps **Director for Industrial Relations**

What we do and don't do

The framework developed by the ministry covers tax issues, governance of pension contracts and supervision. Within the government, we work closely together with the Ministry of Finance, which is responsible for financial markets and tax issues, and with the two supervisors: De Nederlandsche Bank and the Authority for the Financial Markets (AFM). Outside the government, we work closely with social partners and representatives of pension funds and insurers. What else would you expect from an industrial relations directorate? This enables us to keep the system responsive to the demands of our 'customers'.

Yet, we cannot answer all demands. Some are too individual, or are inconsistent with our objectives. If an individual employee has a conflict with his pension fund, the ministry will not get involved, as the pension contract is a private contract: ultimately, it is up to the court to settle such a conflict. Even so, if an individual pension fund has a problem with the supervisory rules set by the ministry, then it's up to the supervisor – De Nederlandsche Bank – to decide how to handle the situation, given the possibilities for tailor-made rulings, as set forth in the legal framework. This is not to say, however, that we do not try to accommodate as many demands as possible, within our preconditions of confidence in the system and financial sustainability.

Current issues

Although a pension system certainly benefits from tranquillity and stability, operating a pension system is all but a boring activity. Bottlenecks, international developments and political priorities come and go, throughout the year. Some need attention, some need discussion and some need concrete action. Currently, four issues stand out: the introduction of a label as an indicator for indexation prospects, the development of market orientation of pension funds and their partners, the efforts to enhance possibilities to export pension products and expertise and the discussion on solidarity within the pension system. The first and last issues are typically issues spotlighted by Netspar.

The indexation label

In recent years, many pension schemes transitioned from final-salary schemes to average-wage schemes. Due to this transition, indexation of accrued pension rights has become highly relevant for workers. Indexation cuts can lead to a substantially lower pension result at the end of an individual's active career. Together with the pension sector and both supervisors, we are developing an indexation label that gives participants information about the indexation quality in their pension scheme. It will be compulsory for pension providers as of 2009.

The developing market orientation of pension funds (art 5, 6 and 7 Wet Bpf 2000)

We have about 80 mandatory branch pension funds in the Netherlands, with an invested capital totalling € 500 billion, more or less the equivalent of the national income. This illustrates the importance of these pension funds in our pension system and in our economy. These organisations with exclusive or special market rights have a lot of information on the financial situation of their participants. They could abuse this information to gain market shares in other (non-pension) financial



products where such special market rights do not apply. Restrictions have therefore been imposed on these funds and their subcontractors, in order to maintain a level playing field with other parties, such as insurers. These restrictions concern, for example, the scope of their activities and the provision of data to third parties. These strict rules, however, make it impossible for pension funds to give their participants complete information about pensions – about annuities or lifecycle products, for example, which could be a useful addition to their specific occupational pension scheme. It would be in the interest of participants if they could take their full financial situation into account in their individual financial planning. For that reason we intend to modify the Act so as to enhance possibilities to provide participants with more complete information, while maintaining a level playing field between all parties.

Efforts to enhance possibilities to export pension products and expertise
Pensions are a hot topic all around Europe. This is partly due to ageing, which is of course not exclusively facing the Dutch. It is also the result of the important position of pension systems on financial markets. In general, pension awareness is growing and the market is expanding. We aim for

the Netherlands to play an important role in this market. After all, our country has considerable (and widely acknowledged!) expertise due to our long-standing tradition in capital funded pensions. The ministry is therefore developing a new pension institution within the range of the European directive on institutions for occupational retirement provisions ('IORP'-directive 2003/41/EC): the API (General Pension Institution). In contrast to the Dutch pension funds, an API is not necessarily governed by social partners, and has better possibilities to operate on the international pension market. Furthermore, we are examining the prospects that such an API might offer to company pension funds seeking cooperation.

The discussion on solidarity within the pension system
The Dutch pension system is traditionally characterized by a high level of solidarity between different groups of workers – for example, between men and women, younger and older workers, part-time and full-time workers. Certain trends have given rise to some new questions: Is the solidarity between younger and older generations sustainable with an ageing population? Which new challenges will arise due to the growth of flexible labour contracts and entrepreneurship?

As social partners are responsible for the pension schemes, they will decide how to adapt the schemes to these challenges. Yet, the government also has an important role to play, as some forms of solidarity are outlined in the law (for example: the same premium for men and women, older and younger workers). Are such legal institutions still appropriate? What is their effect on labour mobility and the transition to entrepreneurship? Before next summer, the minister will send an analysis of these issues to Parliament.

Keeping up with society
The responsibility that our ministry bears for the Dutch pension system necessitates that we try to adapt the system as much as possible to new developments. Some will say that we tread too slowly; others will say that we go too fast, or in the wrong direction. Our goal is to keep up with society as much as possible, while maintaining the focus on our broader mission to encourage employment, modern industrial relations and an activating social security system.

Efficient Risk Sharing

A well-attended three-day Netspar workshop, featuring numerous international contributions, took place in Utrecht at the end of January. The third day, which was organized in cooperation with the Dutch Association of Insurers (Verbond van Verzekeraars), focused on insuring old-age risks and – simultaneously – maintaining human capital. In the afternoon, a line-up of key figures from the insurance sector and the political arena discussed labor market participation and the maintenance of human capital. This article focuses particularly on efficient risk sharing, which was addressed by CPB director Coen Teulings. Teulings is a proponent of more self-insurance. People should use their pension savings as a buffer for unpleasant surprises during their life cycle. A more custom-made pension system is thus preferable to a 'one size fits all' system. Netspar fellow Jean Frijns interviewed Coen Teulings and Lans Bovenberg on their ideas regarding efficient risk sharing.

By Jean Frijns

About income shocks

You indicate that individuals encounter considerable income shocks during their working life. Two things here stand out: these income shocks are becoming increasingly permanent, and this phenomenon appears to occur both in countries with a rudimentary system of collective security and in countries with an extended system, like Denmark. Could you elaborate on this phenomenon of permanent shocks? To what extent can we ascribe these shocks to the aging of human capital?

Coen Teulings: Income shocks are indeed becoming increasingly permanent, certainly for higher educated persons. And the shocks are surprisingly large: 10% added or deducted per year – and this for the rest of

your career – is absolutely normal. I suspect that this has to do with the importance of human capital. During the course of our career our knowledge becomes increasingly specialized. A part of the knowledge we build up turns out to be worthless after a while, whereas other parts prove to be the starting point for new knowledge. Although everyone tries to choose well what knowledge to invest in or what not to invest in, we inevitably make mistakes, and it's partly a matter of luck. This leads to great uncertainties about the development of our income during our career.

To what extent do labor market activities play a role: employment protection, steep age-income curves?

Lans Bovenberg: Although employment protection seems to offer security, it seems increasingly to be a phantom security – since as a result of increasing international competition companies can offer less and less job security. Employment protection also results in steeper age-income curves. Hence, older persons who have bad luck because they lose their job have a hard time finding another job. Instead of preventing people from losing their jobs, policy in the future will focus more and more on helping people to cherish their employability so they can move more easily from one job to another in the event of their company collapsing.

The observation that this phenomenon occurs regardless of the 'quality' of the social security system gives us food for thought. Is it justified to draw the conclusion that it is apparently not possible to insure the real income risks well enough via collective systems?

Lans Bovenberg: The main point is the prevention of unemployment while encouraging the economic protection of individuals. Make sure that people's employability is maintained.

Lans Bovenberg: 'Policy in the future will focus more and more on helping people to cherish their employability.'



Is insurance against permanent shocks possible?

In your paper 'How to share our risks efficiently?' you suggest that collective insurance against permanent income shocks is not really possible because of selection risks, moral hazard and inadequate incentives for individuals to keep their human capital at a proper level. As an example you sketch our disability insurance 'wao' drama. Could you please elaborate on this?

Coen Teulings: It's difficult to insure yourself against risks you can influence yourself: if I'm well insured, then it's not in my interest to prevent any damage. Why should I keep investing in new human capital or new knowledge if my income is insured completely? The wao drama is a good example of this: for many people, the wao benefit was more attractive than continuing to work.

You have quite high expectations of the possibilities of having employers shoulder part of these risks. Isn't that rather naïve, when we consider that employers

actually transferred the risks to the wao on a large scale? The cause of a permanent income shock will often be a shock that strikes individuals and companies in a certain branch at the same time (e.g. the emergence of competition from low-wage countries, the arrival of new products, etc.). Coen Teulings: The idea stems from another paper that Lans and I wrote together. Although the idea goes strongly against everyone's intuition, it's very simple in the end: shareholders are better able to bear company risks than employees are. You would thus do better to place these risks with shareholders. . It's a natural tendency on the part of the unions (although it's not limited to them) to claim some of the profits when the company is doing well. This is not a good strategy because it leads to lower basic wages: if you want shareholders to shoulder the business risk so you will not get the downside in bad times, you should not claim the upside in good times. This does not, of course, mean that companies in all cases will not need to lay off personnel every now and then. But in a society where insiders do not claim the

upside it is easier to find a job elsewhere. The experiences in Denmark have shown that this also works in practice.

Individual responsibility and the role of savings on pensions

In the past you've broken a lance (ha ha) for employees to be better stimulated to keep up the level of their human capital. Are you optimistic about the effect?

Lans Bovenberg: Increasingly, the government is placing the responsibility for the maintenance of human capital with the employers and employees. The employers must, for instance, continue to pay wages throughout the first two years of sickness leave. Making people bear more own responsibility on a decentralized level stimulates them to maintain their talent better. Besides that, aging makes employment evermore scarce. This also stimulates employers and employees to maintain human talent until a higher age. This requires investment, however, because increasing market dynamics cause skills to become obsolete more rapidly than they used to.

Coen Teulings: 'If we all retire early and are willing to pay the price for it ourselves, I do not see it as a problem.'



Lans Bovenberg



Coen Teulings

In a world without collective insurances and pension schemes, rational employers will try to spread the risks of income shocks over as large an income basis as possible. In your paper you elaborate on that, and conclude that it's also rational to use the collective savings on pensions as a buffer to counterbalance permanent income shocks. I think this will face considerable resistance from the pension funds: they will see it as robbery. Others call it a revolutionary proposal, but don't mean this in a positive way. What is your reaction?

Coen Teulings: I don't think the pension funds will see this as robbery. It is, in fact, the other way around: I think they will see it as a very attractive extension of their work field. Just look at what pension funds have set up, or have tried to set up, in the field of life-course savings schemes. Actually, my idea strongly resembles an integration of the life-course savings scheme and the pension. This also offers important possibilities for insurance companies to serve their clients more effectively. There were a few grumbles from Arie Kapteyn about revolution versus evolution during the workshop (organized by Netspar in cooperation with the Dutch Association of Insurers), but I think this was because he didn't fully understand it. All of these processes of integrating pensions and social security are in fact up and running, for

instance because of the recent separation of the scheme and the executing company at ABP and PGGM. What I did in my paper was extrapolate a possible result. If we could really achieve that result in ten years – and I do not consider that unthinkable – then nobody will feel they have been in a revolution for those ten years, but they may retrospectively say that the organization of social security has been revolutionized.

Lans Bovenberg: Pension funds can also view using the collective savings to counterbalance income shocks during the active life as an opportunity. In that way, they would already be helping their participants at a young age. This could strengthen the support amongst young people for collective savings. Apart from that, pension funds could start managing a larger part of the savings in the economy: not only pension savings, but precautionary savings as well. I imagine that a considerable part of forced savings would then be reserved for old age, but also that part of these savings could be more liquid and also be used to compensate loss of income during the active life.

Individual responsibility and excess savings
Your paper on efficient risk sharing could be seen as a normative story (the system should be set up this way) or as a predictive story (this is the way it will probably go). I

am inclined to read it as a predictive paper. The advice would then be: make sure you save enough for a rainy day while you're in your prime. If the masses were to follow this advice (for the time being, there's not much chance of that), this would lead to extra savings that (in due course, and to the extent that they are not necessary to counterbalance negative income shocks) would be used for early retirement – and that's exactly what we didn't want.

Coen Teulings: Let's say you're right about my paper being more predictive than normative. I like the idea. But I don't know if it will lead to more savings: one might just as easily say that it will lead to a better use of those savings. It depends on how the social partners (because they will most likely be the ones deciding on this) decide to flesh out the scheme. They will have to seek a balance between the contribution they want to charge the participants and the possibility that these participants will retire early with a generous pension. This is a matter of choice. The unions will tend to listen to their members because otherwise they will lose them. This comes down to freedom of choice, and I could hardly oppose that as an economist. If we all retire early and are willing to pay the price for it ourselves, I do not see it as a problem.

To what extent do Coen's recommendations for individuals to save extra in their prime conflict with your idea of using life-course savings schemes to give parents the opportunity to temporarily work less?

Lans Bovenberg: The life-course savings scheme is aimed at counterbalancing periods of lower income. By saving a part of your labor income for future income shocks you are also able to temporarily work less. And so the idea of saving a part of your income for a rainy day fits in well with the ideas of the life-course savings scheme.

Task Forces Sharpen Pension Issues

In order to fulfill its aim to build a strong network of academic researchers, financial institutions and government agencies in the Netherlands, Netspar has initiated a number of instruments to deepen the relationships with its partner institutions.

By Frans de Roon

A new initiative that links Netspar more closely to its partner institutions relates to the role Netspar wants to play in the Dutch pension debate. An important instrument in stimulating the pension debate is the Netspar publication series, *NEA* (Netspar Economics Advisors) *papers*. Some of the future *NEA papers* will be guided by *task forces*, where representatives from partner institutions discuss the issues of the *NEA paper* with the author(s) during a limited number of meetings. This will allow the partner institutions to be involved in the debate as early as possible and to provide as much input as possible to the Netspar researchers.

Lots of input from partners

To get the ball rolling, Netspar installed the first task force at the end of 2007. This task force aims at sharpening the issues surrounding the possibilities for customized pension schemes in the Netherlands¹, which will be written by Theo Nijman (Netspar) and Alwin Oerlemans (Cordares). The resulting *NEA paper* will not be some distillation of the 'average' opinion of the task force, but will reflect the opinion of the authors. What, then, is the purpose of the task force? The input of the task force helps the authors to create a complete set of arguments and to sharpen the debate. When the *NEA paper* is presented at one of the Netspar events, it will be natural to ask members of the task force to serve as discussants.

The task force on customized pension schemes, which has thus far met three times, has provided the authors with a great deal of input. As Theo Nijman mentions: 'a number of core elements in our *NEA paper* are clearly the result of the task force meetings'. Almost all partners were represented in this task force, and the three meetings resulted in very lively debates. During the first two meetings the authors presented their initial ideas, which were discussed by the group. During the second and third meetings, members of the task



Task force meeting on customized pension schemes

force were invited to discuss the paper from their perspective. In the second meeting, the discussions were given by Margriet Adema (PGGM) and Joost Passenier (DNB). In the most recent meeting, the discussants were Mariëtte Sanderse (Ministerie van szw), Leo Blom (Eureko-Achmea) and Carel Hooghiemstra (ABN AMRO).

Netspar intends to have a second set of *NEA papers* that will be supported by a task force. These *NEA papers* will be on Solvency II and the Solvency Requirements for Pension Funds (Reële FTK).

1. 'Maatwerk in Nederlandse Pensioencontracten'

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Netspar
Visiting address
Faculty of Economics and Business
Administration
Tilburg University
Warandelaan 2, 5037 AB Tilburg
Postal address
P.O. Box 90153, 5000 LE Tilburg
The Netherlands
Phone +31 13 466 2109
Fax +31 13 466 3066
E-mail: info@netspar.nl
www.netspar.nl

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Ruud Hagendijk, Cordares
Dick Sluimers, APG
Roeland van Vledder, Fortis
Fons van de Vijver, UvT
Tom Wansbeek, RuG

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Universities
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Editors
Clemens van Diek
Etc. Editorial Services, Breda
Margaret Kavanagh
Margreet Punt

Guest Authors
Maarten Camps
Jean Frijns

Translations
Derksen Vertaaldiensten, Amsterdam

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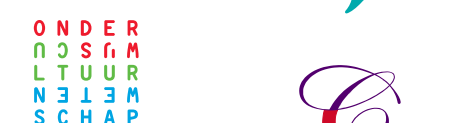
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Short News

Netspar Partners



Ministerie van Onderwijs,
Cultuur en Wetenschap



University of Twente joins Netspar

As from April 1, 2008 University of Twente has become a partner of Netspar. It is the eighth Dutch university in a row that joins the research network. The cooperation with 'Twente' – and its Financial Engineering Laboratory (FELab) in particular – will allow Netspar to expand its research on risk management. The University of Twente has a considerable expertise in covering investment risks.

Honorary Doctorate for Lans Bovenberg in Ghent

Lans Bovenberg (Scientific Director Netspar) received an honorary doctorate from Ghent University in Belgium on March 21, 2008. The honor was given because of his contribution to science and society.

Pieter Bouwknecht in Netspar theme

Pieter Bouwknecht (Nationale Nederlanden) has been appointed theme researcher with Netspar from February 2008. This part-time position (10%) is related to the theme of Antoon Pelsser (Amsterdam University) *Valuation and Risk Management for Insurance Companies and Pension Funds*. Bouwknecht and Pelsser will, among other things, write a textbook on fair valuation of life insurances. They also want to set up a seminar on this subject for on-going education, in cooperation with the Actuarial Institute.

Panel Papers for Policy

On April 23, Netspar researchers discussed four new Panel Papers with professionals and policymakers from the pension and insurance sector:

- *Strategic Asset Allocation*. By Peter Schotman / Frank de Jong / Bas Werker
- *Retirement Patterns in Europe and the US*. By Arie Kapteyn
- *Pension systems, Aging and the Stability and Growth Pact*. By Roel Beetsma
- *Compression of Morbidity*. By Johan Mackenbach

The new Panel Papers, which aim to give a scientific underpinning of policy advice, will be published soon and sent to all partners. If you have not received a copy by the end of June, you can order one through the Netspar office: info@netspar.nl, +31 13 466 2109.

New Theme Grants up to €1 million

One of Netspar's goals is to stimulate coherence and entrepreneurship of research and education in the field of pensions, aging and retirement. Netspar has therefore provided six grants of one million euro each to research groups in 2005 and 2006. New theme grants are now available. For more information on the characteristics of the national and international theme grants, please check our website. Any questions regarding the theme grants can be directed to Martijn van Gruijthuijsen: m.p.j.m.vangruijthuijsen@uvt.nl or +31 13 466 8220.

Netspar Pension Workshop June 25-27, 2008, The Hague

The focus of the June 2008 workshop, jointly organized by Netspar and Statistics Netherlands (CBS), is the use of micro-data on pension provisions and health issues related to retirement decisions and old-age financial security. The workshop starts with a training day featuring an up-to-date review of current pension research, provided by Brigitte Madrian (Harvard) and Jonathan Skinner (Dartmouth). The second day of the workshop is an academic conference with contributed papers. Day 3 focuses on administrative data (e.g. from Dutch pension funds and insurance companies) and use of such data for scientific and policy purposes. More information is available on our website: www.netspar.nl/events.

Conference: Longevity Risk

September 25, 2008, Amsterdam
This conference, initiated by David Blake (Cass Business School and Pensions Institute), will focus on the consequences of longevity for pension and insurance providers. Techniques will be addressed to partially transfer longevity risk to the capital market through, e.g., securitization. More information will be available soon at the website: www.netspar.nl/events.