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Fighting to Keep Retirement at 65

The financial impact of population aging has been looming on the horizon for several years, but the additional effect of the economic crisis has changed the problem into an acute one. In order to save four billion Euros a year in 2040, as well as to increase labor participation, the Dutch government wants to (gradually) increase the retirement age for the state pension (AOW) from 65 to 67. Leen Preesman asked leading representatives of the main trade unions in the Netherlands for their view on the issue. Bert van Boggelen recently became acting chairman of the National Federation of Christian Trade Unions, CNV. With 350,000 members, CNV is the second largest in the country. Peter Gortzak is vice-president of FNV Bondgenoten, which has 1.4 million members.

By Leen Preesman

The cabinet has decided to increase the retirement age of the state pension (AOW) by two years to 67, but has also agreed to take into account the findings of a study by the Social and Economic Council (SER) into alternatives. (At the time of the interview, the SER was still deliberating.) What is the exact position of both federations?

"Raising the AOW age is not a taboo to us, but we'll go along with it only if other alternatives aren't sufficient," states Bert van Boggelen. "First and foremost, we want proof that delaying the state pension will indeed significantly increase labor participation for under-65s. At present, over-55s are already having great difficulty in finding a job, and employers are hardly investing in this group. There won't be any money saved if older workers receive unemployment benefits instead of AOW," he points out.

To the FNV, the issue is more clear-cut. "We fully oppose a state pension age of 67. Solutions must be found elsewhere," states Gortzak. "Our alternatives focus on a flexible AOW age – but with the benefit level for 65s unchanged. We are seeking to prevent a situation in which the brunt of the crisis is borne by people in labor-intensive jobs, who started their working career early. Their life expectancy is already shorter, after all."

Both union representatives agree that the tax-deductibility of interest should be limited to mortgages of less than a million Euros. Gortzak: "The FNV thinks that changing the way the AOW is financed, from a pay-as-you-go to a tax-based system, will also help to meet the government's financial target." Van Boggelen adds that the CNV also wants to re-introduce the 60% tax band on salaries over 181,000 Euros, which equals the Prime Minister's salary.

The present AOW age of 65 is the same as the standard retirement age for second- and third-pillar pensions. Should the additional pension arrangements follow suit, if parliament adopts the cabinet's proposal to increase the AOW age?

Van Boggelen indicates he can't be explicit. "It's too simplistic to say that the additional pension arrangements should follow a raised AOW age. This would affect pension funds' participants in different ways, and we want the solidarity between these groups to remain." According to the CNV chairman, the level of the contributions must follow the retirement age for additional pensions, but the differences between sectors and companies don't allow for a general approach.

"Before we can decide on the retirement age for supplemental pensions, there must be a new balance in the whole system. To us, it's the present overemphasis on security, such as the financial assessment framework FTK, rather than the retirement age, that is undermining the affordability of pensions," he adds.

In Gortzak's opinion, the retirement age for supplemental pensions doesn't need to rise. "Employers are not desperate to keep their 65s, and we think it is a good age to quit. But employees who'd like to continue working, should be encouraged." (The FNV representative, however, admits that the pressure will be difficult to resist, if the government bases its fiscal framework on a retirement age of 67. "But as a pension is a postponed salary, we will definitely claim back the unused funds from the employers," he warns.)

Peter Gortzak (FNV): "Linking the AOW to labor history will erode the principle of the AOW as a social insurance."

Peter Gortzak (Vice President of Trade Union Confederation FNV Bondgenoten)

Bert van Boggelen (Interim Chairman of National Federation of Christian Trade Unions in the Netherlands CNV)

Flexibility in retirement arrangements appears to be a crucial part of the alternative arrangements proposed by both unions. Where do the opinions differ, given the fact there is already a bill waiting in parliament providing for voluntary postponement of the AOW until the age of 70, with increased benefits?

"We support the principle of a flexible AOW, so that people with a small pension can continue if they want. This trend is already visible, which implies that we don't need a raised AOW age," says Peter Gortzak. "That said, the bill still needs some work. The financial rewards for working after the age of 65 aren't attractive, for example, and the bill doesn't provide for employment protection, either. Moreover, the present concept doesn't offer employees the right to keep on working," he explains.

"It's too early to talk about retirement age, because it also depends on how funds can be made available through reshaping the system," reiterates Van Boggelen. "We must have a proper look into the matter first. But basically, workers themselves should have the choice when to stop."

The cabinet argues that an increase of the AOW age is in part aimed at increasing the labor participation of older workers. Do the unions agree?

Although CPB (CPB Netherlands Bureau for Economic Policy Analysis) has indicated that the financial gains from greater labor participation will be marginal, both Van Boggelen and Gortzak say they believe in its potential. "By offering employees in labor-intensive jobs less hard work after ten or twenty years, it must be possible to increase the number of active over-60s to six out of ten," argues the CNV representative.

"To make this really work, we must keep the present– crucial– measures to protect older employees from damaging work," Gortzak adds. "And we need to put more effort into convincing employers about the potential of their older staff."

A hot issue within the debate has been how to identify and define more precisely "physically demanding jobs". What is the unions' position on this now?

Van Boggelen: "In order to avoid long discussions, we propose that people who have contributed to society for 45 years– through work, or care for young children or ailing relatives– should be entitled to AOW at the age of 65." He admits that implementing the suggestion might be hampered by the absence of a solid registration of workers' labor history, but notes that the schemes in the building industry have shown that it can work. His FNV colleague is skeptical. "The practical problem of identifying physically demanding jobs was another reason why we want to stick to the present AOW ceiling," Gortzak responds. "Retirement after a labor history of 45 years doesn't do justice to a bricklayer. Moreover, linking the AOW to labor history will erode the principle of the AOW as a social insurance."

How will a rise of the pensionable age affect different groups of workers?

"As they have fewer opportunities to save for the moment at which they would like to retire, low-wage workers are likely to be the most affected," Van Boggelen predicts. Gortzak agrees. "To many people, the AOW will be an important income component after retirement. High earners will therefore be in a better position to bridge a financial gap between retirement at 65 and a state pension at 67."

Gortzak says he is also worried about the effect of an increased AOW age on the hundreds of thousands of self-employed persons without staff. "As they can't join regular pension funds under the present legislation, most of them haven't made provisions for retirement."

Bert van Boggelen (CNV): "To us, it's the present overemphasis on security, such as the financial assessment framework FTK, rather than the retirement age, that is undermining the affordability of pensions."

What is Truth?

Hans Gortemaker (Professor Accountancy, EUR) and

"What is truth?" Pilate asked. As we all know, opinions differ – also about fair market valuation. *Netspar News* asked Hans Gortemaker (Professor Accountancy, EUR) and Pieter Kasse (actuary, Cordares) to discuss this subject.

By Rik Oerlemans

Actuarial or fair market valuation?

An accountant is able to calculate the value of a pension fund to the slightest decimal if it were to be cashed in tomorrow – or when the figures must be submitted to the Netherlands central bank (DNB). An actuary can do this as well, but he does it differently: He takes into account economic downturns as well as the life expectancy of participants, calculating thereby – just like the accountant – how much financial weight a pension fund brings to the table.

For several years now, DNB has wanted pension funds to use the mark-to-market method. Although the method does provide clarity, its use could also, in these tough times, present some nasty surprises. If this new method were to be used to compute value, then the ravaged stock market values of the past year would also cause pension funds to drop dramatically in value. In order to avoid nasty fluctuations and aggravation, DNB allows pension funds to use a sort of fixed actuarial interest for setting the amount of their contribution. And that is as it should be. For the moment, though, let's look beyond the perilous times in which we live, and ask: What is truth and who holds the patent on it? What is an actuary really after? What about an accountant? More specifically: What are the views of Pieter Kasse, actuary at Cordares, and Hans Gortemaker, accountancy professor at EUR?

Purpose, funding and valuation of pension funds

The purpose of a pension fund is to provide pension payments at a reasonable cost. An assessment framework – in this case the Dutch government's Financial Assessment Framework ("Financieel Toetsingskader", FTK) – is in place to ensure that a pension fund will be able to meet its benefit commitments. That is why buffers are so important. The size of the buffer needed depends on the level of certainty desired. If the insured parties want a high degree of certainty in terms of guaranteed nominal benefits, then contributions will have to increase several times over.

The FTK considers a capital buffer to be sufficient if it provides 97.5% certainty of a pension fund's ability to meet obligations. "But," says actuary Pieter Kasse, "with buffers like that, we appear to be underestimating the risks associated with market fluctuations. Either that, or what we are now experiencing is a once-in-forty-years risk scenario, because that is actually factored into that 97.5% certainty margin. It's a good idea to scrutinize the parameters that pension funds are permitted to use for their computations every couple of years and to take a comprehensive look at the assumptions regarding risk and return. While the insured are pushing now for greater guarantees, pension funds are faced with having to explain that things might not turn out as planned. Many pension fund participants still think that the conditionally indexed benefits can be seen as a guarantee. The pension funds need to do a better job of explaining how things really work."

Accountancy professor Hans Gortemaker thinks that, besides the FTK, the International Financial Reporting Standards are also important. These accounting principles dictate that "fair value" be used in determining the value of a company (in this case, the pension fund). That means that reporting must be based on present value. "You cannot view purpose, funding and value as separate from each another," he says. "Fair value is a good starting point, but for each sector we also need rules and regulations – and these must be able to accommodate exceptional circumstances. No one likes hard-and-fast rules. Principle-based practices are therefore preferable to rules-based ones."

Pieter Kasse (actuary, Cordares) debate on valuation.

Benefits

Consider the following, however: If it becomes entirely clear that funds will be unable to honor certain pension benefits in troubled financial times, can those benefits still be listed on the pension fund's balance sheet? Kasse believes that the assumption must always be that defined pension benefits can be met. We should not, therefore, tinker around with the intervention rate that is based on defined benefits in determining pension liabilities. This does not diminish the fact that under certain conditions, even the nominal entitlements cannot always be guaranteed. It is precisely because the benefits are not set in stone and the fund does not have to be liquidated on a day-to-day basis that a fund is in a position to take investment risks – in the hope that they will deliver a greater return than risk-free investments. Kasse argues that that is what keeps a good plan affordable.

Gortemaker agrees with him on that point. "Pension benefits are part of the compensation and benefits package," he points out, "and those are, of course, set in stone. The annual financial statements are predicated on the notion of a company's continuity. If there is any discontinuity, we will employ other valuation principles and parameters. You can explain the implications of different scenarios in the notes."

Fair market valuation not always an option

It turns out that not only banks, but also insurance companies, have plenty of leeway to deviate from fair value in valuating both the assets and liabilities on their balance sheets. Isn't it, then, rather strange that pension funds are not permitted the same latitude? "Pension funds and insurers each have their own kinds of management tools," Kasse explains, "which justifies certain differences. Pension funds, for instance, can raise contributions or limit indexation – actions that work to dissipate risk. This helps to explain why they are not subject to the same solvency requirements.

"Both players, however, operate on the financial markets and, in that sense, both are exposed to the same market risks. In 2008 the fluctuations in interest rates and stock prices caused an enormous impact on the funding ratios at pension funds. I can imagine that greater stability in the funding ratios would be desirable – in terms of both pension fund policy and interfacing with participants." Gortemaker agrees that regulation must be sector-specific, because the differences between sectors are too great to impose on them a single model.

Money illusion

Is it truly responsible, given the purpose of a pension fund, to operate on the basis of nominal value? Doesn't playing to the participant's money illusion run counter to the duty entrusted to actuaries and accountants to inform participants? Gortemaker's answer is short and to the point: "A real-value framework should be the guiding principle, unless nominal commitments have been made." Kasse's response is more nuanced: "The FTK computes pension fund values in nominal terms, whereas the targets of most funds are in real terms. If those targets are made unconditional, then additional reserves will have to be set aside. There is definitely room for conditional indexation in the nominal funding ratio, when the buffers (as imposed by the FTK) provide that room. Promise less, give more."

Room for reaching the wrong conclusions

All of it certainly is confusing, as Kasse readily recognizes. "The difference between defined pension liabilities and conditional allowances feels very arbitrary for participants," he says. "There is plenty of room for drawing the wrong conclusions from the nominal funding ratio. Plus, up until now, we thought that the real target was obtainable – but let's make sure first that the pension funds are able to make good on the nominal benefits. When we reach the point where the coffers once again have enough money in them, we can start looking at alternatives. One possibility is a real funding ratio, but computing that will not be easy."

Real or nominal, one thing is clear: the pension sector needs to report on facts, opportunities and risks in a better, clearer and more frequent manner for its participants. Open communication will preclude participants having inflated dreams of all their wealth, while being oblivious to the risks that their pension is exposed to. The pension sector is becoming more aware of this, which can be evidenced in the *pension register*, the *uniform pension statement* ("Uniform Pensioenoverzicht", UPO), *conditionality declaration*, and *indexation label*. And it's a good thing, too – because having your pension exposed to risk is not so bad, but running that risk without knowing about it is.

Netspar Selected New Themes

Four new themes have been selected by Netspar for the period of October 2009 till October 2012. One of the themes is of American origin, the other three research projects are affiliated with Dutch university partners. In total, two million Euros is allocated.

Financial Literacy

Annamaria Lusardi (Dartmouth College, US) investigates financial literacy. Individuals are increasingly in charge of securing their own financial well-being after retirement. The aging population has put considerable strain on existing pay-as-you-go social security and pension systems. Many pension reforms throughout Europe have increased workers' responsibility regarding both how much to save for retirement and how to allocate retirement wealth. Individuals are faced with a proliferation of new investment products and with investment opportunities that have expanded beyond national borders.

However, as the financial crisis has made clear, it is very hard to navigate this new financial system, and the consequences of mistakes can be devastating. Just how well equipped are individuals to make financial decisions? How much do individuals know about economics and finance? And how can we promote saving and retirement planning in a cost-effective way?

Value and Risk on Balance Sheets

Peter Schotman (Maastricht University) studies the valuation of pensions and desired investment policy. Pension fund and insurance companies have many items on their balance sheet that are not easy to evaluate using fair value principles. Some assets only occasionally have market values. An example is direct real estate, which sometimes is unique and has market price only when it is bought or sold. Another example is private equity, which only has an observed value when participations are sold or undergo an IPO.

The recent financial crisis has highlighted a number of issues where liquidity of markets has important effects on the risk management of financial institutions. When many large institutions are selling at the same time, demand may be lacking and prices can fall rapidly. In such circumstances, the solvency of pension funds and insurers may be severely affected and the supervisory framework imposes drastic actions. The question is if and how market valuation should be adjusted for possible temporary liquidity effects in distressed markets. A second related question is whether the liquidity premium can make illiquid assets attractive for long-term investors.

Short Term Risks and Long Term Goals

Tension between short term risks and long term policy of pension funds is investigated by Michel Vellekoop (University of Amsterdam). The current financial crisis has severe consequences for insurance companies and pension funds. The effect of all problems on funding ratios since the credit crisis has been dramatic. Many Dutch pension funds have formulated recovery plans in which they design strategies to get their funding ratios back to the required levels within a given time period. It is to be expected that the financial crisis will lead to a new regulatory framework to determine the amount of risk that life insurance companies and pension funds will be allowed to take in the future.

In the new regulation there must be a careful trade-off between long term goals for investment strategies and short term constraints on the associated risks. For pension funds, this often translates into a tension between constraints that are based on nominal valuations, and goals that are formulated in real terms.

This Netspar theme will deal with the question how such a trade-off should be made. It will thus provide a scientific framework for the difficult decisions that must be made by insurance companies and pension funds in the wake of the financial crisis.

Work and Care Across the Lifecycle

Maarten Lindeboom (VU University Amsterdam) and Eddy van Doorslaer (Erasmus University Rotterdam) are in charge of a project to investigate the relations between health, income and retirement. This theme is the continuation and extension of the preceding theme "Income, health and work across the life cycle".

In the past decades in The Netherlands changes in care (ZVW and AWBZ) and labor market institutions (the pension and disability insurance system) have been implemented and more are expected. The effect of institutional changes on (inequality in) care use and on labor market behavior of older workers is interesting in itself. On the other hand, the behavioral changes induced by changes in the institutions can be used to learn more about the mechanisms underlying associations between income, health, work and care. For instance, changes in the pension system may induce workers to change their labor supply and it is of importance for policy purposes to see whether these behavioral changes have consequences for later life health.

The most important panel datasets for the US, Europe and the Netherlands will be used as these panels have now grown into maturity with multiple waves available. Extensive use will also be made of two important new linked datasets for the Netherlands from Statistics Netherlands and Sweden. The theme has direct access to the Dutch data from Statistics Netherlands.

Merton Silent on Market Failure

This year's Van Lanschot Lecture was given by 1997 Nobel laureate Robert C. Merton, famous in finance for his seminal contributions to the discipline, and known further afield for the spectacular success— and equally spectacular subsequent demise— of LTCM, a hedge fund of which he was a partner. Needless to say, Merton's talk focused on the current credit crisis. In many ways it was a defense of the financial engineering technology that he helped develop and which many now see as one of the culprits of the crisis.

Indeed, Merton demonstrated that the theoretical toolkit goes a long way toward understanding the seemingly freakish risks of credit. Even the most basic forms of risky credit, such as bank loans or mortgages, always perform two functions simultaneously: the lending of money and the issuance of guarantees. A lender not only lends money, but also writes a guarantee on the assets of the borrower; if the asset value falls short of the value of the loan at maturity, the lender faces a loss equal to the difference. Risky credit is therefore functionally the same as government (i.e., risk-free) debt plus a put option.

Now, if asset values go down (as sub-prime mortgaged US homes began to do in 2006-07), the guarantee becomes more valuable. And not only that, the lender's position also becomes more risky, since the sensitivity (or delta) of the put has gone up. This means that, unless the lender readjusts his portfolio, another asset drop will increase the value of the guarantee (and therefore the loss to the lender) by a disproportionately larger amount. The next hit will lead to yet greater losses. And so what seemed to be a relatively small risk can mutate into an enormous problem— even though (or rather: because) loan portfolios are left unchanged.

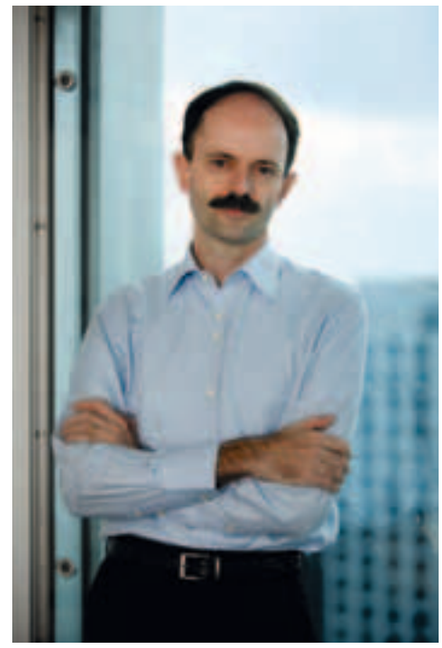
Merton did not fail to point out that the explicit and implicit guarantees that his and many other governments have issued in order to curb the crisis are subject to the same logic. In fact, he argued, they have issued these guarantees often in ways that are non-transparent and off the budget, and are therefore susceptible to the same criticism of financial trickery that banks have been accused of.

Of course, this by no means lets banks or other market professionals off the hook. Yet Merton remained remarkably silent on their flaws. Not so his doctoral advisor Paul A. Samuelson (winner of the Nobel Prize twenty-seven years before his student), who recently blamed the financial fiasco on the "new fiendish Frankenstein monsters of financial engineering"— referring, for instance, to the packaged mortgage securities that banks shuffled off their books and sold as prime-rated debt to the market. Of course, this is exactly the type of risk transfer that occurs without hindrance in Merton's models, but which in reality compromises the due-diligence efforts on the part of mortgage sellers and therefore raises the risks to the end investor and, ultimately, as it turned out, to society.

And so, while Merton's lecture did offer some food for thought, it was *what he did not say* that made it all the more interesting.

Rob van den Goorbergh
September 2009

Cardano in the Pension Industry



Over the last nine years, Cardano has focused on reshaping strategic risk management for defined-benefit pension funds. From the beginning, Cardano's aim has been to integrate the development of sound strategic risk management for pension funds with the implementation of the preferred strategy. Nowadays, we are European market leader in designing, implementing and managing derivative overlay strategies, serving over 40 larger pension plans by managing their funding-level risks. Derivative overlay strategies are now widely used in the industry: a majority of Dutch pension funds directly or indirectly uses interest rate, equity and inflation derivatives as one of the most important tools in strategic risk management.

By Bart Oldenkamp, Cardano

In 2007, Cardano moved to the UK, with an office in London, and extended its service to so-called "solvency management", which integrates strategic risk management through overlays with managing the underlying investment portfolio. Solvency management allows our clients to manage the risks present in their entire balance sheet through a unified, coherent approach. Every risk-management or investment decision made within the fund is assessed in terms of solvency improvement and risk, without relying on derived objectives such as *outperformance* relative to asset-class-specific benchmarks. Solvency management leads to an approach that relies on risk allocation, rather than asset allocation, as the most important tool to manage the fund's solvency position— an approach that is quickly gaining wider acceptance in both the UK and the Netherlands. Our offices in London and Rotterdam employ 80 people in total, equally shared between the two locations.

Through derivative overlays and solvency management, the services offered to our clients have mainly been built upon financial market solutions. From the beginning of Cardano, however, we have also been actively involved in innovation for the pension industry in a much wider sense. The innovative approach of Theo Kocken, the founder of Cardano, to use option valuation to explicitly assess the risk and reward trade-offs of all stakeholders in a pension plan, has gained wide recognition. Kocken's approach has been applied to a number of real-life challenges in the industry, and the pension-redesign recommendations in his books and articles are part of the current debate around the future of the DB pension system.

The challenges for pension funds

Innovation will be the key element for pension funds that strive to reach their objectives: to provide retirement income for current and future participants over a long time horizon. The tasks for the industry are challenging— take a barely solvent system and heightened insecurity in financial markets, and combine these with demographic pressures such as ageing, on top of the ever-increasing maturity of pension funds: the result is a retirement system about to crumble under a huge amount of pressure. Pension fund Boards will feel increasingly more pressured to look at all of the risks and returns to which the various stakeholders (employees, employers, retirees) are exposed – and redesign the entitlements and risks within the pension deal such that it becomes sustainable for the long run. This pension "redesign" occurs at both the individual pension-fund level and at the level of society as a whole. How can we ensure that the various pillars in our system still add up? What demographic and economic pressures exist at a country level that we need to account for?

Netspar and Cardano

Netspar partners such as Cardano can be of help to the pension industry only when they are fully aware of all the strategic challenges and risks — financial or non-financial — that pension funds face. To offer sustainable solutions to the industry, financial risk management needs to team up with solutions such as pension redesign. This is why Netspar is important to Cardano: through Netspar's research and partner network, partners like Cardano obtain access to a platform where all current and future challenges to the pension industry can be addressed. Many of the Netspar research themes are directly or indirectly relevant to our clients and hence, to us. We believe that three major themes, challenges and drivers for further research will dominate the future.

Pension fund redesign
Beyond the current credit crisis, there are other challenges presented by ageing, a maturing pension system (i.e. the ratio of actives to inactives/retirees is steadily diminishing) and continued deterioration of real funding levels that will require massive changes and risk redistributions within our current pension system. We have been able to observe what happens when one or multiple stakeholders observe that the risk/reward trade-off is tipping to the wrong side: pension funds close or risks become transferred to other stakeholders, who (we hope) are better able to bear adverse consequences. The fundamental question is what retirement systems will be affordable, while maintaining solidarity between generations. How can financial risk management help stakeholders bear the risks? Who "owns" the pension funds? How do we reward stakeholders who take up more risk?

Governance and Risk Management
The most important lesson from the current crisis is that the pension industry has come to realize that we need a better understanding of what risk management really means to pension funds. Historically, there has been a strong focus on merely assessing and measuring risks present in the portfolios, without making explicit how risks are managed. The usual investment process, which involves investment consultants, the Board, investment managers and the Investment Committee, while thorough, may take several months to implement required changes. We have also learned that once under pressure, pension funds do start to act as shorter-term risk managers: ignoring the short run may render the long term irrelevant. So risk management needs to seek a balance between short-term and longer-term risks, with the focus shifting more towards the short run as pension funds become more mature. How do we implement risk management in the existing structures? What information and what mandate does risk management require? Who should the Board involve in order to bring about the required changes? In short, what governance model allows for a better-functioning risk-management model?

Dealing with Uncertainty
The last theme deals with the information we need to make strategic decisions under uncertainty. We expect, apart from a further fine-tuning of econometric and time-series models, more focus on how to deal, rigorously and intuitively, with potentially stressed market conditions. How can shorter-term event risk analysis be combined with existing approaches to decision making? How do demographic changes, or changing patterns in consumption behavior (consider, for example, the growing importance of health care) affect the economy and the pension system? How does the design of our retirement system affect the economy? How does the changing global economy affect future asset returns? In short: how can we take account of the fact that pension design, the economy, demographics and asset returns are all connected?
The research agenda is enormous and the tasks are daunting, but as an industry, we can't afford to ignore what's ahead of us. Cardano is confident that through participating in Netspar, we support an important initiative to deal better with the challenge to provide a healthy retirement income for generations to come.

Education

New Name for Netspar-UMBS Academy

As of September 1, 2009 the Netspar-UMBS Academy has a new name. Maastricht University changed the name of UMBS to Maastricht University School of Business and Economics. So the new official name of our institute for professional education will be Netspar – Maastricht University SBE Academy.

In April the Academy offered Solvency II and Internal Models; in June followed Responsible Investing. November 4 and 5, the subject of the course was Pension Fund Governance. Rob Bauer (Maastricht University and Netspar) had invited some of the hot shots in this field to participate, including Jaap Koelewijn (Nyenrode), Gordon Clark (Oxford University) and Juan Yermo (OECD). Location: Zeist. More information on the academy is available on *www.netspar.nl/education/academy*.

MSc Economics and Finance of Aging

Two students graduated in August 2009 from the Netspar Master's program *Economics and Finance of Aging* at Tilburg University. Netspar congratulates Lisanne Maas and Jairo Rivera Rozo.

In September, a new cohort started with eight Dutch and eight non-Dutch students. These students are already looking forward to arranging their internships, which will begin in March 2010. For more information on the internships and how to provide Netspar with internship positions, please check the MSc's website www.netspar.nl/education/master/internships.

Thesis Awards

During the Pension Workshop (January 27–29, 2010), the Netspar Thesis Award winners will be presented. This year there is an award for a bachelor's thesis and for a master's thesis. Eight bachelor's students, and as many as 21 master's students from different Dutch universities, have submitted their thesis. More information is available on *www.netspar.nl/events*.

Master class on effects crisis on pension funds

Following the credit crisis, Netspar will organize a two-day master class in March, in which the effects of the current crisis and possible new crises on pension funds are discussed.

The master class will focus on the causes of the crisis (how could bad ratings and subprime mortgages have such a disastrous effect), but mostly on the effect on pension funds. How could funding ratios go down so quickly, how likely is this to happen again? In addition: how feasible are recovery plans and what are the implications for the pension system as a whole in the long run?

The master class will be taught by Lans Bovenberg, Theo Nijman, Bas Werker and Frans de Roon.

Paper Page

Recently Published Papers

This page offers the recently published papers in the *Netspar papers* series. More papers and all pdf versions can be found on our website *www.netspar.nl/research/database*.

Discussion Papers (DP) are produced by all Netspar researchers and Ph.D. students who are involved in one or more Netspar research programs or themes. A DP aims at publication in high-standard scientific journals. It is usually the output of a research proposal funded by Netspar. It is published on the Netspar website jointly with a management summary. The DPs are discussed during Netspar activities and digitally published on our website and SSRN.

Igor Fedotenkov and Lex Meijdam: *The spillover effects of pension reform with labor and capital mobility* (DP 09-2009-029)

Adriaan Kalwij: *An empirical analysis of the association between neighborhood income and unit nonresponse in the survey of health, ageing and retirement in Europe* (DP 09-2009-028)

Arie Kapteyn, James P. Smith and Arthur van Soest: *Work disability, Work, and justification bias in Europe and the U.S.* (DP 08-2009-027)

Jason Fletcher and Steven Lehrer: *Genetic lotteries within families* (DP 08-2009-026)

Willem Heeringa and Lans Bovenberg: *Stabilizing Pay-As-You-Go Pension Schemes in the Face of Rising Longevity and Falling Fertility: An application to the Netherlands* (DP 08-2009-025)

Arie Kapteyn and Federica Teppa: *Subjective measures of risk aversion, fixed costs, and portfolio choice* (DP 07-2009-024)

Rients Galema, Robert Lensink and Laura Spierdijk: *International diversification and microfinance* (DP 05-2009-023)

Pierre-Carl Michaud, Dana Goldman, Darius Lakdawalla, Yuhui Zheng and Adam Gailey: *Understanding the economic consequences of shifting trends in population health* (DP 04-2009-022)

Pierre-Carl Michaud, Dana Goldman, Darius Lakdawalla, Yuhui Zheng and Adam Gailey: *International differences in longevity and health and their economic consequences* (DP 06/2009-021)

Hans Fehr, Manuell Kallweit and Fabian Kindermann: *Marital risk, family insurance, and public policy* (DP 07/2009-020)

Peter Diamond and Johannes Spinnewijn: *Capital income taxes with heterogeneous discount rates* (DP 07/2009-019)

Adriaan Kalwij, Giacomo Pasini and Mingqin Wu: *Home care for the elderly: Family, friends, and the state* (DP 07/2009-018)

Bert Scholtens and Laura Spierdijk: *Does money grow on trees? The diversification properties of US Timberland Investments* (DP 03/2009-017)

Jan de Dreu and Jacob Bikker: *Pension fund sophistication and investment policy* (DP 05/2009-016)

Giacomo Pasini and Dimitris Georgarakos: *Trust, sociability and stock market participation* (DP 04/2009-015)

Hans van Kippersluis, Owen O'Donnell and Eddy van Doorslaer: *Long run returns to education: Does schooling lead to an extended old age?* (DP 04/2009-014)

Hans Fehr and Fabian Kindermann: *Pension funding and individual accounts in economies with life-cyclers and myopes* (DP 02/2009-013)

Adriaan Kalwij, Arie Kapteyn and Klaas de Vos: *Early retirement and employment of the Young* (DP 03/2009-012)

David Hollanders: *The political economy of intergenerational risk sharing* (DP 01/2009-011)

Andries de Grip, Maarten Lindeboom and Raymond Montizaan: *Shattered dreams: The effects of changing the pension system late in the game* (DP 02/2009-010)

Roy Hoevenaars, Theo Kocken and Eduard Ponds: *Pricing risk in corporate pension plans: understanding the real pension deal* (DP 02/2009-009)

Arie Kapteyn, James P. Smith and Arthur van Soest: *Life satisfaction* (DP 01/2009-008)

Adriaan Kalwij: *The impact of family policy expenditure on fertility in Western Europe* (DP 01/2009-007)

Panel Papers (PP) outline the implications of new developments in the academic literature for policy questions faced by Netspar's partners. The PPs are meant for professionals in the pension and insurance sectors and are discussed twice a year during one-day panel meetings. Representatives from academic and private sector partners, as well as international academics, act as discussants. The papers are published in a special PP booklet series.

Eddy van Doorslaer, Hans van Kippersluis, Owen O'Donnell and Tom van Ourti: *Socioeconomic Differences in Health over the Life Cycle: Evidence and Explanations* (PP 12)

Antoon Pelsser and Peter Vlaar: *Consistent Valuation of Pension Liabilities* (PP 11)

Matthijs Kalmijn and Rob Alessie: *Life course changes in income: An exploration of age- and stage effects in a 15-year panel in the Netherlands* (PP 10)

NEA (Netspar Economic Advice) Papers describe and motivate the position of the author on a policy-relevant topic. In contrast to the PPs, these papers contain strong statements. Although Netspar as such is impartial, individual researchers of Netspar may very well have (and express) a personal opinion. Netspar simply offers a forum for in-depth discussion. The authors present the NEA Papers at meetings and discuss them with the audience. NEA Papers are also published in a booklet series.

Fieke van der Lecq and Alwin Oerlemans: *Zelfstandigen zonder pensioen* (NEA 24)

Jolande Sap, Joop Schippers and Jan Nijssen: *Langer doorwerken en flexibel pensioen* (NEA 23)

Zvi Bodie: TIPS for Holland (NEA 22)

Geert Bekaert: *Inflation Risk and the Inflation Risk Premium* (NEA 21)

René Maatman and Sander Steneker: *Ringfencing van pensioenvermogens* (NEA 20)

Frank de Jong: *Naar een flexibele pensioenregeling voor ZZP'ers* (NEA 19)

Lans Bovenberg and Theo Nijman: *Kredietcrisis en pensioenen: structurele lessen en kortetermijnbeleid* (NEA 18)

Guus Boender: *Kredietcrisis en pensioenen: Modellen* (NEA 17)

Casper van Ewijk, Pascal Janssen, Niels Kortleve and Ed Westerhout, in corporation with Arie ten Cate: *Naar een reëel kader voor pensioenfondsen* (NEA 16)

Guus Boender, Sacha van Hoogdalem and Jitske van Londen: *Het managen van lange- en kortetermijnrisico's* (NEA 15)

Gerard Verheij: *Het Nederlandse pensioenstelsel: weerbaar en wendbaar* (NEA 14)

Netspar Events

Past Events

Annual Conference, April 23 – 24

Netspar's Annual Conference, with the theme, 'Rethinking Retirement', took place in April in The Hague. A lot of big names from the Netherlands, Europe and the US presented their views on pensions and the labor market for the elderly. Among the researchers discussing their findings were Edward Lazear (Stanford Graduate School of Business), Jonathan Skinner (Dartmouth College), Maarten Lindeboom (University of Amsterdam) and Vegard Skirbekk (International Institute for Applied Systems Analysis).

Policy-oriented participants, including Eric French (Federal Reserve Bank of Chicago), Coen Teulings and Ruud de Mooij (both Statistics Netherlands) presented their points of view on retirement in the near future. In addition, some politicians were invited. Piet-Hein Donner (Dutch Minister of Social Affairs and Employability), Alexander Pechtold (Dutch Social Liberal Party) and Stefano Scarpetta (OECD) pointed out to the audience the political implications (national and international) of the issues at stake in the retirement debate.

The complete program, papers and presentations are available on our website *www.netspar.nl/annual2009*.

Debate, May 28

During the Netspar Debate, three Netspar NEA Papers were discussed. The Dutch presenters and discussants definitely did not always agree. With Eva Kuit leading the debate, the discussion really got to the next level. Alwin Oerlemans (Cordares) and Fieke van der Lecq (EUR) presented their paper on 'Self-employed without pension savings'. This opinion really piqued the interest of the audience, because while almost everybody agreed with this statement, there were great differences in how they wanted to solve this problem.

Jolande Sap (Member of Parliament for Dutch Socialist Party) talked about flexible retirement age. In her paper (with co-writers Jan Nijssen (Montae) and Joop Schippers (OSA)) and presentation she showed why she favors greater flexibility for retirees. One of the main conclusions was that the social partners, united in the SER, should come up with an alternative for raising the AOW age to 67 and that flexibility had the potential to be that alternative.

Program, papers and presentations (all in Dutch) are available on our website *www.netspar.nl/debat*.

Pension Workshop Stockholm, June 8 – 9

The first international Pension Workshop was held in Stockholm (Sweden) this June. This Conference brought together experts on all areas of pension research. The conference was organized by Netspar and the Institute for Financial Research (SIFR). The first day of this two-day workshop was targeted at both academics and practitioners. The second day had two parallel sessions and a more academic focus.

Richard Thaler (University of Chicago), Christopher Jones (Financial Engines), Motohiro Yogo (Wharton), Francisco Gomes (London Business School), Daniel Barr (Premium Pension Authority), Magnus Johannesson (Stockholm School of Economics) and Cees Dert (ABN AMRO pension fund) were the keynote speakers.

The pension systems of various countries, including Sweden, the US and the Netherlands, were compared and discussed. Another main topic was whether and how to arrange opportunities for choice of pension products. Richard Thaler (Chicago) argued that behavior is influenced by the way alternatives are presented, even without changing the choice menu itself. All presentations and papers can be found on *www.netspar.nl/events/2009/pw/june/*.

Debate 'Pensions After the Credit Crisis', June 29

As a result of the credit crisis, an extra Dutch debate was held in The Hague– specifically on policy issues regarding pensions after the crisis. Among the contributions, Lans Bovenberg and Theo Nijman proposed lower indexation of existing pension claims for the elderly, reducing pension claims for the younger generations and increasing the retirement age.

Peter Gortzak proposed holding on to the existing pension deal, but either strengthening it or to adding individual preferences. Guus Boender evaluated the application and value of using (asset & liability) models for pension funds. Other contributions were made by Benne van Popta, Sweder van Wijnbergen and Arnoud Boot.

See the website *www.netspar.nl/events/2009/june29/* for all papers and presentations. Also available on that site are the four television interviews RTL Z had.

Piet-Hein Donner, Dutch Minister of Social Affairs and Employability, at the Netspar Annual Conference

Upcoming Events

Longevity Risk, Theme Conference, December 2

On December 2 Netspar has organized a theme event on longevity risk. This conference aims to provide insight into the current "state of the art" with regard to longevity risk, both from the academic side as well as from the practitioners' side.

Netspar is very pleased to announce that David Blake, a leading scholar in the area of longevity risk, has accepted Netspar's invitation to deliver a talk on this day.

Supporting Consumer Pension Decisions Online, Theme Conference, December 8

More information to follow on our website.

Pension Workshop, January 27 – 29, 2010

The workshop, which will be held in Amsterdam, starts with a training day. The second and third days will be in the form of an academic conference with contributed papers. Mike Orszag (Watson Wyatt) and Laurence Kotlikoff (Boston University) are the two keynote speakers at this workshop.

More Information on Upcoming Events

For more information on all our events, please check out *www.netspar.nl/events* and the monthly digital newsletter *Newsflash*.

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Netspar
Visiting address
Tilburg School of Economics and Management
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
Website www.netspar.nl

Editors
Gaby Versmissen
Etc. Editorial Services, Breda

Guest Authors
Rik Oerlemans
Bart Oldenkamp
Leen Preesman

Translations
Nina Woodson

Photography
Alief fotografie, Tilburg
Arenda Oomen, Den Haag
Cor Salverius, Fotopersburo Dijkstra
Ton Toemen, Tilburg

Graphic Design
Laverbe, Nijmegen (Concept)
Sander Neijnens, Tilburg

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Short News

Chinese Vice-Minister visited Netspar

A Chinese delegation with Xiaoyi Hu, Vice-Minister of Human Resources and Social Security, visited Netspar at Tilburg University. Frank van der Duyn Schouten, chairman of Netspar's board, and Theo Nijman, scientific director, talked with them about Netspar and the Dutch pension system. The Netspar board members made clear, what the benefits are of the pension system in the Netherlands. The Vice-Minister also met some Chinese students Economics and Finance of Aging, the Netspar MSc program. The students were very enthousiastic about this opportunity and vividly talked about their study.

Xiaoyi Hu (in the middle) discusses the Dutch pension system with Theo Nijman (left) and Frank van der Duyn Schouten (right).

Netspar's Next Phase

Recently Netspar's board of directors has changed. Frank van der Duyn Schouten, who joined Netspar last April, has been appointed chairman of the board. Theo Nijman will continue his board membership as scientific director, while Frans de Roon will act as director partner contacts. The board is supported by Dominique de Vet as managing director and secretary of the board. Lans Bovenberg, Arthur van Soest and Lex Meijdam resigned from the board. Lans en Arthur are still closely involved in Netspar as members of Netspar's scientific committee. With this new board Netspar enters a new phase in its existence. Netspar News asked the new board members about their ideas for the near future.

Theo Nijman is clear: "The future for Netspar is bright. A lot of Dutch and non-Dutch researchers on aging and retirement issues are keen on working with us. Recently, four new themes have been selected. Three of them are carried out by national and one by an international research consortium. Internationalization is playing an increasingly important role in the Netspar operation."

Frans de Roon adds: "We have decided on the new research themes in consultation with both our Scientific Council and our partner organizations, as represented in Netspar's Partner Council. The progress of the current themes is also surveyed by sounding boards with representatives from Netspar's partners. The commitment of our partners is crucial in this process."
"For a bright future, it is vital that Netspar stays in close contact with both scientists and professionals in the pension and finance sector", states Frank van der Duyn Schouten. "Netspar as a networking organization depends on the commitment of both groups. We will therefore intensify our mutual communication and even more strengthen the role of Netspar as a platform for the exchange of findings, views and opinions." He emphasizes that the support of the Dutch government through various ministries will remain most essential to enable Netspar to play this crucial role.

Netspar Partners

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Tilburg University
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NWO Netherlands Organisation for Scientific Research
Ministry of Education, Culture and Science
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