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We want economists to keep inspiring us
Improving risk management is paramount
More soft rights keep the system solvent
Theme: 2nd Pillar – The Future

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Jan Koeman, policymaker at Social Affairs:

"WE WANT ECONOMISTS TO KEEP INSPIRING US"

Although pension arrangements in The Netherlands are primarily a matter of employers and employees, the Dutch government also plays a significant role in structuring the pension system. As a spider in its web, the Department of Social Affairs is intensely involved in developments in the sector.

By Leen Preesman

Jan Koeman is head of the pensions policy unit at Social Affairs. "Since the initial Pensions and Savings Act of 1952," he says, "the government has had the task of ensuring that long-term pension promises are kept. We want to prevent at all costs that a company that folds causes all of its pension assets to go lost. For the second time in a decade, the financial crisis has made clear that the pension system is much more vulnerable to shocks in the financial markets than we previously thought. It has made the government's guarantee function more relevant than ever. That's why Minister Donner had asked experts for advice."

After several committees had produced weighty recommendations on the sustainability of the Dutch pension system, the investment policies of pension funds, and governance, Koeman's office prepared the government's response. The bottom line is that the national government will stimulate pension funds to be more transparent about the risks in the system. And that any guarantees need to have a sound financial basis. Furthermore, the social partners and pension funds will be given better tools to absorb risks, such as the rise in life expectancy.



Jan Koeman

Part of the broad review of the pension system is the Financial Assessment Framework (FTK) that was introduced in 2006, following the pension fund decline that ensued the internet crisis at the start of the century.

Has the FTK performed as expected?

"By setting the goal posts for pension funds and insurers, the FTK has provided clarity on many fronts," Koeman comments. "And with the pension supervisors of the Dutch Central Bank and the Authority for the Financial Markets as formal watchdogs, it has also had the effect of increasing self-discipline in the funds."

"As liabilities now need to be calculated against market interest rates, rather than at the fixed rate of 4%, structural developments of the interest rate have become visible at a much earlier stage. Because of the fixed interest rate, the dramatic decline of the coverage ratio during the 1990s was virtually unnoticed. The FTK has also shown that pension funds are much more vulnerable to shocks. Pension funds have started to embrace the concept of risk aversion, as well as the importance of financial buffers."

Social Affairs' minister Piet Hein Donner has indicated that he is also in favor of a switch from nominal to real coverage ratio as the leading principle of the FTK. What triggered his change of approach?

"The nominal funding ratio only provides a double pseudo-security. The shocks on the financial markets were so severe that the 97.5% certainty level for workers' pensions can no longer be realized at the current buffer level. Furthermore, the real value of accrued pension rights erodes progressively if no indexation is applied for several years," the head of pensions points out. "At the same time, hedging against risks aimed at nominal coverage causes tensions with a real coverage of liabilities. The more pension funds are forced to strive for nominal security, the more return they sacrifice, and the more difficult it becomes to attain a fully indexed pension in the long run."

"An approach based on real values makes it easier for pension funds to focus on long-term goals. It will provide participants with a more realistic insight into their future purchasing power as well as into the level of uncertainty. Although this uncertainty already exists, we tend to ignore it. That may erode trust in the pension system in the long term."

The minister is also looking at how pension funds should deal with the sometimes volatile coverage ratio, due to the regular fluctuation of interest rates. What will this mean for indexation?

"The FTK doesn't contain any guidelines for indexation at present. As long as pension funds refrain from granting inflation compensation if their funding ratio is under 105%, they can do as they consider sensible. However, the assessment framework definitely offers leeway to ignore the interest rate of the day. Rather surprisingly, many pension funds don't take this into account.

However, the volatility of the coverage ratio was a problem last year, as pension funds had to draw up a recovery plan within two months if their coverage ratio had dropped to less than 105%. As the crisis unfolded, the Dutch Central Bank and our department used their discretionary power and offered more leeway. In a volatile environment, it may be wise not to react immediately. Hence the minister's proposal for a waiting period."

What does it mean, to find an acceptable trade-off between higher security and higher costs for pensions?

"This is one of the main challenges we are facing," the head of pensions admits. "Security has its price, and choices will have to be made for every arrangement. Although it is up to the pension funds and the social partners to decide on the balance, the Pension Act forces them to make transparent choices. The introduction of 'soft rights' enables the social partners to implement innovative pension arrangements that may improve the trade-off between costs and ambition."

"When the FTK was devised, with its distinction between 'hard' nominal rights and a 'soft' indexation promise, we all thought it struck a proper balance between prudence and affordability. However, we now know that shocks can be so severe that hard guarantees are much more expensive."

How can pension funds provide their participants better insight into their risks and opportunities, so they can make the right choices?

"Many studies have already made clear that people find it very difficult to make decisions about their future retirement. And since it involves decisions that may span decades, this is very difficult," Koeman says, putting the

as the Goudswaard Committee has proposed. We think that we at least have to overcome some legal hurdles, such as the issue of age discrimination. Therefore, translating the vision of economists into sound policy is a real challenge. But because economists usually think out of the box, we want them to keep inspiring us!"

How should the expertise of the executive boards of pension funds be enhanced?

"Investment policy and risk management of pension funds have become much more demanding. The Frijns Committee showed us that outsourcing of asset

management is not a solution, as the board remains responsible and should therefore understand what is happening. Minister Donner announced that the requirements for board membership will be tightened and that he wants to allow professionals on the board. Moreover, I expect that the internal structure of pension funds will be equipped with experts to counterbalance the external managers."

management is not a solution, as the board remains responsible and should therefore understand what is happening. Minister Donner announced that the requirements for board membership will be tightened and that he wants to allow professionals on the board. Moreover, I expect that the internal structure of pension funds will be equipped with experts to counterbalance the external managers."

Can you already give an indication as to how thoroughly the Pension Act needs to be amended?

"A major revision is necessary to allow the option of soft rights and to focus on a real coverage ratio, as the current legislation is primarily based on unconditional pension rights in nominal terms. However, I expect this will fit within the basic framework of the Pension Act."

Does Social Affairs nevertheless assume that the contribution instrument needs to be applied, seeing that the minister has revised the parameters of the FTK downward?

"Following the Don Committee, the minister has proposed a modest downward revision of the parameters, of the equity premium in particular. This will not necessarily boost contributions, as the social partners and pension funds may also choose to promise less indexation. Here again, the social partners can choose between higher premium levels and indexation. But the legislation will force them to make transparent and realistic choices."

situation into perspective. "I think that we will already have gained a lot if we succeed in convincing people that there will always be some uncertainty regarding pension rights and indexation, and that results from the past are no guarantee for the future. People also need to understand that they must remain vigilant themselves on pension issues. Although the new Uniform Pension Statement and the Pension Register are useful instruments for raising pension awareness, they are merely steps within a long process."

How do insurers, as providers of third-pillar arrangements, fit within this picture?

"Many of the main themes apply to insurers as well as pension funds. They both need to find a balance between pension ambition, security, and costs. But there are differences on details. Insurers' contracts generally provide clarity as to which party bears what risk. On the other hand, those contracts are often less flexible and more expensive."

How do policymakers on pensions deal with the input from economists?

"It is very inspiring to discuss pensions with economic experts. We learn much from them, but their solutions don't always directly link with daily practicalities. For example, we need to take into account whether there is enough popular support, and whether proposals are in line with EU regulations. We also wonder if we can develop policy that factors age differences in,

"Dutch pension funds should first and foremost focus on improving their risk management. Once they have set up a clear framework, the search for return on investments is strictly a technical problem," argues Jean Frijns, Professor of Investment Management at Amsterdam's Free University.

Professor Jean Frijns:

"IMPROVING RISK MANAGEMENT IS PARAMOUNT"



Jean Frijns

By Leen Preesman

Following the financial crisis, a committee chaired by Frijns, examined investment policy and risk management at pension funds, at the request of Piet Hein Donner, the Minister of Social Affairs. After analyzing developments at 26 schemes representing 72% of Dutch pension fund assets, the Frijns Committee concluded that the pension funds had become increasingly vulnerable during the past two decades.

A combination of risks – aging of the population, looming inflation, decreasing interest rates, volatile markets and implementation risks – is darkening the horizon. Together with a steady decrease of risk-bearing capacity, these developments have the potential of turning the capital-funded pension system into a sinking giant, according to Frijns, who is a former chief investment officer of the €208 billion civil service scheme of ABP. Earlier this year, his committee came up with several recommendations for improvement.

Which are, in your opinion, the most important recommendations?

"Firstly, pension funds must explain their participants the risks involved, plus provide clarity on who will carry these risks. Secondly, they should start thinking in terms of real coverage ratio, as this is the benchmark used by their participants. Thirdly, pension fund boards are insufficiently staffed to identify and manage the risks. Professionals should be brought on board to act as a counterbalance against the providers. Lastly, pension funds should focus much more on their accountability towards their participants."

What are the practical problems for implementation?

"We are demanding a lot from the executive boards of pension funds. While the financial position of many schemes is below par, and while sponsoring companies are capping their contributions, the boards are expected to improve asset management, communication and governance processes. Their participants and the Dutch Central Bank, which serves as pension regulator, will undoubtedly come up with additional requirements."

"A switch to the real funding ratio might, however, be the most difficult part of our recommendations. Establishing which market rate should be applied, and how the expected inflation must be calculated, is likely to require fierce discussions within the sector. However, we must keep in mind that a focus on the real coverage ratio will clearly show that a pension fund is not free of risk. Hopefully this will also trigger discussions about the appropriate risk level."

"Another tough issue will be allocating the risks among the different groups of participants, as well as establishing when decisions for indexation – or pension cuts – will be taken. To be honest, the question whether pension funds will be willing or able to tackle all these issues, is a source of concern."

If pension funds adopt the real coverage ratio as their benchmark, won't almost all of them face a shortfall?

"That doesn't matter, because it won't change the reality. A funding ratio of less than 100% simply means a shortfall and doesn't allow a pension fund to compensate for inflation."

Should pensions funds entirely be run by professionals, and which expertise requirements should be set by law?

"Although we don't dismiss a board strictly consisting of professionals, it would require serious supervision from the social partners – employers and employees – as they provide the legitimacy for assessing the different interests. A better solution would be a board with added professionals, including experts on investment and financial risk management."

"During the credit crisis, approximately € 20 billion of pension assets were lost in the implementation of investment policy, apart from losses caused by collapsing markets and dropping interest rates. This could happen because too much risk was taken in the actual asset management process. Pension funds often allowed their external asset managers too much leeway, without sufficiently monitoring how they handled their mandate. It has turned out that many managers deviated too far from the strategic asset allocation, especially with fixed income investments."

How should the present pension contract be adjusted?

"Most importantly, it must provide clarity about how the risks are divided between the different groups of participants. The stakeholders could, for example, agree that active participants carry 80% of the market risks, and pensioners and deferred members are exposed to the remaining 20%. In addition, longevity risk, inflation risk, and interest risk could be evenly spread over all participants."

"The parties should also decide on the coverage ratio level that triggers an indexation decision, and whether a recovery must be reached by refraining from indexation or through an immediate discount of pension rights. On the other hand, investment risk is symmetric: in case of a positive return, all participants should benefit in direct proportion to the risk taken. In our opinion, adjusting the pension contract is not difficult, but it has to be written in clear plain language."

Participants are supposed to indicate their willingness to risk-taking. How would this work, as pension communication in general is already complicated?

"Even if they understand the dilemmas, people tend to choose maximum security. So this approach only works if the executive board clearly states and defends its decision on objective criteria, such as the risk-bearing capacities of the different groups of participants. The accompanying message should be: 'We have come to this conclusion in your best interest. If you don't like it, please elect a new board'. However, schemes must not try to reassure participants of their good intentions by throwing sand in their eyes."

Professor Guus Boender has suggested that pension funds will in fact become insurance companies, this because of the effect of liability-driven investments on the combination of a real coverage ratio and the ratio's hard lower limit. Is he right, and does it matter?

"He is right, but the effect is inevitable. In fact, as long-term investors who are committed to pay promised benefits, pension funds are already acting as insurers. However, we have suggested that pension funds decide themselves where to set their coverage ratio's lower limit, below which pension rights will be cut. The more they promise, the larger their role as an insurer."

If 70% of asset managers are unable to provide data for the coverage ratio on a monthly basis – as consultancy firm Hewitt has suggested – how can the chain of providers, fiduciary managers and a pension fund boards be in control?

"All pension funds should have an independent control and monitoring system in place, alongside the executive chain of mandate and sub-mandate. They should extend their custodial services with a control function that keeps an eye on the mandates. Such a system is common practice within the corporate world, but it is hardly being applied by pension funds."

How should pension funds carry out a dynamic investment policy against tail risks, rather than an active policy?

"In a dynamic stop-loss strategy, you must make your investment strategy dependent on your financial position. If the coverage ratio is low, the pension fund should continuously ask itself whether it can take investment risks. Such an approach is always expensive, but it offers a guarantee against a maximum loss. In addition, it provides peace of mind, in particular if a pension plan has many older participants."

The Frijns Committee has said that its recommendations should be adopted as 'best practice'. Should the sector regulate itself?

"Yes, but our advice is not optional. The sector needs to set up a monitoring system in cooperation with the Dutch Central Bank. However, as this process is usually a political game, it will probably end up with some sort of compromise."

Several developments, like increasing longevity, low interest rates and the volatility of returns on investments, pose a serious threat to the sustainability of the Dutch pension system. "However," says Professor Kees Goudswaard, economist from Leiden University, "employers and employees, being social partners, can turn the tide by taking decisive action for a new balance between pension ambition, security and costs".

Professor Kees Goudswaard on the durability of Dutch pensions:

"MORE SOFT RIGHTS KEEP THE SYSTEM SOLVENT"

By Leen Preesman

A committee of financial experts, headed by Goudswaard, was assigned by the Dutch government to look into the effects of the financial crisis and population aging. It found that dropping contributions – due to aging of the population – and a decreased willingness of companies to bear pension risks also add to the problem.

The Goudswaard Committee's main suggestions for improvements are downgrading pension ambitions by lowering the yearly accrual of rights and adjusting the risk approach. In addition, the system should focus on real pensions rather than nominal ones, the experts argued. They ruled out a further rise of contributions, as the Netherlands Bureau for Economic Policy Analysis (CPB) indicated that maintaining the present pension level would require a premium increase of no less than 4%, bringing the premium level to 17% of total wages by 2025.



Professor Kees Goudswaard

What would be your preferred way of decreasing the pension ambition?

"We have refrained from making specific recommendations. Our task was to present the options. The ultimate decision is of course to be taken by the social partners. They could choose to revise the benefit level downwards at the age of 65 from the standard of 70% of final salary or 80% of average salary. However, people can keep their benefit level by working longer. Other options are maximizing pensionable earnings, or switching to a system of pension indexation based on prices instead of wages."

How should the risk approach be adjusted to increase the durability of the pension system?

"The solvency of pension funds could be improved by shifting the accent from hard rights to 'soft pension rights', such as the conditional indexation that we have now. For example, an automatic link between the pension level and life expectancy could further increase the sustainability of the system. It would eliminate longevity risk."

"Because people still expect a high and secure pension, we also need to explain the risks in the system. If we adopt the real coverage ratio as benchmark, we need to keep on taking calculated investment risks, including investing in equities. If pension funds had not increased their equity allocation in the 1980s, they would have had 25% less assets at the end of 2008, when the crisis was at its worst."

How should pension contracts be changed to allow for more conditional arrangements? And what leeway would pension boards have in their governance of pension schemes?

"The contracts must provide clarity on which party carries what risk, and what rights are affected under what circumstances. To make informed choices for pension arrangements, participants must know the expected development of their buying power as well as the likelihood of how their future pension may deviate from predictions. Pension funds should also expand their indexation ladders, which usually dictate policy when their coverage ratio is between 105% and 140%. If increasing transparency is at the expense of the margin of pension boards for governing, they should accept it, I think."

How can life expectancy be taken into account in pension arrangements?

"As allowing for individual life expectancy is not possible, pension schemes should automatically factor in the average longevity. But we also indicated that people with lower income generally have a lower life expectancy, and thus fewer pension years. This could be a reason to cap the pensionable salary in the second pillar."

What recommendations for a sustainable pension system can be implemented most easily?

"Downgrading the pension ambition is relatively easy, technically speaking, and the same goes for linking the pension level, or pension age, to life expectancy. A larger role for conditional entitlements and differentiation in risk allocation is more complicated, as it requires amending the Pension Act. And additional research is needed into a different pension build-up by younger and older workers, instead of the uniform contributions and yearly accrual of pension rights that we have at present. After all, paid-in contributions of younger generations will generate returns for a longer period. The pension arrangements must remain attractive for all participants."

Should your committee's recommendations be applied on an individual basis for pension funds, as the FNV labor union has advocated?

"I agree with the FNV that tailor-made solutions should be made possible. The conditions and preferences vary so widely among sectors and companies that different choices must be made."

Whose pensions are most at risk? Those of older workers or pensions of younger generations?

"Older workers and pensioners suffer the most from the effects of the credit crunch since they have accrued the most extensive pension rights. Terminating the indexation has a bigger impact on their pension rights. We suggest that it would be better that their younger colleagues run greater risk. After all, they have their human capital as well as more time to cushion shocks. On the other hand, their chances of good fortune in the longer term are bigger, and they should be enabled to reap those benefits. In our opinion, a thorough study should be carried out into how risks are divided between the generations."

Is the much-praised solidarity between generations at risk?

"Risk-sharing between generations will remain an important element of our system. Risks shouldn't be put with individuals only, such as in pure defined contribution arrangements. Our recommendations are meant as tools to maintain solidarity within the collective pension system. But we also argue that some income transfers within the system, such as transfers from lower to higher paid workers, are more self-evident than others."

How does the Goudswaard Committee take into account the position of the relatively new self-employed category, which includes several hundred thousand people?

"If an employee decides to start working independently halfway through his working career, leaving the pension fund that he has belonged to, he will ultimately receive fewer pension benefits from the company scheme than he would have accrued had he remained in the scheme."

Additionally, a person who started his or her working life being self-employed probably has not made any pension arrangements at all. That's why we have recommended to set up a second pillar-like scheme for such people. However, participation should not be mandatory in my view, because a self-employed person has chosen for the freedom of self-employment."

Next year the Pension Register will be launched. It will show all accrued pension rights in the first and second pillars, but will this be sufficient?

"In our opinion, the register should provide information about all pension rights, including those from third pillar arrangements with insurers. This way, workers will have a complete picture of their financial future after retirement. The earlier they have clarity about a looming shortfall, the better their chances of making supplementary arrangements to plug the gap."

SHARING KNOWLEDGE

SOCIAL AFFAIRS' COMMITTEES ON PENSIONS

In February and April, Netspar organized two events on the results presented by the committees Frijns and Goudswaard, and FTK. Speakers were Jean Frijns (VU A) and Kees Goudswaard (Leiden University) themselves, and Jan Koeman (SZW) at the first event. They then presented the basic results and discussed them with the audience and some discussants from both industry and science.

The second event had a more analytical character, where Peter Gortzak (FNV), Ap Fraterman (VNO-NCW) and Harold Herbert (VvV) discussed the impact of the results and the Minister's point of view from their own perspective. Of course, the committees reacted on these implications, which made the discussion very vivid. On the events website, all public presentations can be found.

NATIONALE-NEDERLANDEN

Nationale-Nederlanden (NN) is one of the largest insurance companies in the Netherlands. It offers a wide range of insurance products for private individuals as well as for companies, their employees, and self-employed persons. We want to provide our clients with the products they need for protection against risks, to grow their savings, manage their investments and prepare for their old age. NN aims to deliver its financial products and services in the way its customers expect: with first-rate service, conveniently and at competitive prices. This is reflected in the mission statement of NN: to set the standard in helping customers manage their financial future.

The company has headquarters both in The Hague and Rotterdam. The Rotterdam headquarters are located in the Delftse Poort skyscraper.

Since the start of 2010, NN is organized into business units. The most relevant BUs for Netspar are:

- NN Retail. This offers property and casualty insurance for households and individuals, as well as old age savings in the third pillar (e.g. annuities and single premium policies);
- NN SME. This offers property and casualty insurance for SMEs; disability insurance for the self-employed; and sickness and disability insurance and pensions for employers and their employees. As to pensions, it provides both defined benefit and defined contribution products;
- NN Corporate Clients. This offers tailor-made pension solutions for pension funds, companies and their employees.

NN's CEO, Lard Friese, is a member of the Netspar Advisory Board. The chairman of NN Corporate Clients, David Knibbe, is the NN representative in the Netspar Partner Council.

History

The oldest legal predecessor of Nationale-Nederlanden is Kooger Doodenbos, located in Koog, Noord-Holland, founded in 1743. At that time the need arose for regional funds aimed at insuring private individuals, certain professions, communities, orphans, and widows against ill fortune. Later, these became peripheral activities as more established and bigger companies such as De Nationale Levensverzekerings Bank (National Life Insurance Bank) were taken over. Nationale-Nederlanden came about through the merger in 1962 between Nationale Levensverzekerings Bank and Assurantie Maatschappij tegen Brandschade De Nederlanden van 1845 (Fire Insurance Company The Netherlands).

In 1991 NN merged with the NMB Postbank Groep (the result of an earlier merger between Rijkspostspaarbank, Postcheque- en Girodienst and Nederlandsche Middenstands Bank) to form the ING Group.

Nationale-Nederlanden and ING

Today ING is a global financial institution that offers banking, investment, life insurance and retirement services. ING serves more than 85 million private, corporate and institutional customers in Europe, North America, Latin America, Asia, and Australia. Its overall mission is to help customers manage their financial future. In the next several years the structure of the company will change significantly. Early in 2009 ING introduced a "Back to Basics" program to streamline the company while reducing risk, costs, and leverage. A key element in this streamlining process was a commitment to reduce complexity by operating the Group's banking and insurance activities that fall under the Group

umbrella separately. In October 2009, ING announced that it will proceed over the coming years towards a complete separation of the banking and insurance operations (including Investment Management). This separation is expected to be completed by the end of 2013.

Nationale-Nederlanden Corporate Clients

The Business Unit Corporate Clients (NNCC) has offices in Rotterdam (NN), Heerlen (AZL) and The Hague (IIM). The main objective is to attract prospects in the Dutch corporate clients market with a "one-NN-approach". The labels are:

NNCC

As a leading pension insurer, NN is familiar with the legal and regulatory framework for pensions. It is thus capable of translating the necessary knowledge and experience into attractive pension solutions that are

manageable and practicable while meeting all current requirements. NNCC has about 550 employees. Its focus lies on direct insurance for large companies (including multinationals) and on reinsurance for company pension funds. It has 220 corporate clients, including 80 reinsured pension funds, with approx. 800,000 pension plan members in total.

AZL

AZL has some 40 years of experience in pension fund management and advisory services for pension fund boards. It has about 400 employees. AZL offers integrated services to pension funds: administration, advisory services for executive boards, and actuarial services. It is an expert in the implementation of pension schemes. Its client base is 60 pension funds with approx. 500,000 participants.

ING Investment Management

All business development activities of AZL Fiduciary and Investment Services for NNCC are concentrated in the Team Business Development NL of ING Investment Management (IIM). IIM is a leading asset manager and one of the world's largest real estate investors. As of September 30, 2009, it managed approximately € 414 billion of assets for institutions and individual investors worldwide, and it serves as the principal asset manager of the ING Group. It is committed to investing in a prudent manner and to delivering client-oriented investment solutions and advisory services across asset classes, geographies and styles.

ING / NN Pension Communication

ING Pension Services Communication arranges meetings for employees to inform them in understandable language about the pension system in the Netherlands and the pension plan offered by their employer. These meetings are highly interactive and tailored to the company and the experience of the employees.

Multinational pooling

NN is a member of the ING Employee Benefits Global Network. This is a network of ING Group subsidiaries and independent insurers providing pooling solutions to multinational employers and their employees. Multinational pooling involves the combining of risks in two or more countries. It thus serves as a layer above these local contracts, allowing a better spread of risk and resulting in economies of scale to the advantage of a multinational company. Under this system, the benefits of favorable claims experience can be leveraged to cover a larger scale. The ING Employee Benefits Global Network is also an excellent platform for exchange of information about pension systems in various countries.

Stakeholders

ING conducts its operations on the basis of clearly defined business principles. In all of our activities, we carefully weigh the interests of our various stakeholders: customers, employees, communities and shareholders. ING strives to be a good corporate citizen.

Corporate responsibility

ING pursues profit on the basis of sound business ethics and of respect for its stakeholders. Corporate responsibility is a fundamental element of ING's strategy. Ethical, social and environmental factors play an integral role in our business decisions.

NN and Netspar

ING and Netspar have been partners from the start. ING wants to be involved in the community and to invest in a better future. This is what stakeholders expect from ING/NN and where their interests lie. The ING representative in Netspar has always been a board member of NN. The demographic challenges due to aging of the population and the budgetary need for pension reform make it crucial for a major pension provider such as NN to participate actively in the discussions on retirement provisions and on how a suitable framework for supplementary schemes can be developed and maintained.



EXPERIENCES OF FOUR (FORMER) STUDENTS

Netspar started the master Economics and Finance of Aging (EFA) at Tilburg University in 2006. Netspar Magazine was curious and asked four (former) students about their experiences with EFA and their dreams for the future.

Ruben Laros (23) works at APG as Junior Business Developer

'SPECIFIC KNOWLEDGE OF PENSION MATTERS IS MUCH IN DEMAND'

"It has been two years since I registered for the Netspar master. Now I work on the 17th floor of the brand-new Symphony building in Amsterdam-South for APG. I did not expect things to go this fast", Ruben says in an understated way.

After completing his bachelor in International Economics and Finance, Ruben chose the new master program in Economics and Finance of Aging (EFA). "I researched different pension systems during my BSc study and eventually ended up at the Netspar website", he says. "I became part of the second generation of Netspar students, twelve in total. We soon got a lot closer. Partly because we clicked, but mostly because the program was not easy on us. As to econometrics, I had hardly been involved with that before but still managed to pass the EFA courses."

He adds, however: "While this may not sound appealing, I still strongly recommend the program. Once you obtain your degree, you stand out among the rest of the graduates because of the very specific pension expertise you have gained. Expertise that is in great demand."

"Right before I graduated, APG offered me a job. I am not alone in this: seven former EFA interns are now



Ruben Laros

employed at APG. Besides myself, there were two other interns last year. They both work a few metres from my desk in comparable positions but different jobs."

Ruben is very positive about his working life and smiles as he tells about it: "My first assignment at APG was to research how pan-European pension solutions work exactly. The theory from my bachelor thesis proved basically worthless, as I got introduced to pension frameworks – fiscal, legal and prudential – that were entirely new to me. Currently, we are aiming at a small number of countries to see whether we can offer our services there. My role is to research and prepare for visits, presentations, and conferences. Every single day I benefit from the in-depth knowledge that was provided by Netspar."

Roy van Egmond (22) is a Dutch student of the MSc program Economics and Finance of Aging

'INTERNSHIP IS REALLY A GREAT CHALLENGE'



Roy van Egmond

"During my BSc study in Economics I was already interested in lifecycle behavior: why do some people tend to save money for the future, while others decide to invest, and still others to go ahead and spend? Two years ago I visited an information day and was triggered by the Economics and Finance of Aging (EFA) program, which covered this topic. The information I received helped me to complete the image I had of this MSc program. Especially the job opportunities and the internship were quite appealing. Last year I was a member of the board of Faculty Association Asset, the association for all students of the Tilburg School of Economics and Management. I helped organize company visits and that made EFA even more attractive to me. So I decided to go for it." He smiles as he tells this.

Roy is really enthusiastic about his choice. "Of course I checked the contents of the courses to be taken. With the experience I gained during the company visits, my expectations were fairly realistic." The EFA program is indeed

a lot of work within a short period of time. "I have to work much harder than for my bachelor study, but I am motivated so I can cope with it. I think Econometrics and Economics prepare you better for EFA than Business Administration. Foreign students have an advantage in the courses that involve more mathematics, but the contents of the other courses are newer to them."

When asked what he wants to do for a living, Roy hesitates. "I don't know for sure yet. I am considering another MSc or the Research Master to prepare for a PhD. I am still young and studying means freedom, but my internship at APG is coming up soon. That will be a considerable challenge. So you never know..." During his internship his subject will be quite topical: economic property rights of pension fund buffers (or deficits, for that matter). Roy is looking forward to it. Laughing, he says: "Maybe my internship will show me that I am ready to go and work until retirement."

Aileen Cheng (25) works at Ortec Finance as a consultant

'YOU CAN BE WHO YOU WANT TO BE'

"When I worked on a part-time basis in Shanghai, there was no way that I could interact with people who held more important functions. In Holland, the work situation is much more open." Aileen Cheng is a Chinese graduate of the master's program in Economics and Finance of Aging at Tilburg University. Two years ago, she decided to look for a job in Holland because of the freedom it would give her. "People leave the office at six because they find it important to spend time with family and friends. There are more things in life than a career. I think the Dutch work culture is quite relaxed. You can be who you want to be without being judged."



Aileen succeeded: she now works at Ortec Finance as a consultant, with various pension funds as clients. She already gained some experience in the pension industry during her internship at the Social Insurance Bank, in Dutch the SVB. Being open-minded and pro-active is really important when looking for a job, she explains. "I remember going to a career week and being invited to an SVB presentation. The SVB representative made it quite clear that he wasn't really interested in international students because of the difficulties they would have in understanding the Dutch social security system. Afterwards, I went up to him and explained that I was a Chinese student but nonetheless fascinated by the Dutch retirement system. I was able to convince him of my motivation and got the internship." This not only provided Aileen with work experience but also enabled her to build up a network. "I was told about the vacancy at Ortec by someone from one of Ortec's pension fund clients."

Aileen doesn't think her international background was a disadvantage. "All my colleagues are Dutch, but we communicate in English. Of course they sometimes speak Dutch when they are together, but they always make sure that I know what is going on. I never feel excluded. I can understand some Dutch and would like to learn the language. But it's hard to find the time for that." She doesn't know if she wants to stay in the Netherlands forever. "I may decide to go back to China someday to spend time with my family."

Martine van Deursen, Univers, January 28, 2010

Aileen Cheng

Saket Hishikar (27) is an Indian student of the MSc program Economics and Finance of Aging

'FOR FINANCE, COMPANIES NEED BRAINS'

"Sheer luck." That is how Saket Hishikar describes his choice to study at Tilburg University. He applied to several different European universities but chose Tilburg because its MSc program, Economics and Finance of Aging, was the only one in the field of pensions. "I had worked in India in the pension industry for three years and was looking for an opportunity to enlarge my knowledge of the subject. It was very difficult to find a course in that field, but after a search through working papers I ended up in Tilburg. Economics and Finance of Aging suited me like a glove." He only had two months to gather the subscription and had to travel over 4,000 kilometers. "But, I managed!"

At first, Saket was not sure he had made the right choice. "The Netherlands were not in the picture for me as a possible study location. I was not sure of the recognition of Dutch economics in India, because many people go to the UK, the US or Australia to study economics. But then I read The Ascent of Money: A Financial History of the World by Niall Ferguson and found out that the Dutch have a legacy of financial innovations." Now, nine months later, he says that his reservations were unjustified: "I really learned from my professors to look at a problem from different perspectives. A truly academic value that will make my MSc title more lustrous."

The quantitative courses were a bit elementary, he says. "The Dutch students had a hard time, but for Asian students it was easy." The introductory course set the stage right: "That was really the most informative course of the first semester and does not deserve being called an introduction." In the second semester Saket chose finance courses because he wants to work in the Netherlands for about five years, and his opportunities



Saket Hishikar

in that field will be better. "For sensitive policy issues companies need Dutch employees, but for finance they simply need brains." After that time he would like to return to India, where the pension industry is growing now, and use his Dutch experience. "Maybe even teaching pension economics at my old institute", he smiles.

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.

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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.

García-Gómez, Pilar, Hans-Martin von Gaudecker and Maarten Lindeboom

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Adema, Yvonne, Bas van Groezen and Lex Meijdam

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De Waegenare, Anja, Bertrand Melenberg and Ralph Stevens

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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.

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INTERNATIONAL PENSION WORKSHOP

Last January, the semi-annual International Pension Workshop took place in Amsterdam. A full program with many different interesting contributions made it a truly successful scientific event. Keynote speakers were Mike Orszag (Towers Watson) and Laurence Kotlikoff (Boston University). Orszag's first presentation was on employer pensions and markets, whereas Kotlikoff focused on state pensions.

The policy session started with Orszag on Scary markets: Global lessons for pensions from the financial crisis. Kotlikoff defended limited-purpose banking as an alternative to prevent another crisis, at least in the U.S. Theo Nijman (UvT and Netspar Scientific Director) talked about the implications of the financial crisis for pension provision in the Netherlands.

In June, Netspar will organize the next Pension Workshop, to be held in Zurich, Switzerland. Registration is now open. Check the events website www.netspar.nl/events.

FUTURE OF PENSION CONTRACTS AND HUMAN PITFALLS

Two courses were given in the Netspar – UM SBE Academy. The first was in March on the future of pension contracts. With 25 participants from the industry, it was a very successful course. The participants now know a lot more on market valuation and ALM. With speakers like Lans Bovenberg, Theo Nijman and Frans de Roon, it was very much appreciated by the 'students'.

The second had the suggestive title Human Pitfalls and dealt with the difficulties of consumers in choosing the right financial products. Pension communication is a hot issue, so 30 professionals took the opportunity of learning during the two-day course as much about the subject as possible. Teachers were Peter Kooreman, Jan Potters (both UvT), Arno Riedl (UM) and Benedict Dellaert (EUR), all Netspar research fellows.

Upcoming is a course in health economics. Soon, invitations will be sent out, so check your mailbox regularly for Netspar mailings.

NETSPAR THESIS AWARDS

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Colophon

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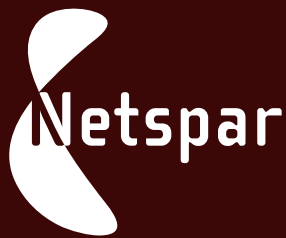
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Network for Studies on Pensions, Aging and Retirement

Netspar, Network for Studies on Pensions, Aging and Retirement, started operations in 2005. It is a network connecting two main groups: pension practice and pension science. The first group consists of ministries, supervising agencies and other civil service institutions, pension funds, pension providers, insurance companies, banks, asset liability management companies. The second group consists of Dutch and non-Dutch pension researchers, and Dutch universities.

Core Values

The core values of Netspar are independence, accessibility for new entrants, and openness to dialogue and interaction between stakeholders. Netspar recognizes the importance of diverse types of knowledge, various disciplines, and methodological approaches. It does not support particular policy positions, but is instead dedicated to promoting a wider understanding of the economic and social implications of pensions and retirement. It strives to effectively disseminate unbiased research output among public policymakers, professionals and trustees in financial institutions and the academic community.

Mission

Netspar endeavors to bring the pension debate to a high level of sophistication and to create high-quality solutions for present and future challenges with respect to an aging society. Furthermore, Netspar aims to position the Netherlands as a center of knowledge on pensions and social security both in- and outside Europe, both in the academic and the financial world and in policy circles. With this, Netspar wants to safeguard sustainable pension and insurance systems that share risks equitably and efficiently. The strive is to set an example how public and private parties in the service industry can work together with researchers in the social sciences in an efficient and mutually beneficial way to stimulate social innovation. Next to that, Netspar strives to act as an intellectual conscience of the community active in pensions and social security.

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