

Utilize expert-opinions in projections

Health is key to rising life expectancy

Increase in retirement age is hot topic for employees

Theme: Longevity Risk



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Jan-Huug Lobregt:

**"WE WANT TO UTILIZE EXPERT
OPINIONS IN OUR PROJECTIONS."**

On August 30, the Actuarial Association published its new projections for life expectancy in the Netherlands. Compared to earlier projections they show a substantial increase in life expectancy. Jan-Huug Lobregt, board member of the Actuarial Association, sheds light on this development.

Roel Mehlkopf

What is going on?

"The Actuarial Association has noted a clear increase in improvements in life expectancy. This trend started in 2001 and has accelerated in recent years. It is complicated to assess this development, because the period that we observe is rather short. It is therefore uncertain what the impact of this recent trend should be for our

projections. However, there is a consensus in the actuarial community that the current trend is higher than usual. We have analyzed the causes of recent developments with medical experts and have identified, as main causes, the decline in the number of people who smoke and the related decline in cardiovascular disease. This, in combination with a rapid increase in welfare, is the main reason for the large improvements in life expectancy that we are observing."

"There is no need to crunch the data to observe the increase in life expectancy. Today's 70-year-olds look younger and healthier than their counterparts ten or twenty years ago. A striking example is the new Dutch cabinet, which contains several ministers who are over 65. It is telling that these ministers feel capable and fit enough to fulfill such demanding jobs. Therefore, you don't need a crystal ball to say that today's septuagenarian has a higher potential to live to a high age compared to people who turned 70 ten or twenty years ago."

Is the rapid increase in life expectancy a temporary or a permanent trend?

"It is clear that the pace at which life expectancy increases will revert to normal levels at some point, because otherwise we would one day reach the age of 120. A striking feature of the data is that survival rates have improved for all age groups except the highest one. For 95-year-olds, the survival rate does not improve anymore. Someone who is 95 at the moment is expected to live for another two-and-a-half years. In our projections this remains unchanged to the year 2060. This suggests that there is an upper limit to human life expectancy. The high trend of the past decade is therefore incorporated in our projection model as a temporary trend. Indeed, several studies have pointed out that there is an upper bound to the life expectancy of humans. On the other hand, scientists experimenting with mice have been able to eliminate the gene that causes ageing and were able to reduce the decline in bodily functions dramatically."

When will the trend in life expectancy revert to normal levels?

"It is very difficult to predict when the high trend of the past decade will end. Therefore, the Actuarial Association is planning to cooperate more closely with other specialists, like the medical profession and CBS Netherlands. This will help us gain more qualitative insights that can be used for our projections. Medical experts, for example, may have a clear idea about the horizon at which the decline in smoking takes effect. Or how long we can continue to implement improvements in the treatment of cardiovascular disease. Or about the impact of diabetes developments. Today, diabetes can be treated much better than a decade ago, so this disease is less likely to shorten life expectancy than ten years ago. We also want to work

more closely with CBS Netherlands, other research institutes and other professions who have more experience in using expert opinions for projections."

Have the projections for life expectancy become more uncertain?

"Uncertainty has increased because we do not know how long the high trend in life expectancy of the past decade will persist. For our projections for the year 2050, we currently work with a confidence interval of -5 years and +5 years. Uncertainty was lower in our projections in the 1990s."

The Actuarial Society and Netspar have recently signed a collaboration agreement. What do you expect from this joint effort?

"Two things. Firstly, I personally expect the education program for actuaries to receive a qualitative impulse, from both the new TiasNimbas Business School and the new actuarial program at the University of Amsterdam. In cooperation with TiasNimbas, an executive master program at academic level has been established. This new program will have a strong emphasis on practice, but it will also have a strong academic foundation. Several Netspar researchers will contribute to the new program. Secondly, I hope that the level of Dutch academic research in the field of actuarial science will improve since it is, in my opinion, quite weak at the moment. Academic research could help the Actuarial Society to deal with the recent developments in life expectancy when making our projections. To stimulate research in actuarial science, we have established the Johan de Witt award. This is granted to research that provides an important contribution to the actuarial practice."

The Actuarial Association (Actuariële Genootschap) is the professional association of actuaries in the Netherlands, to which nearly all Dutch actuaries belong. In this interview, Jan-Huug Lobregt AAG, board member of the Actuarial Association and consultant at PwC, discusses the recently published new projections for life expectancy in the Netherlands (AG Prognosetafel 2010-2060).

Professor Johan Mackenbach:

"HEALTH IS KEY TO UNDERSTANDING RISING LIFE EXPECTANCY AND ITS IMPLICATIONS."

In recent years, pension funds and life insurers in the Netherlands have been taken aback by the rapid rise in life expectancy.

Professor Johan Mackenbach (Erasmus MC) has analyzed the recent improvements in life expectancy and finds that they can probably be attributed to improvements in the Dutch health care system.

"The Netherlands had experienced only modest improvements in longevity in recent decades," he says. "Around 2002, this suddenly changed, and since then, there have been rapid improvements in life expectancy."

Roel Mehlkopf

What has been driving the recent improvements in life expectancy?

"Our research indicates that the recent improvements in life expectancy have been largely driven by improvements in health care for the elderly, which were facilitated by the alleviation of budgetary constraints in the Dutch health care sector," Mackenbach explains. "To give an illustration: until recently it was unusual to operate on cardiovascular patients over the age of 65, but now, less invasive techniques are available, such as placing a stent to treat coronary artery blockages. The number of 65+ patients to receive this treatment has risen enormously, and today stents are provided to patients of ages as high as 80 years old. As a second illustration, the percentage of elderly patients receiving statins to reduce cholesterol levels has risen spectacularly. In 2000, a patient over the age of 80 who was receiving statins was an exception. Today, statins are



Johan Mackenbach

taken by a third of patients between the ages of 80 and 85. Such treatments have improved life expectancy and could be given because in 2002 the budgetary constraints in the health care sector were lifted, which led to a sharp increase in expenditures. The majority of this additional spending has benefited the elderly."



Could potential future cuts in health care spending endanger improvements in life expectancy?

"Indeed, this could very well be the case," Mackenbach confirms. "Of course, the effects will depend on the way in which spending cuts are distributed across the health care sector. It is remarkable that we have allowed such a large rise in health care expenditures, without considering the impact on other collective arrangements, such as pensions. No one seems to have been aware of the link between expenditure in health care and its implications for other collectively financed systems.

The health care sector has given an enormous boost to life expectancy, and the consequences of that have to be faced in the pension sector. It is important for policymakers to make these links more explicit and to become aware that higher expenditures on health care may result in higher survival rates. And one has to be prepared to face the financial consequences."

So, developments in health are important for pension practitioners?

"Yes, for two reasons," Mackenbach continues. "First, health is the driving factor behind life expectancy. If you want to understand how life expectancy develops over time, you need to understand the underlying health changes. You have to be aware of trends in the occurrence of diseases and how the health care system responds to these diseases. But there is a second reason that health is important for pension practitioners. The implications of improvements in life expectancy for pension practitioners are largely determined by whether or not people also remain in good health for longer.

In our research for Netspar, we have examined how we can ensure that people remain healthy at older ages. For pension practitioners, the number of years that people remain in good health can be more relevant than life expectancy. For example, if we want to know how long workers are able to remain active in the labor market, then healthy life expectancy is more relevant than total life expectancy."

"According to some indicators, average healthy life expectancy in the Netherlands is under 65 years. So, we know that many people face health problems before they reach the current statutory retirement age and that these health problems are an important factor in decisions about remaining active in the labor market. If people don't feel fit, they are discouraged from working. It is therefore important to adjust the situation at work to the health condition of the worker. It is also reasonable to vary the retirement age for different groups of workers, with respect to their average healthy life expectancy. Most importantly, it illustrates how important it is to put effort into preventing health problems. This is in the interest of both employers and employees and it implies that more emphasis should be placed on health management programs in companies. Health insurance companies can play a role here, given the triangular relationship in cases where an employer offers a collective health insurance contract. I believe that there is enormous potential in this triangular relationship."

Earlier this year, your book 'Ziekte in Nederland' was published. What was your motivation for writing this book?

"Around half of all diseases in the Netherlands could be prevented by removing their causes from the environment or changing people's behavior," Mackenbach explains. "That implies that we have much to gain by putting more effort into prevention. That was my main motivation for writing the book: to make people aware of the fact that there are so many unused possibilities for preventing health problems in the Dutch population. Prevention has the potential to substantially increase the number of healthy years we live, allowing us to remain active in the labor market for much longer."

Johan Mackenbach. *Ziekte in Nederland: gezondheid tussen politiek en biologie*. Amsterdam: Elsevier/Mouria, 2010. ISBN 978 90 352 3168 9 en 978 90 4580184 1.

Many employees are worried about the proposed increase of the retirement age. They are concerned about their ability to continue practicing their profession until retirement. This is the main picture that arises from a survey that was conducted in January 2010 by PGGM among its members who work in the healthcare and welfare sector. "The response to the survey was overwhelming and came as a complete surprise to us," explains Susan Bruning – van der Werf, who is responsible for this survey. "A link to the survey was included in one of our regular email newsletters. Within four days, 18,215 people answered the survey, and over 6,000 bothered to answer the open question. We never expected such a large response."

Susan Bruning-van der Werf:

"THE OVERWHELMING RESPONSE TO THE SURVEY CAME AS A SURPRISE TO US"

Roel Mehlkopf

The large response to the survey suggests that the proposed increase of the retirement age is a hot topic among employees.

"Yes, indeed. The results from the survey show that people are most concerned about the implications for the quality that they put into their work. Many respondents are unsure whether they will be able to continue to provide to patients the quality that they want or need to provide in their job. People have deliberately chosen to work in the health-care and welfare sector. They worry about their ability to remain active in this sector until retirement.

Many respondents have expressed this concern. They ask: 'Will I still be accurate and alert enough?', 'Can I still assist patients to lift them from their beds?', 'Do people still want to encounter me in the emergency department when I am 64?' Respondents are concerned about their ability to practice their profession until retirement, also about whether they will be taken care of in a later stage."

Which group of workers is most concerned?

"Many respondents distinguish between jobs that involve contact with patients and supporting jobs such as ICT or management. For example, one respondent answered: 'As a human resource manager, it is not a

problem for me to work until 67. But it is a disaster for workers who are in daily contact with patients.' Another respondent says: 'It is possible for workers in office or desk jobs to work longer. People who work with patients cannot be transferred to an administrative job at a higher age. That is not a job that they have deliberately chosen to do.' "

Are young workers more optimistic about working longer?

No, the young are as worried as their older counterparts. In fact, young workers have expressed even more concerns than older workers in the survey. Also, part-time workers are more concerned than full-time workers.

Do people feel understood by the politicians who decide upon the increase of the retirement age?

"Not at all. One participant remarks: 'This proposal has been devised by people who sit behind a desk. The consequences will be disastrous'. Another says: 'I would invite whoever concocted this plan to work beside me in the nursing home for a week.' Many respondents feel that politics is aloof from the situation in the workplace. And they doubt that increasing the retirement age will lead to lower government expense. As one respondent says: 'This proposal will not work. The number of people claiming disability benefits will increase dramatically.' Illustrative are the references to the 'lame leading the blind'. One respondent said: 'Will I have to do my job with a walker?'"

What aspect of the survey surprised you the most?

"I was positively surprised by the willingness of so many people to share their personal experiences and ideas. Many survey participants provided us with detailed



Susan Bruning-van der Werf

answers about their situation at work. Often the answers were intriguing. The personal stories touched me. People trusted us with very personal experiences. I did not expect this beforehand with an Internet survey. The overwhelming response to the survey illustrates, in my view, the involvement and sense of responsibility of our members to their profession."

PGGM is an administrative organization for collective pension schemes, principally in the healthcare and welfare sector. It is also an income provider for people in the healthcare and welfare sector. PGGM currently manages some EUR 100 billion of pension assets of over 2.2 million current and former employees.

The survey described in this interview was conducted by PGGM in January 2010. PGGM uses surveys to gain insight into the feelings and thoughts of its members and then presents the data objectively. It takes no position regarding these survey results and draws no conclusions from them. PGGM intends to express the opinions of its members in a neutral way, such as in this interview.

NEW RESEARCH THEMES SELECTED FOR FUNDING BY NETSPAR

Five new themes have been selected by Netspar for funding in the period from October 2010 through October 2013. One of the themes will be coordinated by Andrew Ang (Columbia University). The research in his group will focus on adequate investment strategies for retirement provisions, including aspects of long horizon, illiquidity and long-run tail risk for portfolio strategies.

The other four research projects are affiliated with Dutch academic partners. At the University of Groningen, Rob Alessie will be in charge of the "Pensions, Savings and Retirement Decisions II" project. Johan Mackenbach (Erasmus Medical Center) will investigate the causes and consequences of rising life expectancy in the Netherlands. "Human Capital and Aging" is the subject of theme project leader Thomas Dohmen and his research group at Maastricht University. The last project being sponsored deals with multi-pillar pension schemes in the Netherlands and macroeconomic performance and will be coordinated by Casper van Ewijk (CPB and UvA).

A total of 2 million Euros is being allocated to researchers in these themes. Researchers commit themselves to developing knowledge and sharing it through events and papers. In addition, they educate both graduate students and professionals on the topics of their research themes.



ACHMEA

These are tumultuous times in the world of pensions, as Netspar's partner Achmea has experienced firsthand. Retirement pensions are being buffeted by three forces, in particular: low interest rates, increased life expectancy and low investment yields. The opportunities for providing pension security at a reasonable cost have been significantly curtailed. "But a good pension system is something worth fighting for. I view it as a nice challenge to sink my teeth into," says Joos Nijtmans, Knowledge and Opinion Manager at Syntrus Achmea and a member of the partner council and editorial board of Netspar.



Joos Nijtmans

Syntrus is the division of Achmea that handles investment management and administration for over 70 industry, company and professional association pension funds. With managed assets of 57 billion euros, 14 billion of it in real estate, Syntrus Achmea is one of the larger institutional investors in the Netherlands. "Pension funds, along with insurers, are faced with the considerable challenge of continuing to meet the high expectations of their participants and customers even in these trying economic and financial times," Nijtmans points out. "General confidence in insurers and pension funds has taken a hit in recent years. One of the things that played a role in this is that we tried to provide better pension products through innovation and customization. Unfortunately, all the good intentions notwithstanding, this created complicated schemes with attendant costs and risks that were difficult to explain to the public at large. I am sure everyone can recall all the talk about this over the past several years." Eureko/Achmea, the parent company of Zilveren Kruis Achmea, Centraal Beheer Achmea and Interpolis, among others, is the largest insurer in the Netherlands. The co-

operative serves clients in both the employment-based and personal pension plan markets. Nijtmans feels that the worlds of pension funds and insurers still operate too much at cross purposes. "Pension fund products are clearly different than those of insurers," he asserts. "In a pension fund, you have solidarity in the fact that risks are shared by all participants, whereas an insurer 'assumes' the risks of its customers: different products for different prices. But in terms of the basics, they have a lot in common. There is not a world of difference between them – certainly not in terms of the participants'/customers' inability to grasp the fundamentals of the scheme. There is something to be said for both systems, but it is essential, in any case, that the scheme be clear. Here at Syntrus Achmea, as well as among our colleagues at Centraal Beheer Achmea, Avéro Achmea and Interpolis, we are well aware of this challenge. You see these issues start to overlap in the discussions surrounding the agreement on the state pension plan: take, for instance, the suggestion to start with a defined benefits as the heart of the scheme, surrounded by layers of flexible benefits."

Achmea is pleased that Netspar is studying such a wide range of pension issues and happy to contribute what it can. The company sees its primary mission as being to ensure a maintainable and affordable income for later (together with other stakeholders). This will involve understanding needs, making connections and delivering on promises. It is vital that the pension system be attuned to society's needs. Nijtmans does have a practical observation to make on this point. "The greatest difficulty in this necessary reform of the system lies in transitioning from the old to the new," he posits. "The contours of an 'ideal' new system can be fairly easily formulated at the proverbial drawing table, from an academic viewpoint. But the entitlements earned and interests of various generations make the transition complicated. You cannot get around the issue of reallocation. So, the practical relevance of research is always an important issue."

Achmea sums up its hopes for future schemes in one simple message: simplification. "To make these schemes manageable and coherent, the basics must be simple," Nijtmans says. "If a scheme can be explained easily, then it is solid and can be inexpensively managed. The Netherlands Authority for the Financial



Markets rightly pointed to this in its recent study of the integrity of pension oversight bodies. Citizens and employees have become increasingly aware in the past year of the importance of a good pension scheme. It is pure profit. Now it is up to insurers and pension funds to create a pension system that will enjoy the broad support of the public. We can build on the sense of engagement to establish new relationships and confidence. The decisions to be made will have to be well-grounded and their effects calculated." But there is more at stake. "When we put people first," says Nijtmans, "then the entire life history and financial planning also has to be taken into account. A pension is not a stand-alone item for people. We must tread carefully with workers' labor capital, so that people are inspired to work toward a higher retirement age. A great deal of money is also spent on housing and, increasingly, healthcare. Achmea is active on all these fronts and we want to examine them in conjunction. In the pension sector this involves offering pension funds investments in health care real estate, for example. The funds become owners of the bricks and mortar sites where healthcare professionals work. Netspar also faces the challenge of uniting these diverse worlds."

In September, Netspar – UM SBE Academy offered a two-day course on “Living Longer in Good Health,” presented in conjunction with theme researchers Johan Mackenbach (Erasmus MC) and Anja De Wagenaere (UvT), along with others. Netspar Magazine interviewed participant Peter Sijm (NN) on what makes these courses so interesting.

Netspar – UM SBE Academy

“APPARENTLY, SCIENTIFIC RESEARCH CAN OFFER PENSION INNOVATION.”

“The Living Longer in Good Health course was a classic example of the synergy between science and industry. Longevity risk is one of the most important risks the pension industry is facing. It was an eye opener for me to realize that, in the past, we never dared to draw a linear trend line for longevity. Actuaries need this knowledge in pricing the risks, while product developers can use it in managing them,” says Sijm. He is also clear about one thing: “The myths about the care costs associated with unhealthy living were dispelled. Thus, participants were encouraged to discuss ways of bringing health care and pensions closer together. Apparently, scientific research and this module offer the pension innovation the industry needs.”

This was not Sijm’s first Netspar – UM SBE Academy course. “It is a matter of priorities: you need to make time for valuable input. And these modules offer very good input on a variety of subjects,” Sijm says. “In Newsflash, Netspar’s e-newsletter, you are informed of all upcoming courses, and they really meet your expectations, in my experience.”

Asked about what he would like to see addressed as a module subject, Sijm hesitates. “My preferred option is something that is sometimes touched on but not fully



Peter Sijm

explored: how to build/communicate a pension contract interesting enough for both the employer (who facilitates it) and the employee (who pays for and enjoys it).” That is, indeed, a true challenge for the future.

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.

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.

Buccioli, Alessandro and Roel Beetsma

Consequences for welfare and pension buffers of alternative methods of discounting future pensions (DP 05/2010-052)

Katzur, Tomek and Laura Spierdijk

Stock returns and inflation risk: Implications for portfolio selection (DP 09/2010-051)

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Carman, Katie and Peter Kooreman

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Pension reform with variable retirement age – A simulation analysis for Germany (DP 02/2010–013)

Bonsang, Eric and Tobias Klein

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Recruitment of early retirees: A vignette study of managers’ decisions (DP 04/2010–010)

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Continuous-time overlapping generations models (DP 06/2009–060)

Klijs, Bart, Johan Mackenbach and Anton Kunst

Disability occurrence and proximity to death (DP 06/2009–059)

Klijs, Bart, Wilma Nusselder and Johan Mackenbach

Compression of morbidity: A promising approach to alleviate the societal consequences of population ageing? (DP 12/2009–058)

Lindeboom, Maarten, Petter Lundborg and

Mauro Mastrogiacomo

Pension plans and retirement replacement rates in the Netherlands (DP 01/2009–057)

Hopfensitz, Astrid and Tanja Wranik

How to adapt to changing markets: Experience and personality in a repeated investment game (DP 09/2009–056)

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.

Potters, Jan, Arno Riedl and Franziska Tausch

Preferences for redistribution and pensions (PP20)

Dellaert, Benedict

Interactive online decision aids for complex consumer decisions (PP 19)

Bissonnette, Luc and Arthur van Soest

Retirement expectations, preferences, and decisions (PP18)

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.

Bovenberg, Lans and Bart Boon

Now is the time. Overstap naar degressieve pensioenopbouw nu wenselijk en mogelijk (NEA 36)

Boeijen, Dick, Niels Kortleve and Jan Tamerus

Van toezegging naar ambitie (NEA 35)

Dietvorst, Gerry, Carel Hooghiemstra, Theo Nijman and

Alwin Oerlemans

Decumulatie van pensioenrechten (NEA 34)

Jong, Frank de, and Antoon Pelsser

Herziening financieel toetsingskader (NEA 33)

Schut, Erik and Wynand van de Ven

Leidt uitvoering door concurrerende zorgverzekeraars tot een doelmatige en financieel houdbare AWBZ? (NEA 32)

Colophon

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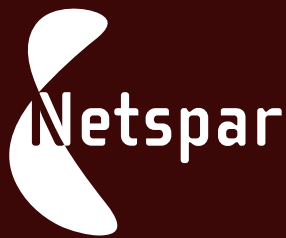
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Network for Studies on Pensions, Aging and Retirement

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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