Network for Studies on Pensions, Aging and Retirement

Trust in the financial performance of pension funds, public perception, and its effect on participation in voluntary pension saving plans

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Did the financial performance of pension funds due to the financial crisis affect trust in pension funds? And does our age, birth cohort or the business cycle affect it too? In this paper, we analyze the effect of exogenous shocks in terms of pension cuts, indexation and how they are perceived. We propose the use of two new instruments. These are the level of indexation of the respondents' occupational pension funds in the DHS population, and their perception (right or wrong) of indexation.

Principal Findings

- Different birth cohorts enter adult life with a certrain trust endowment, which is lower for each younger cohort.
- The average level of trust in one's pension fund will be lower across the population as older cohorts get replaced by younger ones.
- Pension funds should explain in time how future pension benefits are structured, in order to avoid that the general public will lose trust.
- Participants in voluntary pension savings, including the self-employed, actually trust their pension fund.

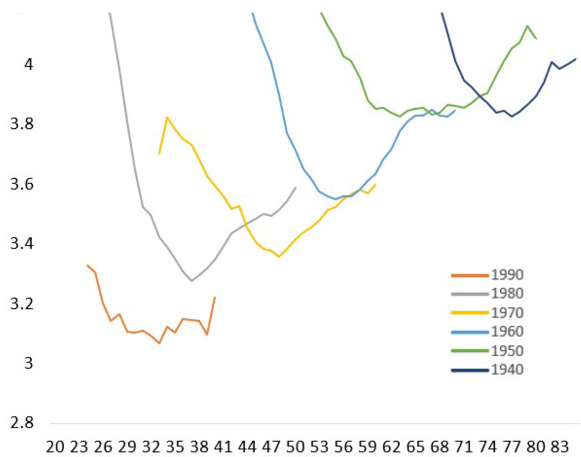

Figure: Trust in pension funds (vertical axis) in 5 points scale, of cohorts born between 1940 and 1990 (segments), by age (horizontal axis)

Key Takeaways for the Industry

- Public sentiments about pension funds revolve around the dissatisfaction with the lack of indexation.
- Even if the new system will no longer make promises that might not be kept, it is possible that the adjustment process might create mistrust.
- Pension funds can act on that by explaining the uncertainties surrounding future pensions.

Want to know more? Read the paper **'Trust in the financial performance of pension funds, public perception, and its effect on participation in voluntary pension saving plans'**

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