Netspar News

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Theme: Pension Frontiers

The pension world is moving: pension plans switch from defined benefit to defined contribution, from collective to individual, from uniformly to flexible, retirement age will probably go up from 65 to 67, etcetera, etcetera. Both scientists and policy makers are exploring the frontiers in pension reform and finance. In this issue of Netspar News three articles are dedicated to these moving frontiers.

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Netspar Annual Conference draws impressive crowd
Exploring the Pension Frontiers

They came from all over the globe. Some of the leading names in the world of finance and pensions were on hand for the Netspar annual conference, jointly sponsored by De Nederlandsche Bank (The Dutch Central Bank – DNB), and the International Organization of Pension Supervisors (IOPS). The conference drew academicians, practitioners, regulators and policymakers from nearly 40 countries to exchange ideas and discuss current and future trends in the pension industry. The conference, entitled Frontiers in Pension Finance and Pension Reform, was held on March 22–23, 2007 at the stately Grand Amsterdam Hotel.

By Margaret Kavanagh

A busy week for Netspar
The conference closed out a busy week for Netspar, which celebrated the official opening of the Netspar–University of Maastricht Business School (UMBS) Academy on March 19 (see separate article, elsewhere in this issue of Netspar News). Some of those who had addressed that gathering were invited to give an encore presentation at this event. And some of the members of the audience – many of them the young, eager economists and policy-makers of the future – were had also been seen at the Maastricht affair. Obviously for them, this was not a case of ‘too much of a good thing.’

One of the key issues discussed at the conference was improving the efficiency and resilience of pension systems. One of the intended outcomes of the conference was to provide guidance for future decision-making. With their typical organizational design and balance sheet structure, pension funds are considered by some to be the pivot point for these far-reaching changes.

Everyone who’s anyone
The list of speakers reads like a Who’s Who in pensions and finance: Lucas Papademos (ECB), Dirk Witteveen (DNB), Richard Hinz (World Bank), Luis Viceira (Harvard University), Zvi Bodie (Boston University), Lans Bovenberg (Tilburg University/Netspar), John Ashcroft (IOPS), and Keith Ambachtsheer (University of Toronto/ICPM), to mention only a few. Participants discussed recent developments in pension finance and actuarial science; institutional design of pension systems; international dynamics in pension supervision; the future direction of pension reform; risk management and risk sharing; pension fund governance; and currency hedging for pension funds.

Keynote address
The keynote address, given by Lucas Papademos, Vice President of the European Central Bank, focused on the global nature of population aging and its implications for financial markets and monetary policy. Those in attendance were mesmerized by the precision and meticulousness of the speech, referring to Papademos as ‘an intellectual powerhouse.’ Others called it ‘a brilliant speech by a brilliant man who takes his job very seriously.’

While aging is not yet a problem in emerging economies, it is only a matter of time before they, too, will be grappling with the same issues. Interestingly, some of the most innovative ideas for pension reform have originated in some of these less developed economies. A case in point is Chile, which has been singled out as an example that can be emulated by other countries as they struggle to devise an equitable system for caring for their elderly populations.

An evolutionary process
Pension finance is evolving. Innovations in financial instruments and information technology are increasing the scope for risk sharing and hedging, which promise significant gains in efficiency. At the same time, regulators are aiming to align these developments with those in risk management and disclosure. It has been suggested that improvements in risk assessment, transparency and governance will improve the financial stability of individual institutions and strengthen the resilience of the global financial system. The continued integration of financial markets, it has been said, may help to level the playing field for financial institutions.
In view of the increasing awareness of the implications of an aging society for labor markets, capital markets, and healthcare, traditional pension paradigms must be revised to reflect those realities. The key question is how to do so efficiently and effectively while remaining solvent?

Panel discussion
Rounding off the two-day event was a panel discussion on the future direction of pension reform, with Dirk Witteveen, of DNB, serving as Chairman; other panelists included IOPS President John Ashcroft, CEIOPS Chairman Henrik Bjerre-Nielsen, and economists Zvi Bodie and Lans Bovenberg. Members of the audience were also invited to ask questions or make comments. When asked if he thought members of the audience had been given sufficient opportunity to present their views, one of the members of the organizing committee said: ‘I don’t think anyone in the audience felt short-changed, because the trade-off was the chance to hear more of the brilliant insights from the likes of Zvi Bodie and Lans Bovenberg. In any case,’ he added, ‘we haven’t received any complaints about it.’

A diversity of interests
One of the factors that made this event so remarkable was the balanced representation of academicians, practitioners, regulators, and policymakers. Bringing these disparate groups together is one of Netspar’s stated goals, and they really outdid themselves this time. Members of each of these groups not only were in attendance, but were given ample opportunity to speak to the group and to have their concerns and challenges addressed. And although there seemed to be a genuine interest in discussing these issues from diverse perspectives, there was no mincing of words, no holding back.

An unexpected passion
Each person who addressed the group — whether as an official speaker or discussant or as a member of the audience — did so with the passion of conviction, which might have come as a surprise to those for whom the adjective ‘passionate’ might not immediately spring to mind when thinking about economists and others in the financial and insurance sectors. And who could guess that economists, bankers and actuaries have such a sense of humor? Despite the seriousness of the business at hand (what could be more serious than the future of pension finance and pension reform?), there was an element of levity and humor that seemed to help this staid group, consisting primarily of men in their business world uniforms, wade through an extraordinarily weighty agenda spread out over two very long days.

Netspar discussion platform
The Netherlands is often cited as a leader in innovative and effective pension reform. At the conclusion of yet another successful conference of pension specialists from all over the world, Netspar has solidified its reputation as a platform that creates opportunities for discussing the many issues related to pensions, aging and retirement—not bad for an organization that only recently celebrated its second birthday.

From l to r: Aerdt Houben (IOPS), Lans Bovenberg (Netspar) and Ross Jones (APRA) discussing optimal risk sharing.
A well-oiled machine
Organizing a conference that meets the diverse needs and interests of academicians, practitioners and regulators requires a well-considered and varied agenda, near–perfect timing, and a venue that befits the occasion. The organizing committee, comprised of Sylvester Eijffinger (Tilburg University), Dirk Broeders (DNB), and Aerdt Houben (IOPS), began planning the conference in November 2005. When asked what he considered to be the secret to their success, Eijffinger said: ‘Flexibility is crucial in organizing and executing such a high–profile international conference – and continuous communication among the members of the team. We were constantly e-mailing and phoning each other throughout the entire process, and although it required a lot of time and energy, it was well worth it in the end.’ He also gave credit to the support staff, particularly Isabella Ciocca, Jacqueline Valiente and Mirjam van der Poel, who made sure that every detail was covered.

Complementary skills
Aerdt Houben attributed the success of the conference to ‘the complementary skills we brought to the table. Sylvester was invaluable because of his organizing skills and his vast experience in planning national and international conferences. Dirk brought his extensive knowledge of the pension industry, as well as his connections with the movers and shakers in that industry. And I was able to add value through my involvement with the supervisory component at both the national and international level. So we had a very well–balanced and solid foundation.’

Dirk Broeders echoed the sentiments of his teammates. ‘We all worked very well together. Our constant communication meant that any disagreements – and there were very few – were resolved quickly and efficiently. We never disagreed on anything of substance. You could say we were all singing from the same hymnal from beginning to end. I think that the relatively short presentations and the fairly strict time keeping kept everyone engaged in the proceedings. Plus, we added some entertainment in the evening, along with a sumptuous meal, so we managed to cater to all of our participants’ senses, which left them satisfied both physically and intellectually.’

Resting on their laurels
When asked if they would be planning any more conferences in the near future, to a man they said they would love to be involved in organizing future events – but not soon. ‘I think I’ll enjoy the afterglow from this conference for the time being,’ Sylvester said with a laugh. ‘Ask me again in a year or two...’

Kudos to Conference Organizers
A higher pensionable age is inevitable, says Cees Oudshoorn of the vno-ncw. But many people still need to get used to that idea: employees, employers and policymakers in The Hague. ‘Older former politicians like Bot, Brinkhorst and Bolkestein are important role models.’

You are hoping to enjoy working until you are quite old. Are you also in favor of an obligatory increase in the pension age? ‘At a certain point we will have to increase our pension age. Naturally, we’ll have to consider people with very taxing jobs or in very taxing positions. But that’s a matter of design. For the present, the most can be gained with employees who are between fifty and sixty-five years of age. The workforce participation of this group can be increased considerably. Only after that battle is won can we focus on setting a higher pension age.’

What do employers think of older employees? Do they value their work experience or see them as a group that is under-productive? ‘There is, of course, a group of older employees who definitely give their employers the feeling that their productivity is decreasing. And, of course, there are employers who avoid employing older people because of the higher costs involved. There are actually quite a few obstacles when it comes to seeing older people as normal employees. Many collective labor agreements prescribe a high salary, older people are not allowed to do overtime, and employers are not allowed to transfer them to a lower position. This makes it hard to keep older people working to a higher age. That’s why employers often make special arrangements for this group to retire early. This is changing. The trend is to get rid of all kinds of ‘protectionist-measures’ and to encourage an employee who would like to change his or her job or position. Employers realize that they will need everyone in the future labor market. Construction companies, for instance, are now working with fifty-five year olds to organize their future career.’

Are employees also preparing already for this new situation? ‘Older employees should take up the challenge themselves of remaining part of the work process. It’s possible for them to work until they are older because many jobs require less and less physical strength. Employees shouldn’t set the ‘Zwitserleven’ feeling as their goal. It is quite sad to start counting down after your fiftieth birthday. That needs to change. Many people have a problem with that. Under the protection of the law governing dismissal, the trade union movement unfortunately advises the employees to be inflexible, which is a form of paternalism that will get them nowhere. Institutions should, of course, be adjusted to suit modern times. We shouldn’t discriminate against older people in favor of...’
younger people by not burdening them, constantly protecting them or giving them extra leave. We should aspire to an age-unconscious policy rather than an age-conscious one. This change in attitude, though, is only just beginning.

You say we shouldn’t discriminate. But do older people actually see these protection measures as discrimination? They might like being protected.

‘But workforce participation by older people is increasing — also structurally. In the upper levels of the labor market a positive development can certainly be seen. A few former politicians are acting as role models here. Laurens Jan Brinkhorst and Ben Bot will turn seventy this year, Frits Bolkestein is already 74 — and they certainly don’t give the impression that they’re resting on their laurels. But we’re still a long way off, if only because of all the institutional obstacles that have to be removed.’

How can employers make working more pleasant for older employees?

‘It’s not a question of work being pleasant. An employer is first and foremost a businessman, not a social worker. Older people should keep themselves up to date by taking refresher courses. Work should, of course, always be as pleasant as possible. The Netherlands has the happiest employees in Europe at the moment; our employers are doing fine. But an employer should create workfare jobs in his business. Everyone should be useful for the business. It would be a great mistake to create special ‘nice’ work environments for older people. Something like that would soon turn into a waiting room before the ‘curtains stage’. Do older people actually want to take a step back without the work becoming more pleasant but with a lower salary?

‘Guiding younger employees while you are still working as a director is certainly going to be a change. That was not an issue until recently, because at the height of your career the early pension or pre-pension was waiting for you. And once you were enjoying your early pension, you didn’t mind being sidelined like that. But someone doing that before his or her pension age gave people the impression that he or she was moving from the frontline to the defense. And a move like that was interpreted as a lessening of status. A word like ‘demotion’ only emphasizes this: first you go uphill (promotion), than you roll back (demotion). We should get rid of this way of thinking as soon as possible. We should start thinking in terms of participation.’

This all sounds beautiful, but how will you turn on the switch?

‘The switch will turn on by itself. We’re dealing now with a changing labor force. Job opportunities are decreasing, but the demand for older employees is growing and the change in attitudes will come automatically. There will not, however, be any Deus et Machina to switch off the ‘Zwitserleven’ feeling and switch on the participation thinking instead.

But what is the alternative? If someone can’t function any longer in his or her role, he or she is relegated to unemployment and social assistance. That will be the prospect for many future older employees unless — and this is far more appealing — one is willing to take a step back and to look for a new position or job.

Fortunately, the desire to stay active is growing. The wage level doesn’t need to be an issue: through life-course savings schemes there are plenty of chances of acquiring additional income, if needed. This way, a person can keep his or her purchasing power while changing to a lower paying job.’
The looming problem of population aging, and its adverse effects on pensions and prosperity, is not exclusively a concern of national governments. The EU is also widely involved in finding solutions. Discussions on how to tackle the issue are taking place in no less than three different circuits, as Ieke van den Burg, Dutch member of the European Parliament (MEP), and spokesperson of the Social-Democratic Party (PES) for the Economic and Monetary Affairs Committee, explains.

The Social Council EU discussions on pensions and aging have found a framework in the Social Council, the platform on which the European Social Affairs’ ministers exchange their experiences, as a theme for the so-called open method of co-ordination, a procedure of benchmarking and reporting. ‘It was the former Belgian minister on pensions, Franck Van-den-Broucke, who initiated this procedure, dealing with issues such as how to prevent the elderly from ending up in poverty, and how to enhance labor participation,’ Van den Burg points out. ‘The council also looks into aspects of modernization, taking account of new work and life patterns such as flexible working hours, part time jobs and the transferability of pensions rights.’

Ecofin The European Finance ministers deal with the issues by cross checking each other’s budgets in the Economic and Financial Affairs Council (Ecofin). They focus on the long-term effects of aging as a result of the post-war baby boom. Ecofin’s deliberations are based on surveys, such as on pensions regulation, labor participation, aspects of immigration and national debt.

The EU’s third perspective for pensions is the internal market, where it has major competences for regulation, with the European Parliament in a co-decision role. It was the former Dutch EU Internal Market Commissioner, Frits Bolkestein, who developed the Occupational Pensions Directive. It allows for cross border investments and management of capital-funded pension schemes, or Institutions for Occupational Retirement Provision (IORPs), thus creating a European market for pension funds.

Under discussion: The Portability Directive Currently under discussion is the Portability Directive, meant to tackle loss of pension rights as a barrier for labor mobility. It has been discussed in the Economic and Monetary Affairs Committee and the Employment Committee, and has been taken up by the German Council Presidency to be concluded before the summer.

Ieke van den Burg: ‘Dutch Schemes Should Set Example Abroad’

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Ecfin’s decision to take a more flexible approach to the Stability and Growth Pact — in order to take better account of the economic cycle — allows member states the financial space to sort out their pay-as-you-go system for the state pension. Until recently, this treaty allowed the national governments a public debt of no more than 3%.

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By Leen Preesman

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Van den Burg: ‘So far, it has become clear that the transfer of pension capital won’t survive. An individual right to transfer capital from one fund to another might lead to a situation in which the value of this capital differs widely, because of diverging expected returns and mortality tables. This would lead to biased situations that could harm prudent funds. Further convergence is necessary before an overall individual right to transfer can be regulated.’

Several knotty affairs remain, including the growth of the rights of dormant pensions rights. ‘At the moment, the German presidency supports only obligations for future rights, while the parliament wants all deferred pension rights to be covered,’ the MEP explains.

‘Furthermore, Germany is in favor of a much longer transitional period than the usual two years, to adapt national legislation to the Directive. A period of ten years has even been mentioned, in connection with the vesting period, the waiting period before employees can claim pension rights. The European Parliament wants a vesting period of five years maximum, but only for under 25’s.’

In Van den Burg’s opinion, the Dutch fear that the Portability Directive will damage its national pensions system is shortsighted. ‘It won’t set new obligations for the Dutch pension schemes, but is nevertheless
important. Dutch employees who have worked or want to work abroad will benefit from proper basic conditions,’ she stresses. She mentioned another reason why the Portability Directive is important: the obligation to inform workers of their pension rights when they change jobs. ‘A European databank on pensions would be the ultimate answer to this issue. But for a country like Greece, with its tens of thousands of different schemes, this won’t be easy.’

Challenges facing various EU countries
Van den Burg indicates that she is worried about the erosion of pension schemes in the UK, where a shift from defined benefit to defined contribution is an accelerating trend. ‘I’m afraid the same will happen in the Netherlands,’ she says.

‘The parliament is trying to get a grip on the International Financial Reporting Standards (IFRS) Board. Since the IFRS make the pension liabilities of companies fluctuate with the market rates, it is an important driver behind the shift to DC schemes,’ Van den Burg points out. ‘That’s why we try to force Internal Market Commissioner Charlie McCreevy not to follow the IFRS Board blindly, but to put more European elements into the IFRS instead.’

According to the MEP, every EU country is dealing with the topic of aging and pensions. ‘Most of the member states – such as Italy, with its seriously aging population – rely too much on the pay-as-you-go system. But since recent reforms, Italy’s second pillar is growing rapidly,’ she says. ‘Spain is anticipating the population aging through a liberal policy on immigration.’

‘To the French, solidarity between generations is only conceivable by the working population paying for the pensioners. It is slowly becoming clear, however, that their system isn’t sustainable either. Discussions have started on reforms, but they have been tiresome so far. The situation is similar in most countries in Southern Europe.’

‘Scandinavian workers, on the other hand, are very much aware of their own responsibility for pension provision. Their governments have introduced individual elements into their pension insurance. In addition, Sweden recently raised the retirement age. Capital-funded schemes are more important in the Nordic countries now.’

According to the MEP, German pension funds, which used to be incorporated in companies, are transforming themselves into independent and capital-funded schemes for security reasons. Germany has also raised the retirement age and introduced individual elements. Van den Burg: ‘The general picture in the new member states is that they have a far too small first pillar of pay-as-you-go state pension. After the collapse of many government schemes, a second pillar hardly exists, and the third pillar is only very selectively used by well-off people. Most of the governments are now focusing on defined contribution schemes without collective solidarity elements.’

‘My mission within this context is to convince my colleagues of the benefits of the second pillar, as it has been structured in the Netherlands. Collective large-scale industry-wide pension funds, based on solidarity between the generations, lead to much better financial results than commercial defined contribution and life insurance systems elsewhere. I would like to encourage Dutch pension funds to set the example by being active abroad.’
Interview with Mei Li Vos and Gerrie Dietvorst about pensions, the life course savings scheme (levensloopregeling) and the aging population.

By Jean Frijns

The interview with Mei Li Vos, the brand-new Member of Parliament for the PvdA and high-profile representative of the younger generation in the pensions debate, and Gerrie Dietvorst, a professor of pension matters at Tilburg University and legal pension expert with Achmea/Interpolis, took place on the day the new government was installed. The first question was therefore obvious:

What do they think about the proposals in the governmental agreement concerning the aow (social security arrangements)?

VOs: ‘A missed opportunity: to raise taxes on the AOW would have been an excellent solution. The solution that is now being proposed will be difficult to implement and may have unfair effects on some groups of the public.’

Dietvorst: ‘I am a bit more optimistic. Although the proposed solution does lack social support and is absolutely unfeasible, the good news is that the AOW problem is now firmly placed on the parliamentary agenda. I expect they will come up with a better plan soon: that would indeed have to go in the direction of raising taxes on the AOW.’

Raising taxes on the AOW is at odds with the character of the law; the AOW was introduced as a national insurance scheme. Raising taxes comes down to a unilateral change of the policy conditions. Can a reliable government do that?

VOs: ‘The AOW was introduced at that time as a basic provision; it was a sort of gesture of income solidarity with the usually poor older generation. In the meantime, circumstances have changed drastically. Many elderly people are far from being poor these days; moreover, the demographic pyramid is now upside down. You can’t go on demanding that the young show solidarity with the elderly, independent of their income position.’

Dietvorst: ‘It is, of course, regrettable for the older generation, which is continuously being confronted with the deterioration of their insurance conditions— but we have to stay realistic. The spreading of the plusses and minuses over the various generations cannot be seen separately from the aging of the population. Being a member of the generation that was born after 1950, I’m personally experiencing how all kinds of arrangements deteriorate precisely for my age group. But necessity knows no law. I do wonder, though, how big that necessity is. De Vries claimed, for instance, that the affordability is better than expected. I wish that the discussion on that topic were held on a more fundamental level.

VOs: ‘To me, the seriousness of the financial problem is definite. Just look at the CPB studies.’

Dietvorst: ‘That is exactly what I mean: a fundamental discussion was hardly held on that subject.’

Is the aging of the population primarily a financial problem? Or, is there another area that its consequences will have a greater impact on?

Dietvorst: ‘I expect that there will be a huge impact on the infrastructure and standard of living in the Netherlands. Take the care sector, for example: will there be enough people available for the care sector? Perhaps developments in technology will help us there.’

VOs: ‘Because of the aging population, the structure of the economy is going to change. Will the innovative power of our economy be able to keep up if scarce labor is sucked into an expanding services sector? The central challenge is to keep more elderly people working. This requires far-reaching changes to be made in the practices of many institutions, especially those on the labor market. I seriously worry about the discrimination against elderly employees in many companies. On the other hand,
I think we will also have to break the taboo against demotion: it will have to become normal for elderly people to accept different jobs later in life, and sometimes at lower wages than they were used to.'

DIETVORST: ‘If that involves different kinds of part-time work and part-time pensions, I don’t see a problem. In that way, the transfer from the final wage to middle wage is a step in the right direction. In the area of part-time pensions, though, there are still many obstacles in the way. That also applies to the area of taxation/legal provisions, and the working conditions’ policy. Particularly in the latter area we can see fierce protests against these reforms taking place in other countries; I am expecting this fierce resistance to take place in the Netherlands too.’

The aging of the population damages solidarity. The Netherlands has collective pension systems that rely on poorly defined forms of intergenerational solidarity. Just think of the average insurance contribution. Shouldn’t one advise young people to avoid these systems? They offer little legal security and there is a huge chance that there won’t be a lot left in forty years’ time.

vos: ‘We will definitely have to get rid of the average contribution; that must be done gradually, though. For the rest, I am a complete advocate of our collective pension system. In the field of financial planning, employees are only rational to a certain extent. A form of benevolent or pragmatic paternalism is thus in everyone’s interest. Just look at the US, where the emphasis on individual responsibility has led to unacceptable results in the pension sector. Many people saved far too little or took very ill-advised investment decisions. I do think, though, that we can distinguish between making a regulation obligatory and making the joining of a specific pension fund obligatory. I wouldn’t oppose abolishing the latter.’

DIETVORST: ‘I will wholeheartedly recommend our collective pension system to my children. The pros largely outweigh the cons. That doesn’t mean, though, that we shouldn’t deal with the cons. I myself, by the way, am not opposed to the system of the average contribution. What I would like to argue in favor of, however, is a reconsideration of the distribution between the second and third “pillars”. I think that, in many cases, the weight of the third pillar should be greater. That should be supported, though, by targeted action to increase the financial consciousness of the public. Establishing a national pensions register is a step in the right direction.’

vos: ‘The life course scheme has indeed fallen to the mercy of the political arena. This governmental agreement won’t make it any easier. I too am an advocate of taking out a loan on your future pension. That means, of course, that you will have to work until you are older. I actually think that is a preferable outcome. We don’t want a society where large groups of people aren’t active anymore because they stopped working too early in their lives.’

That does sound quite stringent; regarding the recently discussed fall in wages for older people, it could very well be rational for the individual to work harder in his or her prime of life and to take it easy at an older age. Shouldn’t the government respect these individual considerations?

vos: ‘The life course scheme can, and needs to, be used to invest in human capital; at present, people over the age of fifty are written off at a much too early age. Although the individual should certainly have the opportunity to decide that for him or herself, the government should be allowed to use the tax system to stimulate a socially desirable outcome.’
Bt Margareth Kavanagh

While many economists strive to design a pension structure that provides benefits to both the suppliers and consumers of pension products, a key issue is the behavior of individuals in making the choices that could very well determine how they spend their twilight years. A Netspar research project currently underway examines the role that defaults and labeling play in the decisions people make about their pension investments. The study, Defaults, labeling and the Dutch life-course scheme, is the brainchild of professors Peter Kooreman and Henriette Prast, and aims to bridge the gap between academic research and those who struggle daily with the challenges of providing a measure of financial security for an aging society.

Peter Kooreman is a professor in the Department of Economics at Tilburg University. His primary field of research and teaching is health economics. Other research interests include household and consumer behavior, social interactions, and public choice. He has been with Netspar since its inception two years ago. Henriette Prast divides her time between her position as an economist for the Nederlandsche Bank (Dutch Central Bank) and her role as Professor of Personal Financial Planning at Tilburg University (co-sponsored by the Rabobank and Netspar). She also finds time to write a weekly column on economics and psychology for the Dutch financial newspaper Het Financiële Dagblad, as well as a regular column on ‘Emotionomics’ for Wilmott magazine.

Meeting multiple interests
In a recent interview with Netspar News, Henriette and Peter discussed the project and what they hope to achieve. Peter described the study as bringing together two separate, yet interrelated, interests: ‘First is the academic interest of the effects that defaults (the fallback decision when people fail, for whatever reason, to make an active choice) and labeling have on people’s behavior. And second is the Netspar interest that relates to the so-called ‘levensloop regeling’ or life-course scheme, which aims at facilitating the combination of people’s responsibilities at home with their responsibilities at work at different stages in their lives.’ It would appear that the existing life-course scheme defaults and the labeling of certain elements in the investment decision-making process are very influential in determining the choices that people make. ‘As a behavioral economist, I investigate how people’s choices are affected by elements other than rational considerations. So when Peter approached me about working with him on this project, it was clear that it was right up my alley — so I jumped at the opportunity,’ explains Henriette, who once described herself as the ‘only emotional economist in the Netherlands.’

Large dataset provides valuable tool
This project draws on a large dataset—information on employees of ABN Amro Bank. ‘Of course, we encountered some initial resistance,’ explained Peter, ‘but that’s to be expected when you ask a company to share personal data about its employees. They had concerns about confidentiality and the laws regarding the protection of private information. It took some time to build trust with ABN Amro before they were willing to release this sensitive data to us. But they realized that the findings would be of value to them as well, particularly because the life-course scheme is one of their products.’

The data are gathered from personnel records, and include elements such as age, level of education, position in the company, salary, whether or not they participate in the life-course scheme, and if so, what percentage of their earnings they invest. The age range of the research subjects is 18 to 65 years. At present, Henriette and Peter are collecting the data, but they hope to draw other researchers — possibly a Ph.D. candidate — into the project, especially if...
they succeed in persuading more companies to participate.

Highly relevant
‘This project is very relevant to policy decisions,’ according to Henriette. ‘The government is using tax incentives to encourage people to participate in the life-course scheme. They’re spending a lot of money on public awareness campaigns to persuade people to join.’ Currently, the default is not to participate. Thus, unless a person makes the affirmative decision to join the scheme, he or she is not included in the program.

Peter picked up the thread: ‘If the default were that people would be automatically enrolled unless they make a specific choice not to be included, it is likely that more people would participate.’

When asked whether people are adequately informed to make those choices, the researchers agreed that, on paper, it appears that people are given adequate information. ‘But more often than not, those brochures are designed to protect the financial institution rather than to educate the public,’ Henriette opined.

Too complicated for a professor to understand
‘Let’s face it,’ Henriette said, ‘People don’t read the literature they are given about pensions or other issues of that kind. When I get a brochure from my employer explaining the system, I put it down halfway into it because I don’t understand it…’

‘If a professor of personal finance can’t understand this material, imagine how the average citizen must feel!’ Peter exclaimed.

‘Policymakers underestimate the power of defaults. People rely on the notion that someone who knows more about these things than they do will devise a default that is in the best interest of the end-user, and that is clearly not the case.’

More data = more meaningful conclusions
In closing, Henriette said, ‘Everyone – the government, pension funds, companies and organizations, and employees – can benefit from the results of this study.’ Peter added: ‘This is a real-world issue, but we need more companies to participate in the study if it is to have any real meaning. We would like to get data from both public and private sector organizations so we can see whether the type of business contributes to the decision-making process. Just as Netspar cannot exist without the financial support of its partners, our research objectives cannot be met without the participation of our partners. And this is a much cheaper way to make a valuable contribution!’

For more information, or to discuss the possibility of including your organization in this research project, contact Peter Kooreman at: p.kooreman@uvt.nl.

New Themes 2007

Netspar continuously adjusts its portfolio to new developments in the academic world and the changing interests of its partners. Therefore, each year three new research themes – which involve research, education and knowledge exchange – are selected. They all run for a period of three years. The first three themes started in 2006, and in April 2007 the following three themes commenced.

Pensions, Savings and Retirement Decisions
Coordinator: Rob Alesie (Utrecht University) and Arthur van Soest (Tilburg University)
Occupational pensions, third-pillar products, and social security benefits are aimed at guaranteeing sufficient income and financial security for the elderly. Policymakers, pension funds and insurance companies must know whether the financial security they provide serves the population in an optimal way. This theme aims to analyze the behavior and well being of the Dutch elderly workers and retirees in relation to their pensions and social security provisions and other environmental factors.

The Macroeconomics of Pension Reform
Coordinator: Casper van Ewijk (CPB)
The starting point of this theme is the three-pillar pension system featuring state pensions (1st pillar), mandatory supplementary pensions (2nd pillar) and free individual savings (3rd pillar). Key questions are what weight should be given to each of the pillars, what is the optimal pension contract in each of these pillars, and what is the government’s role in shaping the pension system? In order to answer these questions, attention will be given to the optimal pension contract in each of these pillars, the interrelationship between the pillars and the impact of the pension system on the economy as a whole.

Living longer in good health: prospects, strategies, and consequences
Coordinator: Johan Mackenbach (Erasmus University Rotterdam)
Aging poses great challenges to the modern welfare state, not only by threatening the sustainability of pension systems, but also by inducing a greater demand for social services, including healthcare. Unfortunately, the ill health that tends to accompany aging is often seen as only an ‘independent variable’, leading to higher rates of morbidity, work disability, and demand for health- and social care services. Substantial evidence suggests that many manifestations of ill health at advanced ages can be intervened. The main challenge of this theme is to delay morbidity and/ or its consequences until a later moment in the human lifespan.

Themes that started in 2006:
- Valuation and Risk Management for Insurance Companies and Pension Funds (Antoon Peisert, UvA)
- Income, Health and Work across the Life Cycle (Maarten Lindeboom, VU Amsterdam and Eddy van Doorslaer, EUR)
- Private Retirement Provision (Peter Schotman, Maastricht University)

More information: www.netspar.nl/research/themes
Eureka is a European financial services group, and our core business is insurance. In addition to our home base in the Netherlands, Eureko has operations in nine European countries. Building on our co-operative roots, we do business with the aim of achieving balanced value creation for our stakeholders: customers, distribution partners, employees and shareholders. To achieve that, we aim to maintain our leading market position in the Netherlands and to gain a significant position in selected European markets. Our primary goal is not so much to be the biggest, but to be the best, most customer-oriented and innovative financial services provider.

Our brands
Achmea, the Dutch subsidiary of Eureko, is active in the market with a number of brands. With regard to direct sales and advice to customers, Zilveren Kruis Achmea operates in healthcare and Centraal Beheer Achmea in non-life insurances, life insurances, pensions and occupational health insurance. Avéro Achmea offers the full range of services through insurance intermediaries, while Interpolis operates in the bancassurance channel in co-operation with Rabobank. We refer to this as ‘unity in diversity’: we share a final objective, but each brand has an individual role and identity, and aims to provide added value to our customers.

Customer care stems from our co-operative roots
Achmea ‘unburdens’: that is the distinct profile we aim to be recognized for. The word ‘unburden’ describes our entire philosophy, whereby we pledge to offer innovative solutions that meet the insurance and pension needs of our customers. We also assist companies in a range of areas including employment re-integration, business continuity and employment conditions. In addition, we offer their employees, as well as private customers, financial solutions with regard to health, financial security and financial planning for the future. Three core values underpin all of our business lines: to empathize, to innovate and to deliver.

Over the last fifteen years, Achmea has developed to become the largest insurer in the Netherlands. This is growth based on our co-operative roots, which can still be seen within the company; as a consequence, we tend to work more on group business rather than on individual contracts. Thanks to these co-operative roots, Achmea is, compared to other financial service providers, deeply in tune with Dutch society.

Integrated services and products:
employee-employer relations
We are a major player in the area of employer-employee relations, and almost all companies quoted on the AEX trust us with a significant amount of their insurance business. For instance, half of the companies quoted on the AEX have their health-care insurance with us. Achmea provides a total insurance package and is proactive in achieving solutions to a diverse range of customer issues and challenges, in both the insurance and service fields. Achmea is unique in the Netherlands by operating both preventative and rehabilitation services. We can offer tailor-made solutions for large companies as well as for small- and medium-sized companies.
Taking responsibility for your future
The Dutch government has introduced a significant number of changes in relation to financial planning for the future. Until recently, planning for the future tended to be something to focus on in later life. Now, the Dutch public is encouraged to take responsibility for planning for the future (namely, the time after pensionable age) early in their working lives. Following this trend, we can assume that the government will, over time, further reduce the safety net of unemployment and employment disability benefits. Individual employees will increasingly need to rely on the financial buffers that they have personally put in place.

The coalition agreement hints explicitly at this direction: the new ‘life-course’ scheme includes provision for extended leave as well as for early retirement. The concept is broad enough to act as a ‘piggy bank’ to offset expense peaks (education expenses, etc.) and difficult times caused by income gaps (periods of unemployment, illness, etc.). If this becomes a reality, the providers of ‘life-course’ schemes can look forward to busy times. In addition to offering suitable products, they will also have an important role in sharing information with their clients and the general public. The consumer will need to be made aware of the fact that State care is not their right ‘from the cradle to the grave,’ but applies only from infancy to high school. After that, personal responsibility lies increasingly with each individual.

Achmea: the partner for retirement
In the area of planning for later life, Achmea has always been one of the strongest players, in terms of both product offering and volume. The Avéro, Interpolis and Centraal Beheer brands are all strong within their own distribution channels, with regard to both individual and group contracts.

As for the essential group pension schemes: Achmea services 46 pension funds, represented in nearly all industry sectors. This service covers the following: fund management, administration, advisory tasks and asset management. Achmea is one of the largest asset managers in the Netherlands, with over EUR 40 billion in assets under management. The real estate portfolio is, additionally, worth more than EUR 6.5 billion.

As such, Achmea is the indisputable market leader, even when compared with ABP and PGGM. This is even more significant when one considers that Achmea services pension funds in almost every industry sector and takes care of retirement planning for 5.6 million employees. Similarly, we also support employer organizations and trade unions in their respective responsibilities for group pension schemes.

Achmea is keen to be associated with the important topic of the aging population and making adequate provision for retirement. Consequently, Achmea is pleased to be one of Netspar’s key sponsors. Our sponsorship of Netspar aims to achieve a win–win situation for each party. It provides insight into the day–to–day business of a big pension services provider and insurance company to Netspar students. At the same time, we benefit from access to Netspar’s research and reports, enabling Achmea to anticipate future trends and developments. The sponsorship is a ‘lifeline’ that supports Achmea in consistently serving its clients in a pro-active and quality fashion.

Our goal is to be the best
In summary, we realize that we do not need to be the biggest in the market, as long as we consistently perform as the best. Turnover or profit is not our ultimate objective. For us, figures are mainly a scoreboard that indicates just one level of our performance. While we are proud of what we have achieved, we will always strive to improve. Our goal is not to serve our customers well but to serve them ever better!
The inauguration of the Netspar–University of Maastricht Business School (UMBS) Academy on March 19, 2007 will be remembered as one of the most significant events in this innovative organization’s history. The Netspar–UMBS Academy offers post-graduate courses to practitioners in the fields of insurance and pensions, and is the only academy of its kind in Europe.

A marriage made in heaven
The marriage between Netspar and UMBS is a logical union, combining Netspar’s expertise in the area of retirement, pensions and aging, as well as its growing network of partners in the insurance, banking and pension sectors, with UMBS’s outstanding reputation in providing management training courses for professionals. The goal is to attract an international student body, and to provide these students with guest lectures by some of the leading names in pension research from across the globe. For the first intake, they’ve fallen a bit short of the ‘international’ aspect of the goal, as Rob Bauer pointed out: ‘So far, we have only two ‘international’ students — both of whom live in Belgium, and, by the way, have Dutch nationality.’ But it’s early days, and it’s likely that the Academy will quickly build a reputation of excellence that will draw professionals from all over the world.

A thematic, interactive approach
The Academy will offer three 3-day professional courses throughout the year. Each course will address a specific theme in the field of pensions and insurance, and will be geared specifically to one of the following target groups: managers and policymakers of pension funds, insurance companies, the public sector, and supervisory boards; and practitioners from the financial sector and government institutions and agencies, including investors, economists, controllers and actuaries. The courses, which will be interactive and interdisciplinary, have been described as ‘a unique combination of multidisciplinary knowledge in the area of pensions, insurance and current topics.’

Dark suits and power ties
The inaugural event was not simply a dog-and-pony show; it was the start of the first 3-day training course. Among those in attendance were thus the first group of students and the lecturers who would be teaching them. It was obvious that this was not a typical Netspar event, as evidenced by the sea of dark suits and power ties, and the virtual absence of women. The first intake of 38 students includes only three women — a situation that Rob Bauer hopes to rectify as the Academy evolves.

The first course addressed the subject of Fair Valuation, focusing on the valuation of pension fund investments and liabilities. This is a hot-button issue in the industry, with significant implications for the way in which pension funds and insurers manage pension liabilities. Lecturers for the course included Dirk Witteveen, Lans Bovenberg, Roderick Munsters (ABP), Keith Ambachtsheer, Alexander Dyck (Rotman School of Management, Toronto), Theo Nijman (Netspar) and Niels Kortleve (PGGM).

By Margaret Kavanagh
The Academy represents the culmination of months of hard work, determination and close cooperation between Netspar and UMBS. It also signifies a giant leap forward in achieving Netspar’s mission of building a strong network of excellent academic research, professional financial institutions and a high-quality civil service in the Netherlands.

Key players in attendance
On hand for this extraordinary event were some of the key players in the field of pensions, aging and retirement, including Dirk Witteveen, of the Nederlandsche Bank (Dutch Central Bank); Keith Ambachtsheer, of the Rotman International Center for Pension Management (ICPM), at the University of Toronto; and Lans Bovenberg, one of the Netherlands’ most revered economists and winner of the coveted Spinoza Prize. Kicking off the official opening was Rob Bauer, Academic Director of the Netspar–UMBS Academy, professor of Institutional Investment at Maastricht University and advisor to the board of ABP Investments.
World domination
Keith Ambachtsheer gave the keynote address at the inaugural event, offering a lighthearted account of his early childhood, when his family immigrated to Canada when Keith was 12 years old. He quipped that it was only later in life, when he became immersed in the theory and practice of pension systems, that he realized that the move to Canada was all part of a ‘sinister plot to ensure Dutch domination of the pension industry’. He provided the audience with a bit of a ‘sneak preview’ of the module that he would be teaching the next day, which focused on The Optimal Pension System, which depends on three key factors: a pension formula that is transparent and sustainable; provides broad workforce coverage; and is executed at arm’s length by professional pension delivery organizations.

The evolution of an industry
During a brief interview at the end of the day’s activities, Ambachtsheer said it has been exciting ‘participating in the evolution of pensions — from a backwater, disorganized and unprofessional sideshow 25 years ago to the current situation in which pension organizations are at the top of their game with the highest levels of professionalism.’

He emphasized the importance of governance, and said that when all of the money is handled by large, professional organizations, ‘it’s transformative in other ways. It affects how capital markets work. It affects how corporate governance works. And it affects the relationship between publicly traded corporations and investors. It’s exciting to see how that evolves over time, and a lot of these things are starting to happen now.’

Hands-on learning experience
He also discussed in more detail the teaching module he had prepared for the following day, which involved a fictional case study of a woman who was starting her new job as CEO of a corporation. The students would be given certain key pieces of information about the situation at the company. They would then be required to offer the new CEO advice on how she should handle her first meeting with the Board of Directors based on the information they had been given. ‘For this group of professionals — all of whom have at least three years of professional work experience as well as at least an undergraduate degree — it would be pointless to simply lecture to them for half a day.

With this approach, they can learn from each others’ experiences and can offer something of themselves to the group.’ A reception rounded off the day’s activities, giving the participants an opportunity to unwind and to socialize with the people with whom most of them would be sharing the next three days of intensive coursework.
The Vrije Universiteit (Free University – vu) in Amsterdam played host to the first Netspar Workshop of 2007. The university teamed up with Netspar and ABP, the Dutch pension fund that serves the public sector (including education), to co-sponsor the three-day event from January 24 through 26. With its long tradition of encouraging social responsibility and its close connection with society, vu is a logical setting for a Netspar event.

By Margaret Kavanagh

Examining choice in pension schemes

One of the central issues in pension reform is that of choice. To what extent should pension providers allow participants to choose their own pension plans? Presenting members with choices in their pension schemes leads to both advantages and disadvantages. Studies have shown that participants often do not understand the choices with which they are presented, making it difficult for them to make rational decisions. And what about the ‘levensloopregeling’ (life-course scheme), which has received so much attention of late?

There is no typical pension scheme participant. They come from all walks of life and have wide-ranging interests and expectations, as well as varied levels of expertise with which to make the choices offered to them. Some workers prefer to retire early, even though that means getting fewer benefits; others prefer to work longer to boost their incomes. Some participants have contributed for many years; others are newcomers to the system. Some members have additional assets (real estate, partner income), while others rely solely on their pension benefits for survival. The question becomes one of determining how best to cater to these varied needs equitably and efficiently.

Jam-packed agenda spans three days

The January workshop was organized somewhat differently from the standard Netspar Workshop, which usually spans two days. With its overall theme of ‘Choice in pension planning,’ it was expanded to three days, with concurrent sessions on the second and third days. Following on the theme of ‘Choice,’ attendees were able to choose from among several different discussion topics. The first two-and-a-half days were devoted to academic pursuits, and sessions were open only to Netspar-affiliated participants.

Focusing on policy

The afternoon of the third day, which focused on policy, was open to the public and the press. The featured speakers for the policy portion of the workshop were Mark Rutte, Leader of the Dutch Liberal Party (VVD); Edith Snoey, Chairwoman of ABvakabo FNV, the largest public sector trade union; Dick Sluimers, Acting Chairman of the Board of ABP; Gur Huberman, of the Graduate School of Business at Columbia University (US); and Christian Gollier, of the Institut d’Economie (IDEI) at the University of Toulouse (France).

Opposing views attract public interest

Anyone familiar with Netspar’s Pension Workshops knows that the final afternoon promises to provide a lively exchange of views — almost always opposing views — among the guest speakers. The guest speakers certainly lived up to their reputation at this event, which pitted the Liberal Party leader (note that ‘Liberal’ in this case does not have the same connotation as it does in the US; the Dutch Liberal party resembles somewhat the American Republicans) against the Chairwoman of one of the largest trade unions in the Netherlands. In addition; Dick Sluimers presented the viewpoint of the country’s largest pension fund, while Gur Huberman discussed individual pension choice in the US, and Chris-
tian Gollier talked about pension reforms taking place in his native France. With the exception of the latter two speakers, the afternoon session was conducted in Dutch — another departure from the Pension Workshop norm.

Three very different perspectives

Leading off the session was Dick Sluimers, who discussed the differences between individual and group pension schemes, with freedom of choice and cost containment as key elements. He emphasized that collective pension schemes, contrary to popular belief, do offer members adequate freedom of choice.

Edith Snoey followed with a brief history of the changes with which unions have been confronted in recent years. She suggested that the existing pension system limits workers’ flexibility, and called for significant adjustments to the system. Ms Snoey challenged the industry to develop a pension system in which people can make choices to suit their individual needs, but with a built-in safety net to protect them in the event of a downturn in their individual circumstances.

Mark Rutte gave the final presentation, explaining that while the vvd strongly supports freedom of choice, the party maintains that it must be coupled with a requirement that people look out for their own post-retirement needs. Otherwise, the government will be left to do it, which is not feasible. He emphasized that in order for people to make rational choices they must be sufficiently informed about their options.

Intense debate closes out the week

Rounding out the three-day workshop was a spirited debate involving the featured speakers — Rutte, Sluimers, Snoey, Huberman and Gollier — and a group of Economics students from vu, who argued the merits and flaws of the positions proffered by the speakers on the issue of ‘Choice in Pension Planning.’ Economist and journalist Mathijs Bouman served as moderator for the debate.

To read the transcript of any of the Pension Workshop presentations, visit the Netspar Web site: www.netspar.nl/events/pensionworkshop.

Netspar Recognizes Outstanding Research

Our future in their hands

One of Netspar’s stated goals is to build a strong network of excellent academic research, professional financial institutions and a high-quality civil service in the Netherlands. With some of the world’s leading economists, the Netherlands is well positioned to fulfill the academic research aspect of Netspar’s mission without breaking a sweat. But what about the future? Where will we find the next generation of economists to continue the search for answers to some of the most challenging questions facing not only the Netherlands, but also every country that is grappling with the issues of an aging population? It appears that we have only to look in our own backyard.

Their day to shine

January 26, 2007 will be a day to remember for three promising young researchers. The first annual Netspar Thesis Awards were bestowed on these future stars, each of whom had produced an extraordinary thesis on an issue related to pensions and aging. The Netspar Pension Workshop was the scene for this very special award ceremony. On the final day of the workshop, apb Chairman Dick Sluimers did the honors, handing award certificates and a check for € 3,000 to one undergraduate and two graduate students. The awards were presented in each of the three academic categories: Bachelor of Science (BSc), Master of Science (MSc), and Master of Philosophy (MPhil).

Lisanne Sanders won the award for best Bachelor thesis; Ralph Stevens earned the best Master of Science thesis award; and Jérémie Lefebvre was awarded the prize for the best Master of Philosophy thesis.

Promoting scholarship

Netspar established the Thesis Award program to encourage young scholars to focus their research on pensions and aging. The competition is open to undergraduate and graduate students enrolled in any educational program at any of the universities affiliated with Netspar. Theses must address a topic related to Netspar’s research program. Theses will be assessed by Netspar’s Editorial Board, and will be judged on academic quality, relevance to Netspar’s research program, relevance to Netspar’s non-academic partners and creativity.
New Netspar Partner
As of May 9, ORTEC Finance, an independent specialist in measuring and managing risk and return, has joined the Netspar network. Based on proven methodology adapted to the needs of pension funds, insurers, asset managers as well as individuals, municipalities and housing corporations, ORTEC delivers consultancy services and decision support systems to clients around the world. ORTEC has always operated on the frontier between practice and science. ‘By joining the forces of Netspar and ORTEC we aim to improve the synergy between science and practice in the important field of extending and sharing knowledge with respect to pensions and insurance.’ says Hens Steehouwer, Head of Financial Research at ORTEC.

Pension Umbrella Joins Netspar
An agreement has been made with four Dutch organizations that represent the pension funds and insurance companies: Verond van Verzekears, Vereniging van Bedrijfschapensioenfondsen, Stichting Ondernemingschapensioenfondsen, Unie van Beroepschapensioenfondsen. This agreement enables Netspar to disseminate knowledge to all pension funds and insurers, and will be instrumental in improving access to relevant datasets. It will also contribute, no doubt, to more intensive knowledge transfer.

Netspar Midterm Evaluation Successful
This spring a committee consisting of representatives of Netspar partners and NWO has evaluated Netspar. Recently the Evaluation Committee has presented her findings. The overall judgement is quite positive. Some scores (based on NWO criteria):

- Scientific significance: Very good
- Societal significance: Good
- National significance: Very good
- Extent of knowledge transfer: Good

The complete results have been sent to our partner organizations. If you would like to receive a copy, please contact the Netspar secretariat.

Prizes for Lans Bovenberg and Tim Willems
The Hudig–Langeveldt Prize 2007 – 10,000 Euros – was presented to Netspar director Lans Bovenberg for his significant work in the field of aging and life cycle. Together with this prize the AON Study Prize 2007 – 5,000 Euros – was awarded to Tim Willems, student of the Master Economics and Finance of Aging, for his thesis The Scandinavian Model: not as desirable as it seems.

Annual Report 2006
An extensive survey of Netspar’s activities in 2006, as well as the new challenges we are facing, is given in our annual report, which was recently published. If you want to receive a copy, please contact the Netspar secretariat.

Courses MSc Easier to Combine with Work
As of September 2007, attending courses of our master Economics and Finance of Aging will be easier to combine with your job. To make the program more attractive to young professionals at partner institutions, we have rescheduled the main courses. Each individual course is scheduled on one day only. In this way, the single course will only cost you about four hours a day, once a week.

More information: www.netspar.nl/education or contact the secretariat: 013 466 2109, secretariat@netspar.nl