

Pension Risk Communication in the Netherlands

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Abstract

Over the past decade, in many countries pension risk has been shifted to employees. The Netherlands is no exception, and the Dutch government has introduced mandatory pension risk communication. As of 2019, pension projections must be presented for three scenarios. This paper discusses the mandatory communication against the backdrop of the literature on pension communication, behavioral evidence and pension finance. The conclusion is that the mandatory communication is inadequate in helping plan members to be protected against pension income risk and may even reduce wellbeing because of loss aversion. We suggest alternative ways, based on behavioral evidence and finance principles to help pension plan members deal with the pension risk forced upon them.

Key words: pension risk, risk communication, disclosure regulation, financial planning

JEL codes: D15, G11, G18, G51

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1. Introduction

The basic questions people face when it comes to pension planning are (see Bodie *et al.*, 2008; Prast, 2017):

- a) How much of their income should they save for the future?
- b) How should they invest what they save?
- c) How should they drawdown pension wealth?

At an individual level, the optimal answer to these questions depends on, *inter alia*, intertemporal and risk preferences, as well as the investment of non-financial (notably, human) wealth. For optimal choices about a), intertemporal preferences are key, for b) risk preferences are relevant, while for c) both play a role (Prast, 2017). In the Netherlands, pension funds and the government have traditionally answered the above questions for employees. There is a generous first layer independent of labor history, and a mandatory second layer pension with no individual choice as to participation, contributions, portfolio composition, or drawdown of pension wealth. This remains to be the case, but in 2019 a change towards a full DC system has been agreed upon, with pension income varying with, *inter alia*, financial market performance. Previously, the law required the pension industry to provide plan members with one income projection, with the aim of informing people about whether they were saving enough for retirement (question a above). Because of the risk shift, since September 2019 Dutch pension funds are required by law to inform plan members annually about their pension risk by providing individual pension income projections for three scenarios (questions a and b above). This paper discusses the newly mandated pension risk communication in the Netherlands from the perspective of risk communication theory, personal finance theory, and behavioral economics. Its main conclusion is that the mandated information is unlikely to contribute to the goals stated by the legislator and the financial supervisor and approved by parliament, namely enabling plan members to manage their pension risk. There are three main reasons for this: the information is insufficient for choosing a risk management solution, the plan member is not guided towards products to manage her/his pension risk, and such products are not available in the market. The paper also concludes that due to loss aversion, the mandated annual information within a system where pension income projections will go up and down from year to year may lower psychological wellbeing and undermine trust in the pension system. On the positive side, the pension risk information may prepare plan

members for the necessary pension cuts that have thus far been successfully opposed by representatives of the elderly at the expense of younger generations. Suggestions are made to help plan members manage pension income risk through product design and choice architecture. The paper is structured as follows. The next section provides a theoretical background on mandatory disclosure and risk communication. Section 3 describes the pension system and pension communication regulation in the Netherlands. Section 4 provides a deeper look into the newly mandated instrument of pension risk communication, the so-called pension navigation metaphor. In section 5, the pension risk communication is discussed against the background of (pension) finance and behavioral evidence. Section 6 provides suggestions for helping plan members deal with risk, and section 7 summarizes.

2. Risk communication and disclosure regulation

According to Brewer (2011), risk communication may have one of three goals:

- i) Just make sure the risk information is out there
- ii) Persuading people to change behavior in a certain direction
- iii) Helping people make an informed decision

i) Legal disclaimers are an example of the first goal. A company eliminates its legal responsibility by publishing the risk of the product or service. In this case, it is not necessary that the addressee reads, understands, or uses the information, and sometimes (small print), and the sender may even hope that (s)he doesn't. As the goal is to comply with the law, the information is often detailed, technically complex and incomprehensible to the receiver, and sometimes intentionally confusing. Brewer (2011) questions the ethicality of such information, because it suggests it is meant to help addressees, but it doesn't, and the sender knows it. While governments mandating such information state that they want to protect customers, the disclosure requirement may sometimes do the opposite, by reducing the customer's chances in a legal procedure.

ii) Persuasion is the goal of communication if the government/sender has a best action in mind for all concerned. Information is used as a way of persuading the receiver to change her/his behavior in a certain direction. Legislation of tobacco risk communication is an example. The evidence shows that tobacco warnings are

ineffective, both because smokers know (or even overestimate) the health risks of smoking, because starters overestimate their ability to quit, and because intention hardly leads to behavior change when it comes to intertemporal choice with immediate rewards, of which smoking, snacking and saving for retirement) are example (Kooreman and Prast, 2010; Peters *et al.*, 2012). Persuasion may be the relevant goal for pension communication if the policymaker wants to encourage people to save more. In the past this was the goal of pension communication in the Netherlands, as the majority of employees overestimated their future pension income.

iii) The third possible goal of risk information is that of influencing beliefs, in order to help people make a decision that is in line with their preferences and circumstances. This is the case if the sender does not have one best action in mind, but wants people to think carefully about a risk and to make an informed decision on how to deal with them. It presupposes the availability of risk management instruments.

Given governments' claims that they want to help people make good decisions, the first goal – merely putting information out there – is unlikely. If policymakers believe that most plan members take too much or too little risk, persuasion could be the goal of pension risk communication. However, it is unlikely that there is a single optimal risk decision for all. It therefore seems fair to conclude that the relevant goal of pension risk communication is the third one: helping people make an informed decision about how to deal with their pension risk. As we will see below (section ..), the motivation by the Dutch government of the mandatory pension risk communication indeed points in that direction.

According to Loewenstein and O'Donoghue (2006) and Loewenstein *et al.* (2014), an underlying principle for mandating disclosure and information is that the benefits to society as a whole outweigh the costs. According to Sunstein (2019a) it is important to look not only at the benefits and costs for society as a whole, but also at the distributional effects. People may differ in the degree to which they benefit from mandatory information disclosure. For instance, vulnerable people may have more pressing issues on their mind and face more difficulty in using and benefiting from (risk) disclosure and in making active choices (Banerjee and Duflo, 2012; Sunstein, 2019b). Costs may also differ according to people's background characteristics. They include, next to financial costs, people's time and effort to process the information, and possibly a psychological cost for people who do not want, or feel unable, to

change their behavior upon the information, but are made to feel guilty (Glaeser, 2006;— als known as the “Cass Ruins Popcorn” effect (Sunstein, 2019; Sharot and Sunstein, 2020).² Depending on the receiver’s preferences and circumstances, risk information may or may not have an impact on the decision. For the disclosure to be effective, meaningful choices must be accessible for people to manage the risk. Some people may be able to delegate decisions to an expert, either because they can afford to pay one, or because they have one in their social network. Hence they may benefit from the mandated information even it is detailed and complex, because they can pay an expert to use it to their advantage.³ Others may benefit less, or not at all, from information, and they are likely to be the most vulnerable and in need of help in managing their finances. Duflo⁴ (see also Sunstein, 2019a) argues that “The richer you are, the less responsibility you need to take for the basic constituents of your life (retirement savings,.....) because everything is taken care of for you”. Note that Loewenstein *et al.* 2014) point out that there is “a paucity of data supporting the efficacy of such (= information disclosure, hp) policies”, while it “has been broadly advocated as an appropriate response to a wide range of social and economic problems”.

3. Pensions and pension communication in the Netherlands

The pension system and the 2019 agreement

The pension system in the Netherlands consists of three layers.⁵ The bottom layer is a state pension, independent of work history and based upon the number of years the individual has lived (or paid taxes) in the Netherlands. The second layer is a funded occupational pension arrangement. If a company offers a plan, employees are obliged to participate. Approximately 97% of companies offer a plan, hence almost all employees are covered. There is no individual choice on the contribution rate or the pension portfolio, and annuitization is mandatory. Second layer contributions are paid by employees and employers and are tax deductible. There is a small third layer. The Netherlands has a statutory retirement age at which an employees’ contract automatically ends.

² When during the Obama administration Cass Sunstein, as head of the Office had arranged for mandatory calorie information, he received an email stating “Cass Ruins Popcorn”.

³However, delegation to financial advisors may backfire. See Hackethal *et al.* (2018).

⁴https://www.povertyactionlab.org/sites/default/files/documents/TannerLectures_EstherDuflo_draft.pdf

⁵ See Van Rooij *et al.* (2007) for a detailed description of the system

The second layer used to be defined benefit in practice. Indexation of pension claims to cost-of-living increases was the rule, and retirees could count on a replacement rate of 70% gross and 90% net of their mid-wage. This was conditional on the funding ratio of a pension fund being above a critical level. For a number of years, funding ratios have been below the critical level, full indexation of pension claims is no longer common, and many pension funds should reduce nominal pensions to make retirees share in the risk (Merton and Snippe, 2010). This has met with opposition by the trade unions and some political parties, however. Thus far, reduction of nominal pensions has been postponed, implying that the “bill” is shifted to future retirees. Pressed by the government, employer and employee organizations reached an agreement in June 2019 to change the system to collective DC. The agreement allows employers and employee organizations to choose between one of two systems that differ in their degree of risk sharing during the accumulation phase. In neither system can the individual employee decide on her/his contribution level or portfolio composition. In the more personalized system, plan members save within the system for their personal pension wealth, which will gradually be added to the collective pot starting ten years before retirement. As in the current system, participants will have no individual say on the level of contributions or the portfolio composition. Annuitization will continue to be mandatory, but it has been announced that on their retirement date workers can choose to receive ten percent of their pension wealth as a lump sum. The government will mandate pension funds by law to invest according to a lifecycle pattern “with a risk attitude per age cohort... .. where investment risks and returns vary according to age composition.” The term risk attitude is confusing, if not incorrect, because risk attitude is an individual preference, and not necessarily age-related. Also, “risks and returns vary...” should be written ‘risks and *expected* returns vary...’ as returns cannot be chosen. This is more than semantics: with the risk shift to plan members, and people having difficulties in understanding risk, it is key to communicate consistently that returns cannot be picked without higher risk exposure. Otherwise plan members might fall prey to the fallacy of stocks being safe in the long run (Bodie, 1995).

Pension communication

Countries differ in the communication they require the pension industry to deliver to plan members (Van Soest *et al*, 2018). Pension information has been mandatory in the Netherlands since 2005. The focus has traditionally been on mandatory

disclosure, annually, of the pension projection: the (gross, nominal) income the individual plan member will receive if he/she continues working in the same job until the statutory retirement age. In 2015 a new Act on Pension Communication was passed. According to the 2015 Act (article 51), the single pension income projection that had been mandatory thus far should be replaced by three projections: for a realistic, an optimistic, and a pessimistic scenario⁶. These scenarios must be based on a calculation method provided by the Dutch Central Bank (DNB), which is responsible for the prudential supervision of pension funds, with the method based on the model of Koijen *et al.* (2010). The government's stated motivation was to improve information about pensions by putting the individual plan member's perspective center stage (Prast and Teppa, 2017a, b). A Government's Administrative Order of December 2018⁷ gave details regarding the format and content of the pension projection mandatory as of September, 2019.⁸ According to the government, the underlying idea of this communication is that "if people know their pension rights well, they can make better choices" (Rijksoverheid, 2018). The Financial Market Authority (AFM), which is the relevant supervisor for pension communication, states that pension communication must "offer an action perspective for good financial planning for old age", while the Pension Federation, which represents the pension funds in the Netherlands, writes that "The law provides for motivating participants to take action by offering an action perspective". The government, supervisor and pension industry do not seem to have one best action in mind, but want people to think carefully about pension risk, and to make an informed decision on how to deal with it. Taking Brewer's (2001) classification of the goals of risk communication as a starting point, it can therefore be concluded that the goal of the pension risk communication in scenarios is to change risk beliefs and facilitate behavior change.

4. The pension navigation metaphor

As of September 2019, the pension outlook must be communicated via a navigation metaphor. The Dutch Financial Market Watchdog AFM, which is responsible for supervising pension communication, shows on its website an example of the navigation metaphor (see Figure 1) to be provided to the plan member through

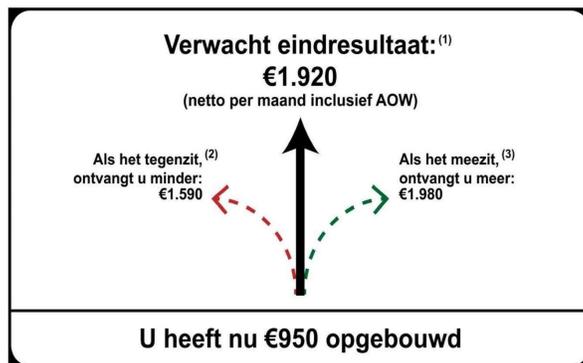
⁶<https://www.eerstekamer.nl/>

⁷ A Government's Administrative Order does not need approval by Parliament and is regarded as an elaboration of what the law describes.

⁸ <https://zoek.officielebekendmakingen.nl/stb-2018-466.html#d17e405>

“mijnpensioenoverzicht”. The latter is the website where people can login to get information about their pension claims at different funds (if they have had different employers) as well as their first layer pension.

Figure 1. The mandatory^{a)} navigation metaphor



Source: AFM website.

a) Pension funds are obliged to use this exact format and wording, but adding information is permitted

The literal translation:

U heeft nu €950 = You have now built up €950;

Verwacht eindresultaat €1.920 (netto per maand inclusief AOW) = Expected final result €1,920 after tax per month including first layer pension)

Als het tegenzit ontvangt u minder: €1.590= in case of misfortune you receive less: €1.590

Als het meezit ontvangt u meer: €1.980= with a little luck you receive more: €1,980

In addition to this information in the mijnpensioenoverzicht.nl, each individual pension fund must inform plan members annually about their pension claims at the fund. This is called the Uniform Pension Overview (UPO), and it must disclose the pension information through a similar navigation metaphor. However, pension funds have decided that in their UPO they will give gross instead of net monthly amounts in three different scenarios. Time will tell whether plan members will find the difference confusing, but it does not seem unreasonable to assume they will.

Before the Dutch government adopted the navigation metaphor, questionnaires were used to test it among plan participants (Heinen and Zondervan, 2017; Van Hekken, 2018; Van Hekken and Das, 2019). The first study was commissioned by the government and meant to answer the following questions: does the navigation metaphor i) give the individual participant insight into the uncertainty about the level of her/his pension, ii) give insight into “the effects of changes in purchasing power of her/his pension”, and iii) not “create confusion for the participant”. It is unclear what is meant by “the effects of changes in purchasing power of pension (effects on what?)”, but more importantly, the study does not answer questions relating to risk

management and action perspective, and neither does it test whether respondents understand what the amounts in the metaphor exactly refer to. The findings of the study are mixed. Van Hekken (2018) and Van Hekken and Das (2019) focus on the feeling the navigation metaphor creates. They argue that the metaphor should create the following imagery of pension:

- i) Pension is yours
- ii) You pay for your own pension
- iii) You can estimate the outcome, but you cannot guarantee it
- iv) What you are going to receive is not yet all there, but it is already partly there
- v) You can follow your pension, that makes sense

Note however that ad i), the participant has *no property rights*, ad ii) he/she may also pay for the pension of others (ex ante difference in life expectancy, for instance; in the Netherlands it is around 7 years between the highest and lowest educated), iii) the “you” is intended to be the plan member, but he/she is not the one making the estimate, and v) it is questionable whether it makes sense to follow one’s pension – it may even reduce wellbeing (see section 6).

A metaphor presents something abstract in terms of something concrete to make it easier to imagine. The fact that the legislator has deliberately chosen a metaphor as a mandatory tool for pension communication makes it clear that he realizes that something abstract may be easier to grip if it is described with the help of a metaphor. The mandatory pension navigation metaphor refers to navigation a car. It is meant to evoke, according to the designer of the metaphor, the image of *pension as a journey* (Van Hekken, 2018a). However, it is *not* a metaphor of a driver navigating in a car. With car navigation there is *one* final destination, chosen by the *driver*, the navigator gives three possible routes to the single final destination, and the *driver chooses* one of them. In the pension navigation metaphor, the journey can end in *three* different destinations that are subject to factors *outside the control* of the traveler (“in case of misfortune you receive less, with a little luck you receive more”). The planned destination is decided upon by the pension fund, which has also decided how much “energy” must go into the car, something which the plan member pays for through her or his contributions. The plan participant is not at the wheel, which is somewhat surprising given that, according to the legislator, the communication must motivate the participant to take action. It is a metaphor of a journey paid for by the

traveler who has not decided the final destination, the route to get there, or how much he or she wants to spend on it.

The metaphor tells the participant how much he/she has “built up”. The sender knows what is meant –or we may hope so -, but does that also apply to the employee? He/she can interpret "built up to now: 950" in many different ways, including:

the contributions paid up to now

the contributions paid up to now plus the return made on them

the gross second layer pension income to which the plan member will be entitled, at retirement, if he/she quits her/his job now

the net second layer pension income to which the plan member will be entitled, at retirement, if he/she quits her/his job now

the gross pension income, including the first pillar, to which the plan member will be entitled at retirement if he/she the quits her/his job now and continues to live in the Netherlands until retirement date*

the net pension income, including the first pillar, to which the plan member is entitled at retirement if he/she the quits her/his job now and continues to live in the Netherlands until retirement date*

the gross pension income, including the first pillar to which the plan member is entitled if he/she quits her/his job and goes to live abroad*

the net pension income, including the first pillar to which the plan member is entitled if he/she quits her/his job and goes to live abroad*

*the first layer is independent of labour history, but dependent on the number of years having lived in the Netherlands

Ad hoc surveys among the participants at two pension conference sessions (see footnote 1) revealed that none of them answered the question which of the above interpretations of “built up to now” was the correct one. A further investigation⁹ has made it clear that the amount reflects the gross pension income, including the first pillar, net and corrected for inflation, to which the plan member will be entitled at retirement if he/she the quits her/his job now and continues to live in the Netherlands until the statutory retirement date.

⁹ A big thank you goes to Wilte Zijlstra

5. A closer look at the pension navigator

One of the principles of life cycle saving and investing is that it should “focus on the consumption profile that it implies” (Bodie *et al.*, 2008b). The fact that the projected pension incomes in the metaphor are after-tax and adjusted for expected inflation is therefore an improvement relative to the previous mandatory pension communication, which was in nominal terms. There is still room for improvement here, given that Prast and Teppa (2017a, b; see also Zijlstra, 2017) find that a percentage frame (expected pension as a percentage of current income) leads to a more realistic pension perception than a euro frame.¹⁰

To what degree does the mandated pension communication offer an action perspective to deal with pension risk? A thought experiment can shed light on this. Suppose I am the ideal plan member. I have received a navigation metaphor like the one in Figure 1 and have studied it well. I know that I can expect a net pension of 1,920 per month, namely AOW plus the second layer, in real terms. I compare it with my current net income and conclude that this amount will be exactly sufficient. I am also aware that it can be as low as €1,590, or as high as 1,980. Suppose I find €1,590 is definitely too low. I am therefore willing to sacrifice consumption now, and forego the upside potential of €1980, in order to make sure that my pension will be (close to) 1,920. Thanks to the navigation metaphor I have a positive attitude and high self-efficacy, as hoped for by the policymaker: I am confident that I can benefit from taking action. I want to deal with my risk in the right way (as the government calls it), and perform an action for “good financial planning for old age”, as the supervisor wants. Suppose that I am even aware that the AOW (first pillar) is only subject to inflation risk, while the second pillar is exposed to the risk of inflation, that of the stock market, the interest rate, and life expectancy. Which options do I have? I cannot influence the investment strategy of my pension fund. I cannot leave the scheme. There is a statutory retirement age, so I am not entitled to continue working after the retirement age to make up for an unfavorable scenario. I will therefore have to put more money aside. As mentioned before, I am willing to do that, in order to put euros where they provide the most utility – one of the key principles of personal finance (Bodie *et al.* 2017). But how much, and what should I do with the money? If I

¹⁰ Note that in order to really focus on the consumption profile, relative price risk should be reckoned with (Merton, 1973). If a pension fund knows the preferred consumption bundle of its plan members, it might search for a strategy to hedge this risk. Given the gender difference in the preferred consumption bundle, pension funds might differ their investment strategy depending on the gender mix of its plan members. The second biggest pension fund in the Netherlands, PVZW (health care sector) has an f/m member ratio of 0.8.

put it away safely in the bank, I will have too much pension in the event that the expected or the favorable scenario occurs. The same applies to an extra repayment of my mortgage loan. If I invest the euros in the stock market, they will move with the financial markets and the economic situation, just as my final amount in the navigation metaphor: this is definitely not what I need either. What I *do* need is a product that pays out only if my final pension income is lower than €1,920. In finance terms: a contingent claim. Such an exotic product is technologically feasible, but I cannot engineer it myself. Not only do I lack the expert knowledge on financial engineering, I would also need to know both my pension fund's investment strategy, and the part of the downside risk related to portfolio choice, the interest on the annuitization date, and inflation. If the contingent claim product does not exist, I have no action perspective. If it does exist, I have to be guided there - remember, I am an ideal plan member, but not a financial engineer. What I need is a button: if you want to prevent your pension from being lower than x, you have to buy y, and it costs z. If I think the cost is too high (which, incidentally, in a fair market means that the risk is large), I can always decide not to (metaphorically speaking) push that button. The product that would optimize my pension plan – given my preferences – is not available. The legislator may argue that the mandatory pension communication is not meant to provide me with an *optimal* strategy – it is there to help me to *improve* decisionmaking, not to optimize it. What improvement is possible thanks to the information in the navigation metaphor? If I want to avoid at all cost the “final destination” of a pension income of only 1,590 euro, I could save more. My expected pension income would be too high (much higher than 1,920 euro), but at least I would not end up “too poor” as a retiree. Assume that this is an improvement as intended by the legislator. If I really want to avoid having less than 1,920 euro as a pension income, I should save an amount that I can convert into an annuity, at retirement age, of 330 euro, in real terms and net of taxes. The navigator does not provide me with this action perspective. I go to the Internet hoping to find such a product. But after two hours I only have found is possibilities to save for end-of-period wealth, where the risk is mine, or tips on when to convert my current wealth to income to save on taxes.

6. Discussion and suggestions for improvement

When it comes to managing pension risk, people should be supplied with both meaningful information and meaningful choice (Merton, 2013). While this may seem

a no-brainer, the mandated pension risk navigation communication in the Netherlands does neither. Could the mandatory pension navigator have other benefits than helping the plan member to manage pension risk?. Van Hekken and Das (2019) argue that the metaphor of a car journey can help plan members to realize “that part of the pension is already accrued, and that the pension will continue to grow, and that this “might be perceived as positive and could lead to a more positive attitude toward retirement”.. First of all, the pension may not always grow. The expected future pension income will fluctuate over time because of financial market developments, and in severe adverse circumstances even the amount “built up to now” may fall between one year and the next if negative market conditions, an unexpected increase in life expectancy and higher than expected inflation more than offset the positive effect of an additional year of pension savings. It is legitimate to ask whether plan members will understand and accept this. Moreover, the variation in projected pension may reduce plan members’ wellbeing because of loss aversion (Prast, 2017). It is therefore questionable whether the supposed positive attitude towards pensions will remain in a dynamic context. Van Hekken and Das (2019) also state that following ones pension makes sense, without making clear why. In fact, because of the above, the opposite may be true.

A positive attitude may, again in the view of Van Hekken and Das (2019), promote self-efficacy, and therefore induce action. A positive relationship between self efficacy and decisionmaking is indeed observed in the domain of health related behavior, even though consensus. More importantly, positive effects are documented for domains where it is clear which choices are available, decisions merely require willpower (Peters *et al.*, 2012), and the purpose of the risk information is to promote one best choice for all (quit smoking; exercise more; healthier food choices). This would be the second goal of risk communication mentioned by Brewer (2011), whereas that of the mandatory pension risk communication is the third goal (promote risk management based on personal preferences). Also, pension risk management requires much more than will power only. Note also that if the metaphor creates positive affect, this may result in an underestimation of pension income risk and an overestimation of the returns on pension savings through the affect heuristic and risk-as-feelings mechanism (Finucane, 2012; Fischhoff *et al.*, 1981; Slovic *et al.*, 2005; Slovic and Peters, 2006). Finally, Van Hekken and Das (2019) conclude that “the sender of the message might also benefit from better understanding. Gaining insight ...leads to a favourable judgment of the communicator’s credibility” . This would be a benefit to the sender of the information

– the pension industry. Indirectly, however younger generations might also benefit. Necessary pension cuts have thus far been successfully opposed by trade unions and some political parties in the Netherlands, protecting retirees (notably, babyboomers) at the expense of the young. They may become feasible if plan members have been prepared for the possibility of a lower-than-expected pension.

Would a useful pension risk navigator be possible within the context of the current pension system in the Netherlands? It could present the pension projection for three scenarios, but would then have to provide the “driver” with “buttons” to reach her/his preferred final destination among the possibilities available. If, in the example of Section 5, the plan member wants to insure against the risk of the pessimistic scenario, the navigator would show how much it costs (including the possibility of forsaking the upside benefit). These buttons would represent risk management solutions provided by experts – plan members cannot be expected to invent and design them. An alternative, slightly outside the “borders”, of the current system, is suggested by Bodie and Prast (2011). They recommend use of financial technology to design customized personal pension contracts at the lowest possible cost – hence managed collectively. Too much choice is to be avoided because of behavioral issues, but this does not necessarily imply that individuals saving for retirement cannot benefit from financial technology. The plan participant would have to be nudged into pushing the button that corresponds to her/his preferences and goals, while experts would have to make sure that pressing button that corresponds with a risk management solution and final destination. These would be collectively managed individual pension contracts based on contingent claims analysis. Various choice architectures are possible. One could enroll all participants by default in a contract with a lot of protection, and give them two riskier alternatives. Alternatively, the default could be based on individual characteristics of the plan member known to the employer/pension plan, or on the outcome of a set of questions the plan member must ask, where these questions should not be about risk appetite or financial knowledge, but about the desired living standard after retirement (Prast, 2015).

7. Summary and conclusions

A key principle of disclosure regulation and mandatory risk communication is that the benefits for society at large should exceed the costs. Moreover, costs and benefits

should be distributed fairly. This paper analyzed the potential benefits of the newly mandated pension risk information in the Netherlands since September 2019. The stated goal of mandatory pension communication in the Netherlands is to enable plan members to make decisions conducive to good retirement planning for old age. The new pension risk communication regulation is designed to help plan members manage the pension risk that has been explicitly shifted toward them. The single pension income projection that had been mandatory thus far is replaced by projections for a realistic, an optimistic, and a pessimistic scenario. The government has established additional requirements for the content and format of mandatory yearly pension projections with the aim of enabling plan members to actively deal with their pension risk. Its stated motivation was to provide an action perspective for good retirement planning in the context of pension risk. However, the chosen pension communication format – a so-called navigation metaphor – provides neither the necessary information nor an action perspective that enables the plan member to manage pension risk. The conclusion of this paper is therefore that the mandatory communication cannot create the benefits mentioned in the law and stressed by the government, the financial market supervisor and the pension industry.. Even the ideal plan member, who has no behavioural biases and is willing and confident to manage her/his pension risk, is faced with pension risk communication that is metaphorically better described by a labyrinth than by car navigation. The disclosure regulation on the riskiness of pension income may however have the benefit of protecting the pension industry against claims by plan participants in case their pension income falls below expectations, and- more importantly - may facilitate the necessary pension cuts that have been successfully opposed by the trade unions and some political parties in the Netherlands.

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