1. Introduction

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Global pension fund assets amounted to over US$23 billion in 2007, and that is before the substantial amount of pension savings in insurance vehicles is taken into account. There are few markets across the major developed economies in which pension and life insurance assets combined do not represent more than half of all financial assets; in some countries they comprise more than four-fifths of all assets under management. Corporate and government pension funds often do not have assets on hand to meet all their liabilities, so asset-based measures potentially understate the importance of pensions and pension funds to economies.

Pension funds and long-term pension-related savings vehicles are key investors in financial markets and critical in providing retirement incomes. Good governance of pension funds is therefore crucial, not only in protecting the interests of contributors, but also in advancing good governance at the enterprise level. We need to keep in mind that for many large corporations, benefits and pension obligations are a significant fraction of their total overall obligations, and therefore an important component of corporate governance in their own right.

Yet there are plenty of disappointments in pension fund governance. Corporate pension funds rarely play an important role in advancing broader corporate governance agendas. Instead, most of the activist pension fund investors tend to be public investors such as the California Public Employees' Retirement System (CalPERS). But for every activist public pension fund with a strong corporate governance agenda, there are many others around the world that operate with multiple agendas, seeking to support local or national infrastructure at the expense of higher returns for members. Pension fund boards of trustees are often viewed as not having the appropriate level of expertise or as responding too conservatively to changes in market conditions. And governance and long-run incentives are often an afterthought in public policies on pensions.

There was a wave of interest in corporate governance following the collapse of Enron and WorldCom in 2002 and the subsequent passage of the

Sarbanes-Oxley legislation, designed to improve the governance and accounting standards of American companies. However, this has largely left pension funds and pension issues untouched. It is true that in the United Kingdom, the 2001 Myners review considered the pension trustee issue (HM Treasury 2001), and the subsequent Morris review examined a number of other pension-related questions (HM Treasury 2005). It is also the case that accounting standards for pension fund reporting in various countries have improved somewhat, although accounting standards have little to do with the major governance issues in pension funds.

Unlike corporate governance legislation, which has changed significantly in recent years, pension fund governance structures have been slow to evolve. A recent survey of multinationals by Watson Wyatt (2007) found that pension fund governance is a big issue for most multinationals because of the underlying risks. In fact most companies have made changes to their governance arrangements in the past three years. However, because of the complexity of governing global benefit plans, the desired centralization of governance has proven challenging to implement. About half of large US multinationals appear to lack centralized decision making, even with regard to benefit design. In practice, the information that central headquarters has about benefit structures and obligations in distant locations is sometimes very incomplete.

More attention needs to be given to the development of good pension fund governance structures. Legislation drawn up for corporations and other institutional investors may not be appropriate for pension funds. While governance structures vary considerably across countries, there is a general tendency for pension fund governance to involve more consensus and less emphasis on technical skills and other considerations than is the case for other forms of investment.

The OECD has played an important leadership role in drawing attention to the need for better pension plan governance standards. In July 2002 it approved a set of guidelines for pension fund governance (OECD 2002). This marked the first initiative by OECD countries to set international standards for the governance and oversight of pension funds. The guidelines set out specific standards for transparency, actuarial valuations, auditing, accountability and legal structures; they provide an important benchmark by which legislation and individual pension funds can be judged.

But in many respects devising the guidelines is not the hard part; the principles of good governance are clear enough, but implementation is another matter. Guidelines need to be translated into a practical, workable regulatory and supervisory framework. At the same time, private sector practice needs to develop in accordance with the guidelines. Overcoming the obstacles here is not simple, as there are major gaps in experience and capabilities both in government and in industry. The Sarbanes-Oxley legislation has shown the drawbacks of heavy-handed use of legislation to solve underlying governance problems. The potential implications of pension legislation are similarly worrying, because the levels of capability and expertise to develop and implement legislation are that much more limited.

Academics also have some way to go to develop their capabilities in pension fund governance. The academic literature on this topic is sparse. This volume aims to begin to fill some important gaps in the literature by bringing together original contributions from around the world on a number of subjects related to pension governance. Because this is the only collection to date of academic work on pension fund governance, we felt it was important to strike a balance between the various dimensions of the governance problem. We wanted to make sure that the theoretical frameworks were represented, but at the same time we wanted to leave space to report empirical work. We wanted to cover private pensions, while also acknowledging that public pension funds are extremely important actors. We wanted to cover most of the major markets of the world, but at the same time include articles on key countries. The structure of the book reflects these various interests.

THE ORGANIZATION OF THE BOOK

The book is divided into four parts. Part I lays out the main frameworks for pension fund governance. Part II examines global governance practice and experience. Part III contains country studies on pension funds in the United States and Australia. The final section discusses the role of government guarantees.

Part I: Frameworks

In Chapter 2, Gordon L. Clark looks at the structure and organizational form of corporate pension plans. He argues that codes of conduct are unlikely to be effective on their own in dealing with governance issues. Instead, he suggests that human capital factors such as the qualifications, expertise and judgment of pension fund trustees are likely to be more important.

Next, Mario Catalán looks at the need for reform of member protection as funds make the transition from pay-as-you-go to fully funded arrangements (Chapter 3). He also looks at the effects of such reform on capital markets.

In Chapter 4, Anthony Asher describes the conflicting relationships that exist in pension fund systems. He shows how these conflicts create the potential for significant problems and argues, in particular, that they lead to higher costs. He suggests a combination of pension simplification and governance reforms as an important step forward.

Part II: Global Governance: Practice and Experience

Richard P. Hinz and Anca Mataoanu begin the section on global governance by attempting to classify the supervisory practices in place around the world (Chapter 5). They find that a country's level of economic development, financial structures and legal framework all play an important role in determining the type of supervision in use.

Gregorio Impavido argues in Chapter 6 that there is a need for strong governance procedures in public pension plans to ensure adequate transparency and accountability.

In Chapter 7, Hazel Bateman and Robert J. Hill consider the appropriate construction of benchmarks for adequate measurement of the investment performance of pension funds.

Part III: Country Studies

This section begins with an article by Tongxuan (Stella) Yang and Olivia S. Mitchell (Chapter 8). They construct data on US public pension plan practices related to administration, benefits, contributions and membership. They then correlate this information with plan funding patterns and investment performance. Yang and Mitchell find that management practice and governance variables play a very important role in determining funding levels. They suggest particular governance reforms to improve the investment performance of public pension plans.

In Chapter 9, Vrinda Gupta, Henry Jin, Michael Orszag and John Piggott report the findings of a survey of governance in Australian superannuation funds. This survey, which covered over a quarter of the top 200 funds in Australia, found that trustees emphasize consensus over technical issues and that there is hostility to formal regulation. The results are strikingly similar to those of an earlier survey carried out in the United Kingdom (Robinson and Kakabadse 2002; Kakabadse, Kakabadse and Kouzmin 2003), even though the pension structures of the two countries are very different. This may be because, before the introduction of licensing in 2005, Australian structures for pension governance had been static for some time.

Part IV: Government Guarantees

The last section looks at guarantee funds. Guarantee funds such as exist in the United States and United Kingdom are a symptom of the lack of attention of policy makers to governance issues, rather than the cause of governance issues for pension plans.

In Chapter 10, David McCarthy and Anthony Neuberger examine the recent introduction of the Pension Protection Fund in the United Kingdom. They model the cost of providing pension insurance and argue that some form of cost smoothing and redistribution is inevitable in a social guarantee fund. They conclude that if all pricing were risk based, it would be so volatile as to be politically unacceptable.

We are the first to acknowledge that this collection of papers, while breaking new ground, leaves many questions unanswered. Although pension funds and pension savings are extremely important, research into pension fund governance is in the early stages relative to the corporate governance literature. At the same time, we believe that this book pulls together much that is valuable in pension governance research and will play a vital role in providing a foundation for further research.