Preface

Economists are clamouring for reforms to global pension systems. They stress the need for restructuring from different angles. The driving motive is the upcoming demographic change in many countries. Looking ahead, the aging process will challenge the financing of pension benefits, reaching a climax in the 2030s when babyboom generations will have retired. As pension expenditures rise relative to the tax and premium bases from which they are financed, pay-as-you-go pension systems will become unsustainable. This is the first angle on pension reform. To secure a durable pension structure, many countries need to shift, at least in part, to pre-funding their pension commitments. The earlier this measure is taken, the easier. Incentives for greater labour market participation and lifespan education will also alleviate the impact of the demographic shift.

A second angle is the need to cope with the financial implications of greater reliance on pre-funding. As accumulated pension savings rise in relation to economic production, fluctuations in asset values and discount rates will have an increasing impact on balance sheets and, via numerous transmission channels, on domestic income and expenditure. How best to handle the associated mismatch risks between assets and liabilities depends on preferences and points of departure. In this context, the influence of pension fund regulation and supervision will rise markedly. Thus, designing judicious regulatory and supervisory policies becomes crucial.

Beyond this, a third angle relates to financial education. Recent years have seen a major change in the distribution of pension risks, away from companies and pension entities and towards households. At the same time, evidence points to shortcomings in the capacity and willingness of households to understand and shoulder these risks. Thus, strides need to be made in increasing pension risk awareness and in tailoring default options that coach individuals towards adequate premia levels and appropriate investment portfolios.

Substantial progress has been made in recent years to address these issues. For instance, broad consensus has emerged on measuring assets and liabilities in a market-consistent fashion. At the same time, financial innovation and information technology have increased the scope for efficient risk sharing and hedging. Together with tightened governance requirements, improved risk assessments have buttressed the financial soundness of pension entities, and communication requirements surrounding an individual's prospective pension benefits are being stepped up. But much remains to be done.

This is the backdrop to this book. It provides state-of-the-art analyses of the financial, institutional and supervisory dimensions of pensions. More specifically, it debates sustainable solutions to the key issues arising from population aging, provides guidance for pension plan design and stimulates the development of best practices in risk management and pension fund governance. In that respect this book is of interest not only to policy makers, supervisory officials and academics, but to all those with a broader interest in pension issues.

The contributions in this book stem from a conference entitled 'Frontiers in Pension Finance and Pension Reform' jointly organized by De Nederlandsche Bank (DNB), the Network for Studies on Pensions, Aging and Retirement (Netspar) and the International Organisation of Pension Supervisors (IOPS) on 22–23 March 2007. At this conference, pension experts from across the world gathered in Amsterdam to explore the prime challenges of pension design. This generated a pack of innovative chapters and cutting-edge discussions. These contributions have been brought together in this book, to push the frontiers further for a wide audience.

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