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BUILDING TOMORROW'S PENSION FUND TODAY:

FROM VISION TO REALITY

"No book of mine was ever more on target...and no book of mine has been more totally ignored..."

Peter Drucker on his 1976 pensions book
"The Unseen Revolution"

Peter Drucker's Vision

The quote above is from the preface of the 1996 reprint of Drucker's 1976 pensions book "The Unseen Revolution". Decades ahead of its time, the book posed profound questions about the direction capitalism would take with the approaching flood of retirement savings, and its implications for the ownership of the means of production. In whose interest would this huge pool of retirement savings be managed? Would it serve the agenda of politicians? Of business or labor leaders? Of the financial services industry? Or would the assets be managed to further the financial interests of its millions of beneficial owners: current and former workers?

Drucker was very clear about how he thought these questions should be answered: the coming accumulation of retirement savings offered the opportunity to make capitalism work for workers. But he was equally clear about an important caveat. Capitalism will only work for workers if pension institutions are willing and able to achieve that goal. In August of 2005, three months before his death after a remarkable life of 95 years, I had a chance to ask him how he thought things had turned out. He responded that it could have been worse...but it could have been better too.

This *Letter* argues that it is not too late to create better outcomes. The key is to begin to create pension institutions that truly work for workers at a much faster rate than has been the case to date.

In short, we must begin to consciously build more of tomorrow's pension funds today. The good news is that, while not yet very visible, this building process is already underway. Its intellectual and empirical foundations are being strengthened through such research organizations as the *Rotman International Centre for Pension Management (ICPM)*, and publications such as the *Rotman International Journal of Pension Management (RIJPM)*. The challenge now is to build on those foundations and get more shovels in the ground.

Working for Workers

What do pension institutions that really work for workers look like, and what must they do? They must do three things very well, two obvious, and one less so. The two obvious tasks are to invest productively and to deliver the right pensions on time in a cost-effective manner. The less obvious task is for pension institutions to advise their stakeholders on their pension arrangement's fairness, sustainability, and transparency.

Many pension arrangements in the real world are in tatters today because too many pension institutions have failed in their role as trusted advisors to such stakeholder groups as workers, employers, governments, and their representatives. For example, neither DB nor DC pension formulas, in their traditional, unreconstructed forms, are standing up well in a world of falling birth rates, rising longevity, material uncertainty about future economic growth, and modest investment return prospects.