



## RETOOLING PENSION DESIGN AND DELIVERY:

### CAN WE BREAK DOWN THE BARRIERS?

*“Imagination is more important than knowledge.”*

Albert Einstein

#### Two Retooling Sparks

Two recent sparks motivated this *Letter*. The first was a series of client conversations reflecting a growing sense of frustration about the current state of pension design and delivery around the world. The second was the release of the Fall 2011 edition of *Rotman Magazine*, devoted fully to the theme “Use Your Imagination”. (*Rotman Magazine* is the house publication of the Rotman School of Management at the University of Toronto).

The essence of the ‘pension design and delivery’ frustration theme is a growing understanding that traditional pension arrangements need to be redesigned to be sustainable in the 21<sup>st</sup> Century. But there is a parallel understanding that formidable barriers stand in the way of implementing the required changes. The essence of the *Rotman Magazine* message is that we can successfully manage change, but only if we address real problems in creative ways. Writes Rotman Dean Roger Martin: *“The trick in the modern economy is to develop technology in such a way as to solve a real human problem – to combine technological know-how with human insight.”*

Developing that technology requires innovation. Innovation in turn requires creativity, which is driven by a mental process called imagination. In short, effective innovation is driven by imagination, and not by superior information, or even

knowledge. In the words of Proctor & Gamble’s Craig Wynett: *“The core of creativity is the ability to generalize, to see the deeper connections in the world most people miss...to hold two very different ideas in your head and see them is the same thing.”* Our goal here is to apply this insight to really understanding the globe’s pension design and delivery problems, and to see the deeper connections that most people miss.

#### Really Understanding the Problems

So what are the pension ‘worry’ areas that clients are fussing about? They fit into two buckets: 1. pension design and 2. pension delivery. We elaborate on each bucket in turn.

The pension design problems have four broad contexts:

1. National Pay-Go Pension Systems: these systems work fine if pension benefits are properly costed, if those costs are seen as reasonable by plan participants, and if the underlying long-term system assumptions about economic growth and demographic dynamics hold true. If any of these conditions go off the rails and timely, adequate adjustments are not made, the system will eventually become unsustainable.
2. Traditional Employment-Based DB Plans: these plans work fine if pension benefits are properly costed, if those costs are seen as