

# The Ambachtsheer Letter

Research and Commentary on Pension Governance, Finance and Investments

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## PENSION REFORM AROUND THE WORLD:

### WHO IS ON THE RIGHT ROAD?

*“We sure could use a little good news today...”*

Anne Murray, 1983

#### Looking for Good News in America

Anne Murray wrote her musical lament for America twenty-seven ago, but it came to mind as we scrolled through a number of news websites that focus on pensions in preparation for writing this *Letter*. Here is a sampling:

- A new EBRI study reports that nearly half of early Baby Boomers (ages 56-62) are at risk of not having sufficient income to pay for basic retirement expenditures and uninsured medical expenses. Nearly the same fraction of ‘Generation Xers’ is in a similar position.
- A recent P&I article (June 28, 2010) reports that at least twenty-four US public pension funds have cut benefits this year.
- The New York Times article “Greater Fools” (July 5, 2010) lamented that most Americans have no clue about such basic financial concepts as compound interest, stocks vs. bonds, adjustable vs. fixed mortgage rates, etc. The biggest problem of all? Not knowing that they don’t know.
- The Transamerica Center for Retirement Studies found that only 25% of 401(k) plan participants surveyed had some idea of the fees they are paying, 25% were not sure, and a full 50% had no idea.

Even a couple of developments that could be construed as good news look less good on closer examination:

- The Department of Labor has issued a comprehensive set of rules on fee disclosure to be effective July next year. This would be good

if workers were keenly interested in more information on the fees they are paying to have their retirement savings managed. Unfortunately, logic suggests and research confirms that most are not.

- The Obama Administration and Congress have provided funding relief for ERISA-regulated Defined Benefit (DB) plans by lengthening the amortization period for unfunded liabilities from seven years to up to fifteen years. The catch of course is that this change weakens the benefit security for current and future members of these plans.

How does all this look from an international perspective? Are there lessons out there that could help Americans get a better grip on their pensions-related challenges, and possibly discover new ways to address them? That is the question we turn to next. We will look at pension reform efforts in the Netherlands, Australia, Canada, and the United Kingdom in turn.

#### Rethinking Pensions in the Netherlands

The Global Financial Crisis (GFC) posed a severe test for the #1 pension country in the world (ranking according to the Melbourne-Mercer Global Pension Index). The Dutch pension system had already been re-engineered after the bursting of the equity markets bubble in 2000-2002 by reducing DB-based pension guarantees from real to nominal, and by requiring the reporting of balance sheet funded ratios on a marked-to-market basis. On this basis, the typical funded ratio plummeted from 140% to 100% over the course of the GFC.