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MORE PENSION WISDOM FROM EUROPE: THE GENEVA REPORT ON PENSION REFORM

*“Rather than following the usual two-handed approach of economists,
we take a clear stance on a number of controversial issues...”*

From “Dealing with the New Giants:
Rethinking the Role of Pension Funds”
published jointly by ICMB and CEPR, July 2006

Eight Hands, Four Economists, and One Point of View

Given that the cited new study on global pension reform was authored by four economists, there were actually eight hands involved in writing this powerful new analysis of global pension ills and how they could be cured. All the more remarkable that the eight-handed four economists laid out only two possible future pension scenarios, clearly rejecting one scenario in favor of the other. Adding to our sense of wonder was the fact that the four-man team included a Brit (Andrew Roberts), a Dutchman (Lans Bovenberg), a Frenchman (Benoît Coeuré), and an Italian (Tito Boeri). Maybe there is something synergistic to this EU idea after all!

The reason for reviewing the new Geneva Report on pension reform in this September *Letter* is clear. The report is a logical sequel to the recent Turner Pensions Report out of the U.K. about which we wrote positively in our February *Letter*, and to the July *Letter* where we wrote on creativity and innovation (or lack of it) in the pensions field. The Geneva Report echoes some of the key pension reform ideas in the Turner Report, and applies healthy doses of clear, integrative thinking to developing these

ideas further, as well as to producing some new ones relevant not only to Europe, but to the rest of the developed world as well.

And what do we mean by ‘clear, integrative thinking’? Let us count the ways. The report distinguishes between such micro issues as life-cycle financial planning, financial illiteracy, principal-agent issues, and pension fund governance on the one hand, and macro issues such as economic stability and growth, capital market pricing, entrepreneurship, and innovation on the other. It assesses the potential for market-, and financial engineering-based solutions to such challenges as managing asset-liability mismatch risk and longevity risk in pension arrangements. It examines the respective roles of financial capital, human capital, and labor market flexibility in stabilizing life-time consumption. Maybe most importantly, it leads to a number of clear, powerful pension policy implications.