

## Discussant Comments – Wharton Conference

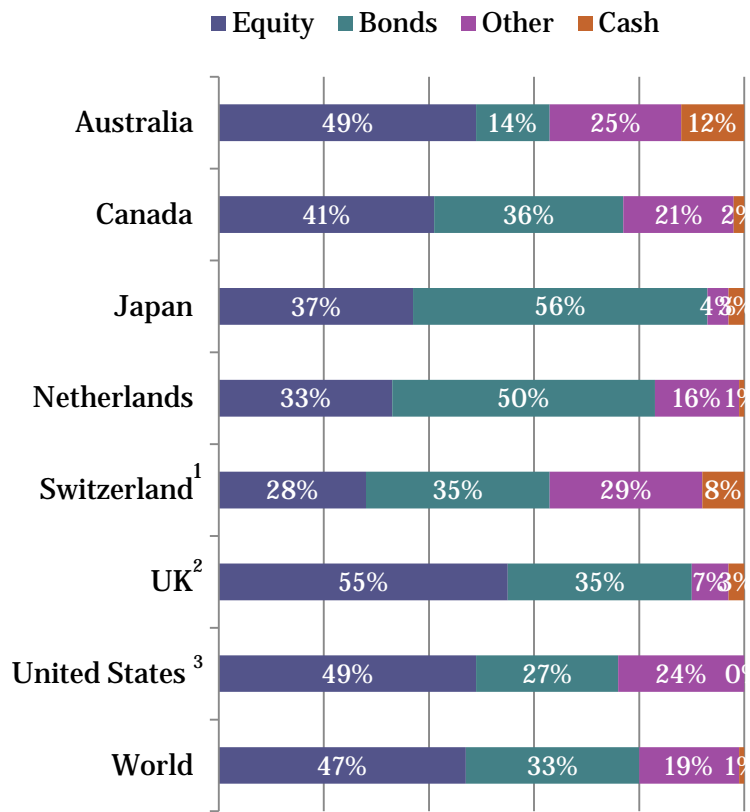
- Collective Pensions and the Global Financial Crisis: The Case of the Netherlands
- How Have Public Sector Pensions Responded to the Financial Crisis?

William Clark

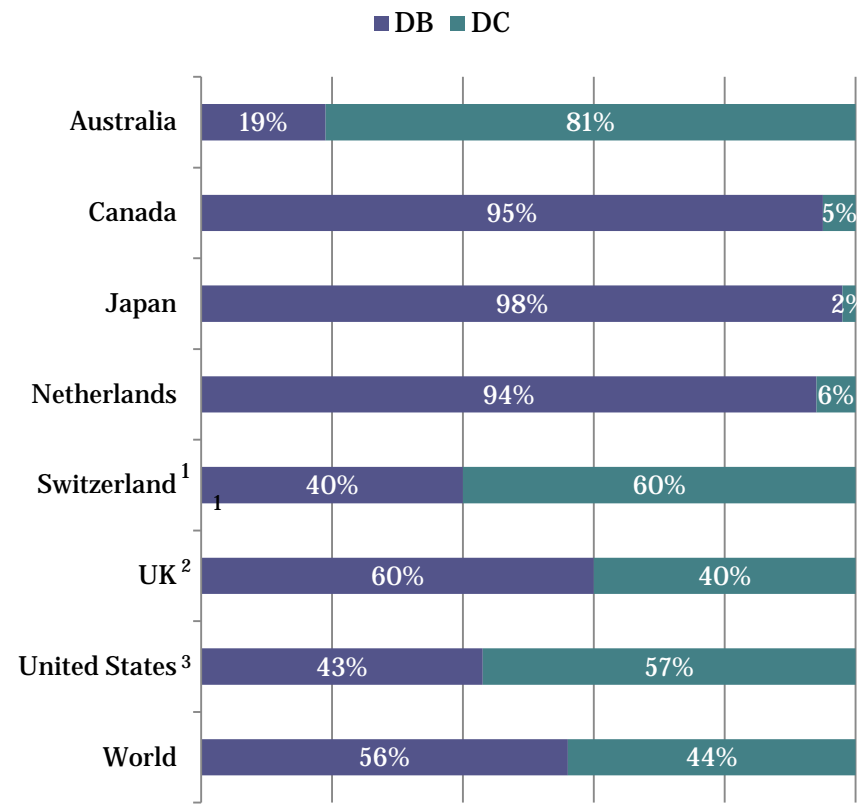
Federal Reserve Office Of Employee Benefits

# How the Netherlands compares to Other Countries\*

## Asset allocation 2010



## DB/DC Split 2010



<sup>1</sup> DC assets in Switzerland are for cash balance plans not defined contributions plans

<sup>2</sup> Excludes Personal and Stakeholder DC assets

<sup>3</sup> Includes IRAs

\*Source: Towers Watson and Secondary Sources

# How the Netherlands Compares to Other Countries

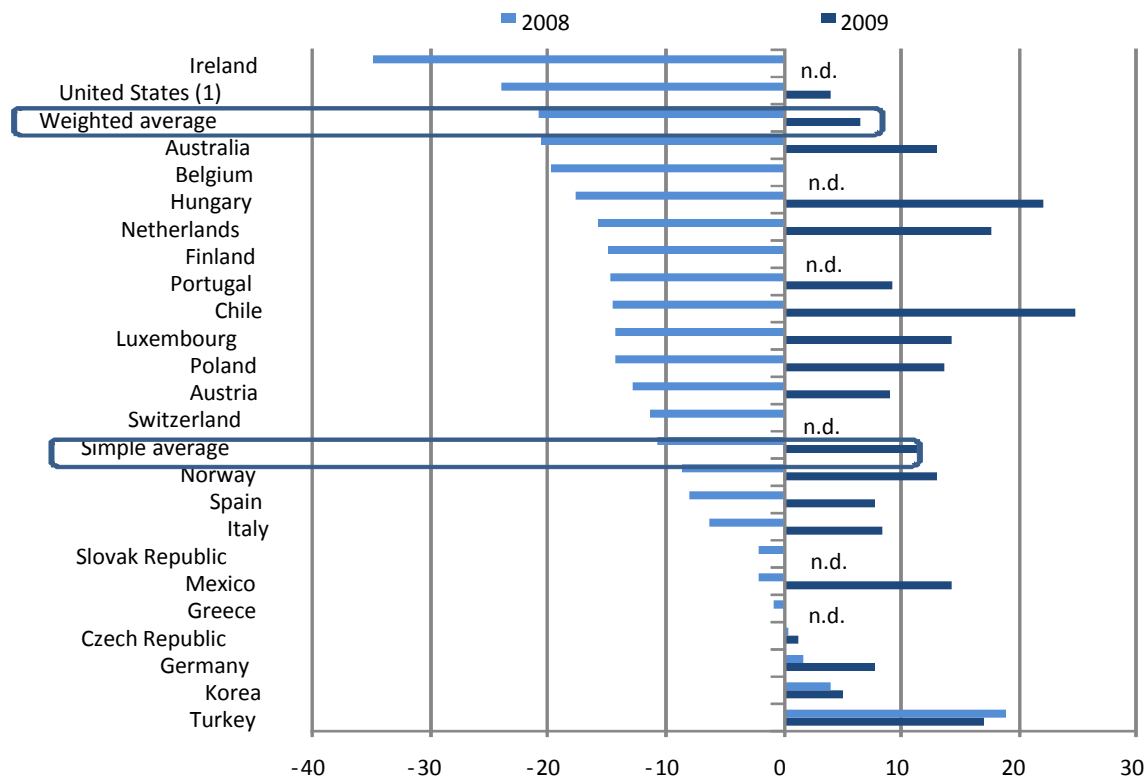
Market	Pension assets as % of GDP		
	2000	2010e	Change <sup>1</sup>
Australia	70%	103%	33%
Brazil	12%	17%	5%
Canada	92%	73%	-19%
France	6%	5%	-1%
Germany	10%	14%	4%
Hong Kong	18%	38%	20%
Ireland	52%	49%	-3%
Japan	52%	64%	12%
Netherlands	114%	134%	20%
South Africa	51%	72%	21%
Switzerland	124%	126%	2%
UK	85%	101%	16%
US	102%	104%	2%

Source: Towers Watson and secondary sources/ GDP values in local Currency from IMF

<sup>1</sup>In percentage points

# How the Netherlands Compares to Other Countries

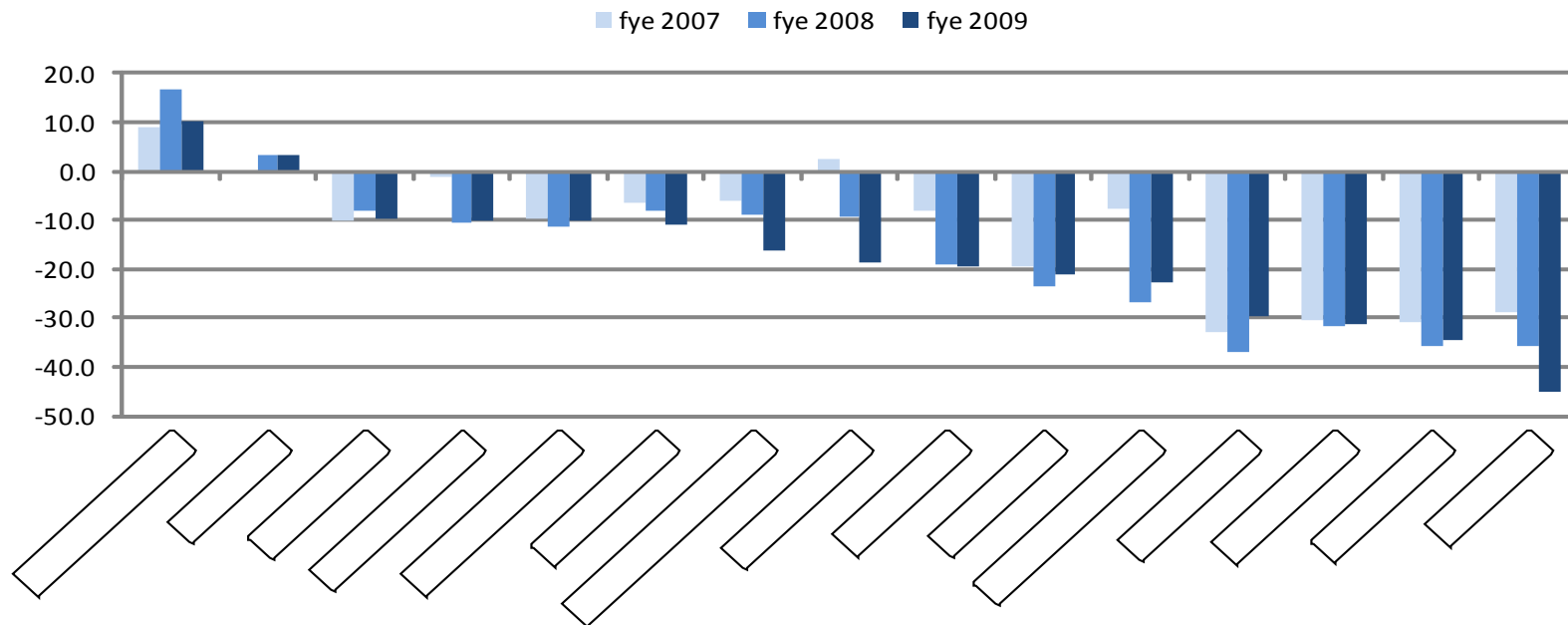
Pension funds' nominal net investment return in selected OECD countries, 2008-2009



1. Estimated data including IRAs. 2009 data refer to the period January-June 2009.  
Source: OECD Global Pension Statistics and OECD estimates.

# How the Netherlands Compares to Other Countries

**Estimated median percentage surplus or deficit of 2100 exchange-listed companies' aggregate defined benefit obligations**  
In percent, by country of domicile (\*)



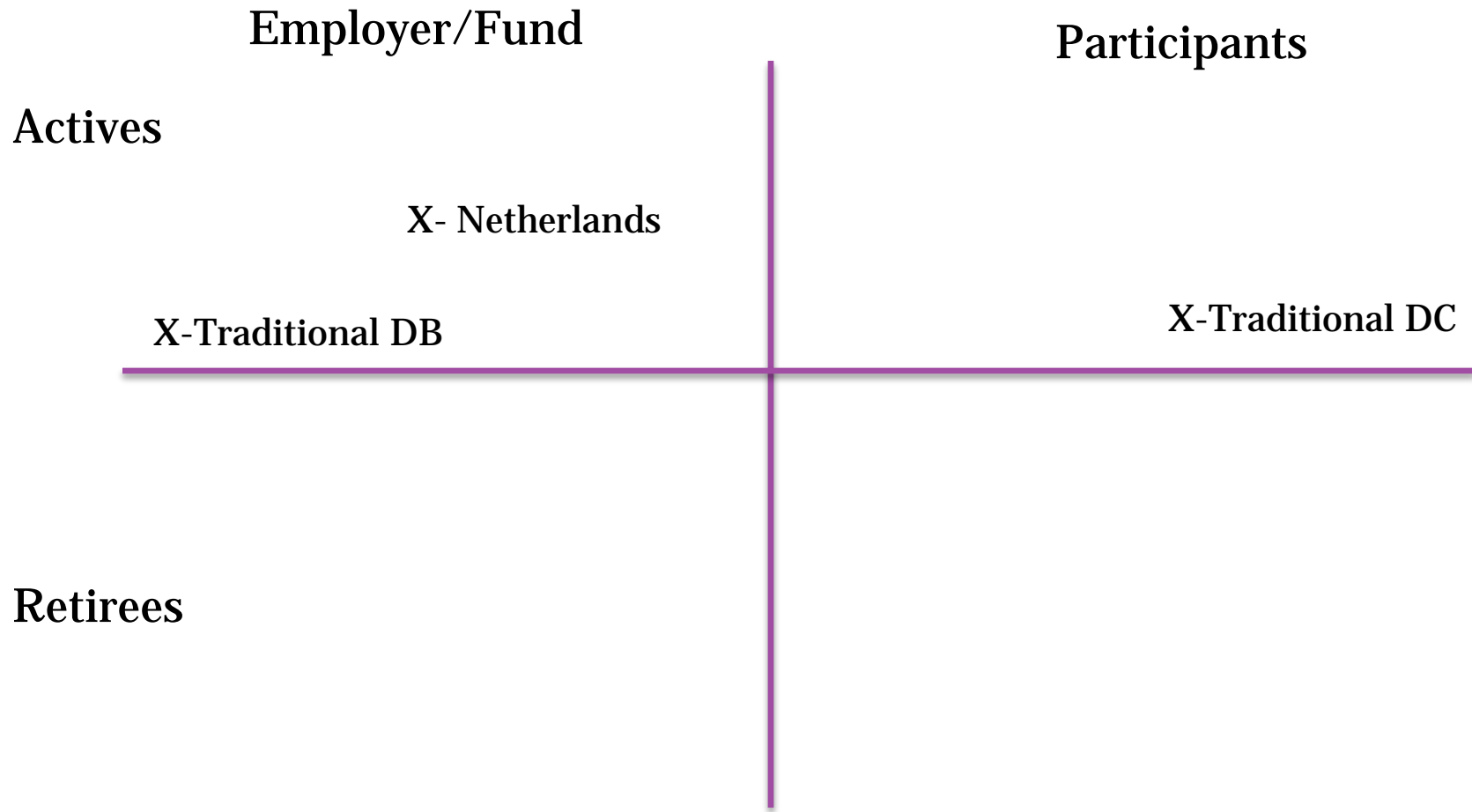
(\*) Companies are grouped by country of domicile. Therefore, all data represent pension plans' administered by headquartered companies and not the pension plans of the county of domicile.

Note: Only companies from the index that reported a defined benefit obligation in 2009 were included.

Fiscal year-end 2007 data is not available for Brazil.

Source: Thomson Reuters Datastream.

# Potential Framework for “Risk Sharing” for Pension Schemes



# Thoughts about the various risk to be shared

<b>Risks</b>	<b>Impacts</b>
1. Inflation	1. Funding Cost
2. Interest Rates	2. Benefit Levels
3. Investment (Equity, Credit)	
4. Mortality	

## OECD Guidelines, Best Practices and Recommendations to Improve Pension Design

1. **Stay the course: complementary private provision for retirement remains a necessity.**
2. **Saving for retirement is for the long-term.**
3. **Supervisory oversight should be proportionate, flexible and risk-based.**
4. **Funding and solvency rules for defined benefits plans should be counter-cyclical.**
5. **Use the safety net to address issues if insufficient income at retirement.**
6. **Improve the design of defined contribution plans, including default investment strategies.**
7. **Improve the governance and risk management of pension funds.**
8. **Step up disclosure and communication and improve financial education.**



# The Importance of Investment Returns to a Public DB Plan

Percent of salary while active needed to fund projected benefit for 35 year old\* new hire at a "typical" government plan for various realized investment returns

ANNUAL INVESTMENT RETURN	% OF SALARY NEEDED TO FUND PROJECTED PENSION BENEFITS
10%	3.08%
9%	4.13%
8%	5.56%
7%	7.53%
6%	10.24%
5%	14.01%
0%	74.70%

Typical assumed rate of return for pension plans

\*ASSUMES STARTING SALARY OF \$75,000, 4% ANNUAL SALARY GROWTH, AND EMPLOYEE RETIRES AT AGE 60.

# Comparing US Public and Corporate DB Plans

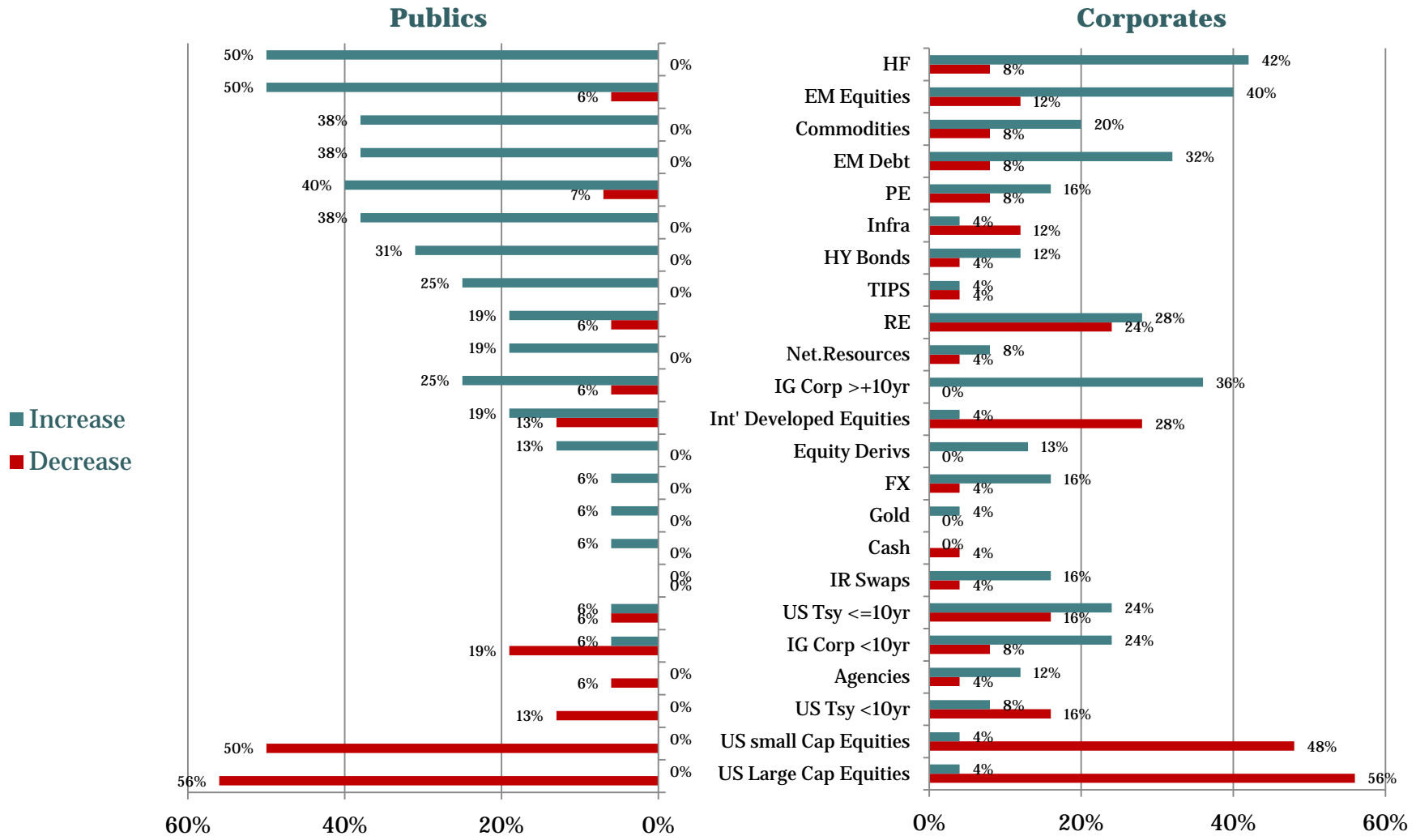
Average US institutional asset class constituent characteristics (as of 09/30/2010)

	<b>Public DB Plans</b>	<b>Corporate DB Plans</b>
<b>Equity</b>		
Domestic	29.8%	23.3%
International	20.9%	18.2%
<b>Total Equity</b>	<b>50.7%</b>	<b>41.5%</b>
<b>Fixed Income</b>		
Domestic	24.9%	38.1%
International	1.3%	1.3%
<b>Total Fixed Income</b>	<b>26.2%</b>	<b>39.4%</b>
<b>Alternative Investments</b>		
Private Equity	7.7%	6.6%
Real Estate Equity	6.8%	3.9%
Hedge Funds	4.2%	2.7%
Other	2.8%	3.8%
<b>Total Alternative</b>	<b>21.5%</b>	<b>17.0%</b>
<b>Cash</b>	<b>1.6%</b>	<b>2.1%</b>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Total assets (\$bn)</b>	<b>\$2,755</b>	<b>\$2,755</b>

Source: P&I, Nacubo, Commonfund, Cambridge Associates, S&P Money Market

# Comparing US Public and Corporate DB Plans

## Anticipated allocation changes: Public DB vs. Corporate DB



Source; Deutsche Bank 2H2010 Institutional Survey

# Reasons for Differences in Investment Strategies between US Public and Corporate DB Plans

1. **Funded Status**
2. **“Health” of Plan Sponsor**
3. **Status of Plan (Open vs. Closed/Frozen)**
4. **Accounting**
5. **Regulatory Considerations**
6. **Governance Structure**