Investment Company Institute
2015 ICI Global Retirement Savings Conference:
The Role of Public and Private Pension Provision

Key Takeaways from the Global Retirement Savings Conference

Dirk Broeders, Senior Strategy Advisor, Central Bank of Netherlands: What I think is key is that if you look at our current system and looking in the future, we have to recognize that there are funding issues and sustainability issues. And so, of course, we have low interest rates, changing demographics, increasing longevity, and volatile investment returns, and so we need to think of whether or not our current system is sustainable going forward. The answer is "no," and so we need to do something, and we need to think of innovative ways to create pension contracts which serve the best interest of the beneficiaries. And, traditionally, the Netherlands have a defined benefit system, but defined benefit systems, of course, have many good features, but also we now more and more encounter the difficulties of defined benefit systems.

For instance, they are very difficult in dealing with changes in the labour markets. Labour markets are becoming much more dynamic; people change jobs all the time, people become self-employed, more and more drop out of the pension system. And these are difficulties, so we need to think of other ways going forward to increase, let's say, the way our occupational pensions deliver adequate pensions at reasonable costs to the beneficiaries. And what we're discussing now in the Netherlands is: we come from this defined benefit world. Can we implement key features from defined contribution contracts to improve defined benefit contracts? And then I'm thinking of what is the best combination of both of those. And so we want to have the large scale, for instance, from defined benefit contracts, mandatory participation, low costs, etc., but we also want to have some features from defined

contribution contracts, like very clear ownership rights so that you can see what you contribute to the pension plan, how much money you are saving, how it's invested, etc. We also want to have the flexibility of defined contribution contracts. We want to have more tailor-made solutions. One of the things we now encounter from defined benefit contracts is that they are a one-size-fits-all contract. Everybody pays the same contribution, accrues the same benefits, participates in the same asset allocation, gets the same indexation whether you're young, old, etc., and this might work very well decades ago when we designed our current system. But going forward, we need to think of more tailor-made solutions, and maybe the risk preferences for the young are much different than for the old, or also the capacity to save for retirement is different over your life cycle. And we need, let's say, the core elements of defined contribution contracts to be implemented in our pension system.