

Expert Meeting on Pensions and the Economics of an Ageing Society, Swiss Re, Rüschlikon (ZH), Centre for Global Dialogue, December 11 & 12, 2002

Key Underlying issues for future reforms:
labour markets, companies' involvement,
human capital, taxation, productivity,
economic growth, asset allocation, investment
returns, pension structures

Graziano Lusenti

Ph.D. in political sciences, Swiss pension fund expert,
Advisor to institutional investors

Some topics to address

1. Improvements in the functioning of the labour markets
2. The companies, human capital, taxation and occupational pensions
3. The economy: Innovation, productivity, economic growth
4. Investments and the capital markets: Changes in asset allocations, realistic returns expectations
5. What is the best structure for supplementary private pensions ?

1. Improvements in the functioning of the labour markets

- **Increase the overall flexibility in the labour markets: Tailor-made rather than « one-fits-all » solutions**
- **Working careers are no longer smooth and linear**
- **Working patterns are changing too**
- **See immigration and emigration as chances**
- **Improve the working conditions to keep women in the workforce**
- **Make differed retirement more «appealing» to keep the elder workers in the workforce as long as possible**
- **The labour legislation, taxes and social security contributions hamper Europe's productivity, economic growth and social balance**
- **Europe's labour markets are not efficient, they are lagging behind the US**
- **Introduce changes gradually and bridge the « ideological » gap by involving all major social and economic players and lobbies: governments, political parties, employers' representatives, trade unions, etc.**

2. The company, human capital, taxation and occupational pensions

- **Occupational (and mutual benefit) pensions existed long before social security pensions**
- **Do not leave out the firms: the extension of occupational pensions will not happen without their dedicated involvement, but they will do so only if the overall framework is favourable to them**
- **The growth of occupational pensions has 2 major drivers: the increasing importance of human capital to the companies and a favourable taxation environment**
- **The tax exemption factor is very obvious, but too frequently neglected: in most European countries significant improvements have to be made, despite the unbalanced public budgets**
- **Human capital is a key success factor in our information, knowledge-based, high-tech societies: it is not just the level of the production factors « capital » and « labour » which matters, but the optimal blend of the 2.**
- **To companies, occupational pensions are an efficient way to optimize the human capital factor**

3. The economy: Innovation, productivity, growth

- **Since the neolithic ages, innovation and technical progress are the magic drivers of productivity improvements and growth.**
- **There are no compelling reasons why innovation, which has accelerated over the last 20 years or so, should slow down or fade. Longer term, there are many reasons to be optimistic.**
- **The question is whether the European countries will stay among the economic leaders, considering the looming demographic problems and the « inflexibility » of labour markets**
- **In Europe, the potential for productivity improvements is huge**
- **Like the US had, Europe does now have its own « Far East », new emerging economies with an interesting economic potential (relatively well educated workforce, huge pool of workers, etc.)**
- **An elderly workforce is not necessarily less productive or innovative than a younger one: Experience and proven skills are important assets**
- **In Europe, the pension crisis ahead can be solved only if economic growth picks up and stays high**
- **The major argument in favour of funded pensions against pay-as-you-go ones is that funded pensions are likely to spur economic growth (if real productive investments are made)**

4. Investments and the capital markets: Changes in asset allocations, realistic returns expectations

- **The providers of supplementary private pensions must adjust their asset allocation and focus on the real asset classes (like equities, real estate, etc.) rather than on the nominal ones (bonds, mortgages, etc.)**
- **This investment approach will achieve the highest returns in the long run, will contribute positively to the increase in the stock of real capital and will spur economic growth**
- **The low inflation and interest rates, likely to stay, will support this trend**
- **The providers' investment guidelines must be relaxed**
- **Non-domestic investments must increase, to provide a better diversification**
- **Investment return expectations must be lowered and get more realistic: long term returns between 6% and 9%**
- **The investment strategies will get more sophisticated: the focus will be on absolute returns, trading strategies will complement « buy and hold » ones, hedging will get more important, new asset classes will become more popular, etc.**
- **Asset and liabilities calculations will play a bigger role**

5. What is the best structure for supplementary private pensions ?

- **The issue of the best structure for providing supplementary private pensions is significant in terms of economic and financial efficiency (costs)**
- **A death which occurred almost unnoticed: Mutual benefit life insurance companies have disappeared in some European countries**
- **Occupational pensions funds are not-for-profit organisations, but they are not an homogenous entity in Europe**
- **Overall, they provide an appropriate legal structure for supplementary private pensions, but they do not necessarily provide for employees' representation**
- **An interesting question is to what extent insurance companies will play a leading role in the emerging occupational pension markets in Europe**
- **What is the best balance between concentration, decentralisation, in-house or out-sourced management (administration, asset management, insurance), etc. ?**
- **The task of providing supplementary pensions must be fully attributed to the private sector**