The “Quiet Revolution”: developments before the crisis - current challenges

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Third European Colloquium Venice November 25 2008

80 years

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Agenda

- **The “quiet revolution”, a strong and well grounded trend before the crisis**
- A setback?
- Recent public comments and their implications

From the '90ies onwards.
The need for accelerating pension reform…

- In 1994 a path-breaking report from the World Bank highlighted the need to move, globally, towards a three pillar system in retirement (a pay as you go government first pillar, an occupational second pillar, a voluntary third)
- The slow pace of implementation of the reform has however been a matter of concern.
  - Governments are worried that many retirees may end up in poverty
  - Too many workers are still out of the system and, for those in, the level of savings often is often insufficient and the quality of portfolio diversification unsatisfactory.
- Policy makers, workers and companies have been designing and experimenting solutions.

… default solutions and other ways of encouraging participation and higher long-term savings are being enacted …

- <u>Voluntary participation</u> has generally failed
- Some countries (Chile, Mexico, Sweden for the capitalization component of the first pillar) have gone directly for <u>mandatory solutions</u>
- Mandatory solutions are however often deemed socially and politically unacceptable, <u>default devices</u> have been enacted as an alternative
- Default solutions represent the <u>normative outcome of the behavioural critique</u> of the microeconomic assumption of individual rationality

A transition

- from a world with an all-encompassing welfare state and lifetime employment in big business
- to a flexible world where the individual must take responsibility

A quiet revolution

Key features

- Spreading of dc vehicles across working population
- Flexibility in accumulation and drawdowns in pre-retirement, and retirement in its various phases
- Need for guidance and support for the “instividual”

Spreading of dc vehicles across working population and examples of "democratisation of finance"

- In the UK pensions have broadened the participation to financial markets

- Riester Plans effectively have created new market participation in Germany

- The Netherlands and Sweden have virtually full working population participation

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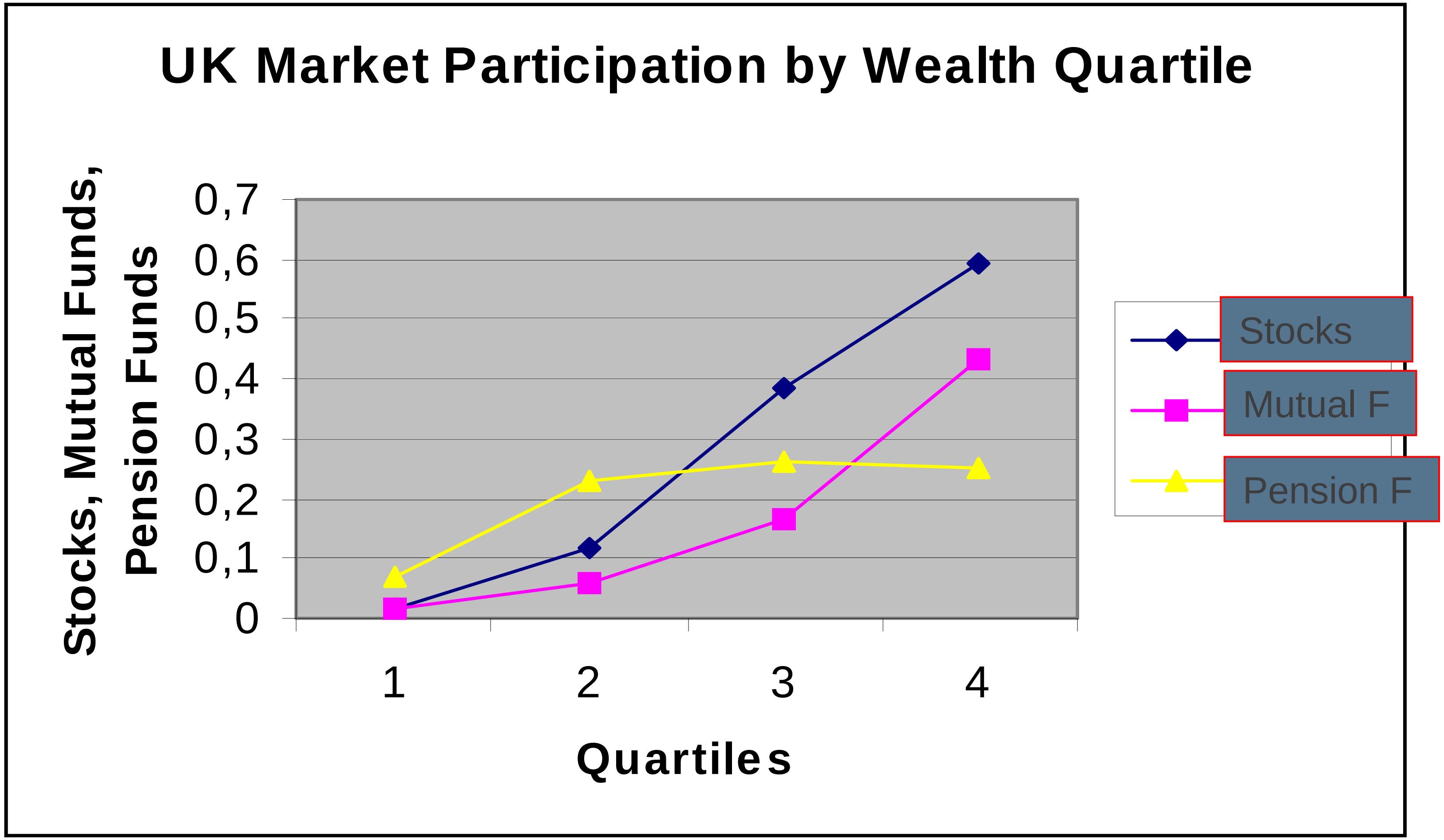
Democratisation of finance , the cae of the UK



Source: James Banks and Mathew Wakefield – Stock Market Participation in the UK-
In Luigi Guido, Tullio Jappelli, Michael Haliassos Stockholdings in Europe OEE 2003

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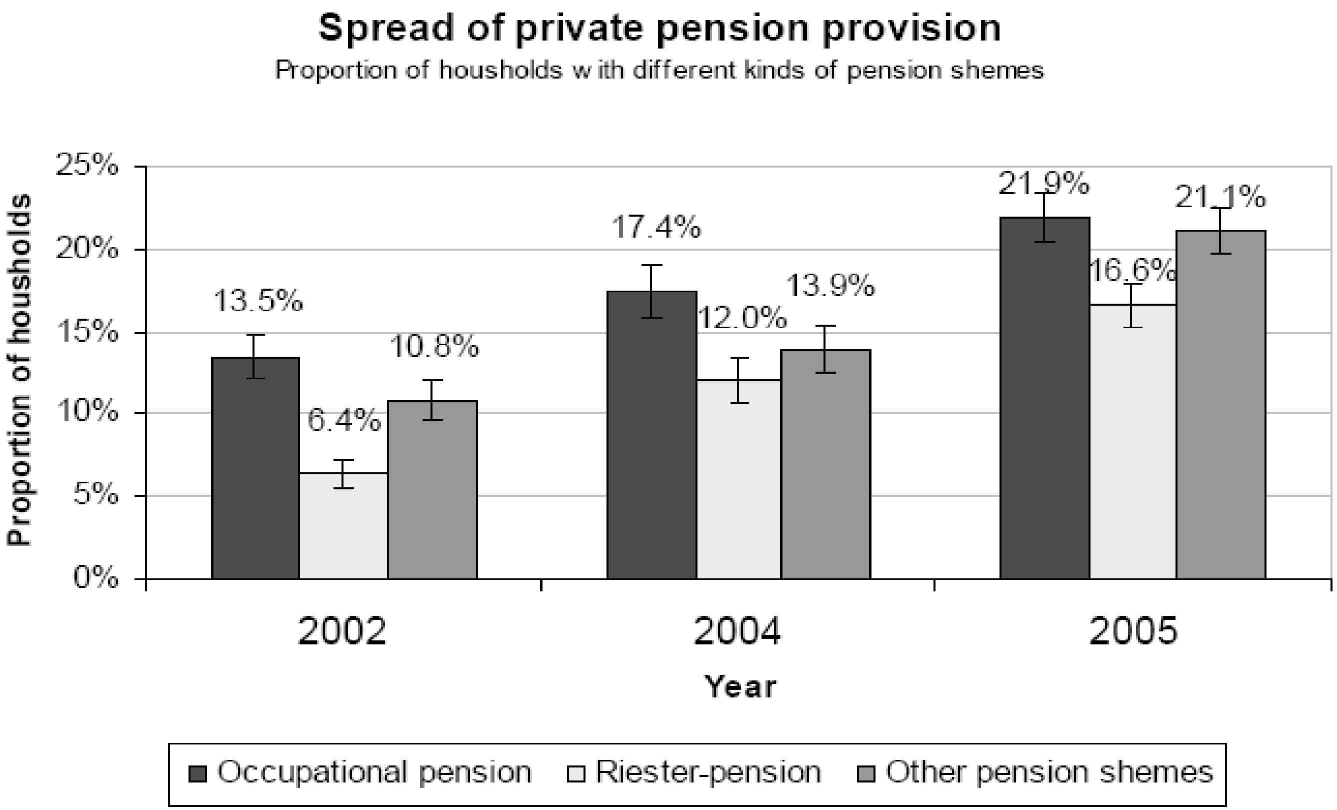
The spread of pension provisions in Germany

Figure 3: Spread of different private pension instruments



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A setback?

Amend or abandon? Too soon to answer, but worth raising questions

•Will market volatility croud out equity investment?

•Will we, can we “de facto” go back to a one pillar system ?

A reference : 1993 – october 2008 returns of pension fund positive both in nominal and real terms

Sweden , + 8% real, +12% nominal
Autralia, +10% real, + 14% nominal
USA, +7% real, + 12% nominal
UK, + 6% real, + 9% nominal

Source: OECD Global Pension Statistics

The democratization of finance a a mean for more stability (Shiller)

- Risk decentralization
- Control on information
- Regulated information and tranparency

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Oecd conference on the payout phase of pension, Paris 12 November 2008

- Retirement saving should increase further

- Should we move from unprotected to protected dc schemes?
  - National risk-sharing agreements (government guarantee)
  - Intergenerational swaps

- Market for reverse mortgages should be promoted