IACA Seminar

CDC – Collective or just Complex DC?

February 4, 2016

Contents

Setting the scene

The main message

i) Collective buffers do not add value

ii) CDC outcomes are possible today

iii) The ALM based static investment mix is not a safe haven

→ Hard working people deserve a better DC

Dutch CDC debate – Mixing up arguments

Technical arguments

Hard science

Quantifiable

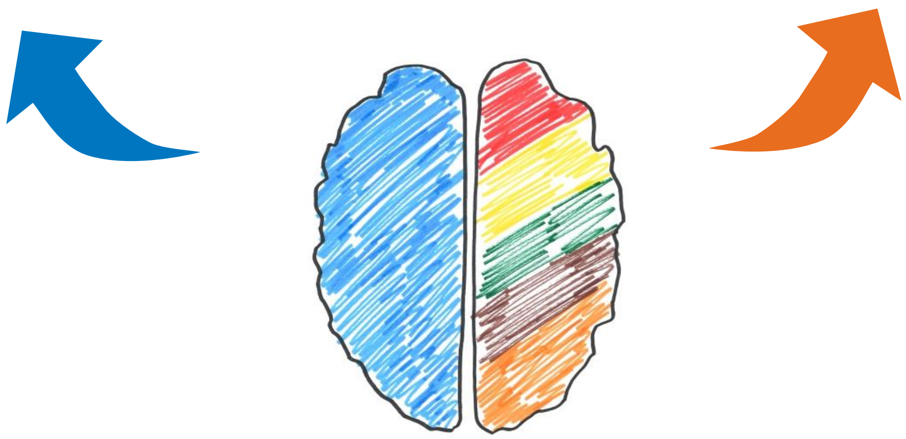
“Objective”

Governance arguments

Soft science

Difficult to measure

Vested interests

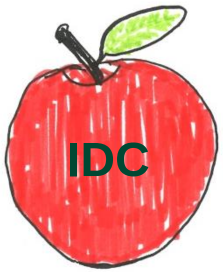


Technical Arguments

Challenge with CDC claims

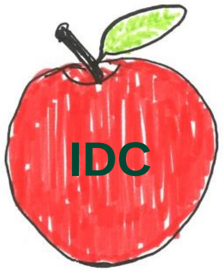
> Given a 33% better outcome as an individual pension

Collective Pensions in the UK II – RSA 2013



VS

Intuition:



Same contributions

+

Same investment returns

+

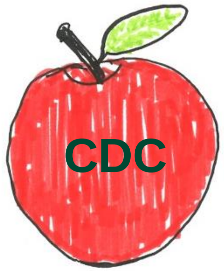
Same mortality gains

+

Same costs

=

Same financial outcomes



Intergenerational risk sharing

Anticipated gains (Netspar, Dutch research institute):

1% Welfare increase

=

10 bps additional return per year

Observed downside:

Limited transparency

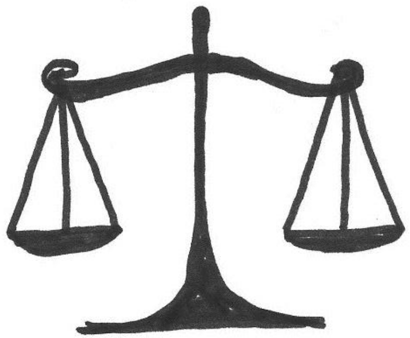
Unclear ownership rights

Political risk

One size fits all

Technical verdict

Insight #1: CDC adds complexity (not value)



Governance Arguments

Pension design

Member outcomes!

- But what is a good life-cycle design?
- How many choices should the member have?
- Investment strategy?

Collective implementation

Theory: Collective procurement power

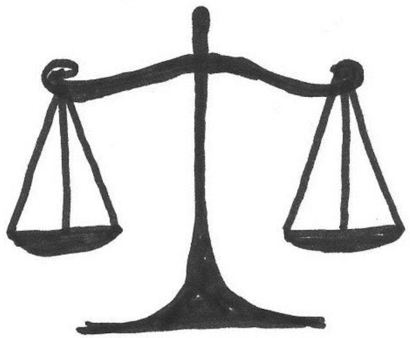
Focus on members outcomes

Alignment of interests

Outcome: Mixed bag of evidence!

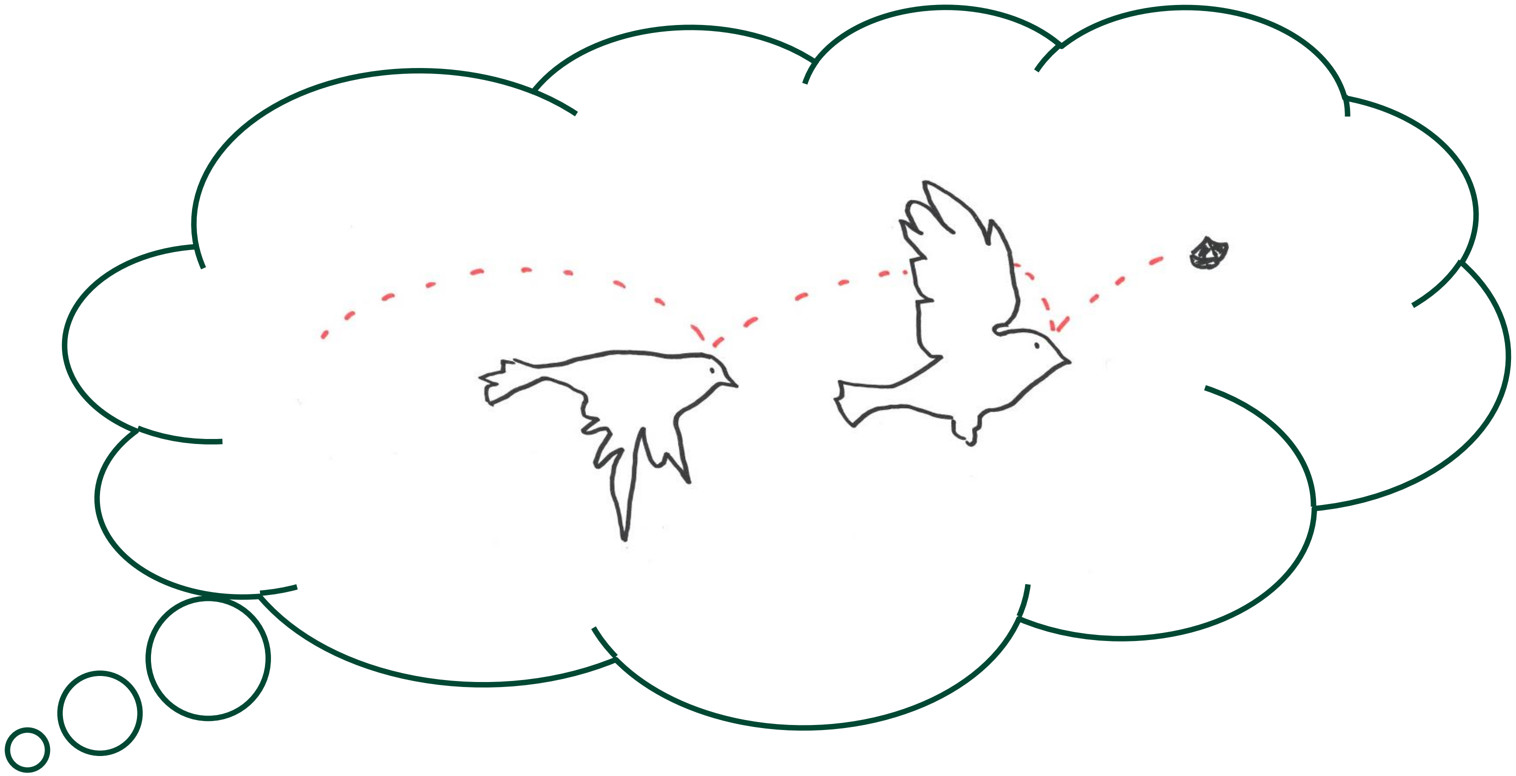
Governance verdict

Insight #2: Governance is key, but not sufficient



Insights

#1 Don't try to hit two birds…



> "Given a 33% better outcome as an individual pension"

Collective Pensions in the UK II – RSA 2013

#2 CDC outcomes are possible today!

No fairy dust is required

Governance

- Few but relevant choices
- Value for money

Technical

- Replicate investment profile, or even make it better!
- Pooling of individual longevity

#3 There are booms and busts!

~~* Efficient Market Hypothesis~~

~~* Correlations~~

~~* Predictions~~

~~ALM & Static portfolio mix~~

* Emergence
* The world is uncertain
* We know that we don't know

Dynamic & Small bets

Final words

Hard working people deserve a robust retirement income