

Risk in pension plans

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Propositions
accompanying the thesis

Risk in Pension Plans

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Tuesday, April 26, 2016

1. There is a tradeoff between low and high level of intergenerational risk sharing. High level of risk sharing is welfare improving but difficult to sustain without a sponsor guarantee. (Chapter 2)
2. Long horizon investors should rebalance their portfolio to preserve and follow the strategically chosen risk-return profile. They can do so by being counter-cyclical i.e. buy assets in periods when prices are falling, and sell in periods when prices are rising. (Chapter 3)
3. External and active managers of pension funds are mostly responsible for the pro-cyclical behavior of pension funds, which can be detrimental both to their own performance, and for the stability of the financial system. (Chapter 3)
4. Since the financial crisis many pension funds have chosen to reduce their investment risk. According to strategic asset allocation models this is not a good strategy to follow in a time when interest rates are low. (Chapter 4)
5. *"Funding policies should be applied in a fair, consistent manner, accommodate investment return fluctuations."* (CalPERS pension beliefs no. 5)
6. Funding ratio as the main indicator of well being of pension funds forces them to focus on short-term results instead of building value for the long term.
7. Since individual investors lack skills for retirement planning and investing, saving for retirement should always be made mandatory with investments managed by professional investors.
8. Pension plan design requires a long-term approach like in Test cricket: it can take a long time before weaknesses become clear but they surely do.
9. *"It's all a matter of intelligent reading."* (The Professor in The Man Who Knew Too Much by Alexander Baron)
10. PhD life is like a geometric Brownian motion, there are unpredictable shocks every step of the way, however there is a positive growth rate.