

Workshop – DC risk management of IORPs

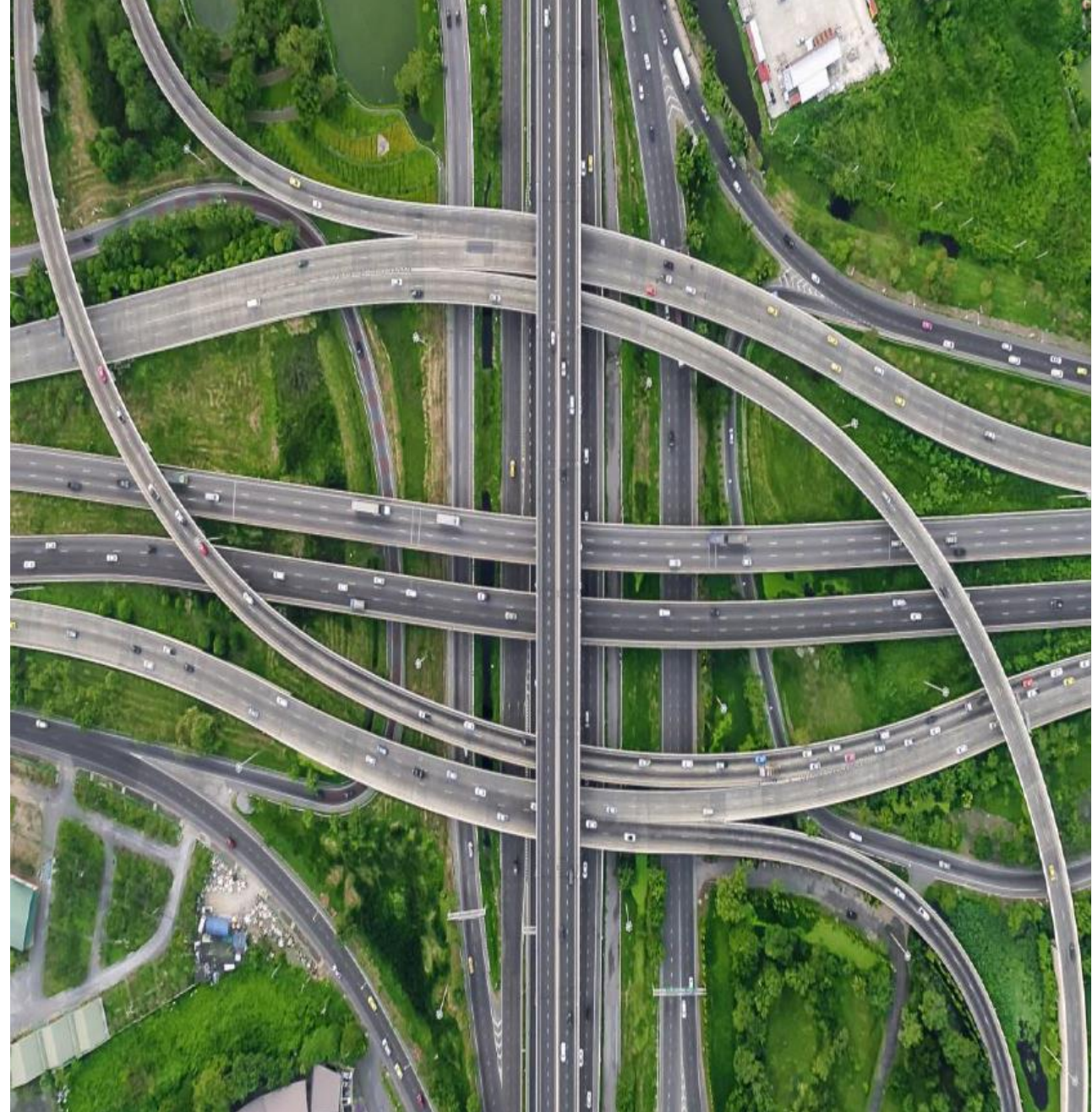
# Pension challenges and how to deal with them

Onno Steenbeek

APG AM / Erasmus School of Economics

GEPF Thought Leadership Conference 2022

Capetown, 15 September 2022



Start



Climate change

War in Ukraine,  
sanctions

Covid  
lockdowns in  
China

Rising prices of  
energy and food

Demographics

Rising inflation

Low but rising  
interest rates

Stronger USD

Falling / volatile  
equity markets

Falling credits /  
high yield / EMD

End of QE  
program

Rising policy  
interest rates

Government  
deficits & debt

Stalling  
economic  
growth

Tightening labor  
market

Rising wages



# Pressure on pension contracts

Upward pressure  
on contribution  
rates

**ambition**  
DB contract

Fully indexed  
pension not  
feasible anymore

Rising  
probability of  
pension cuts

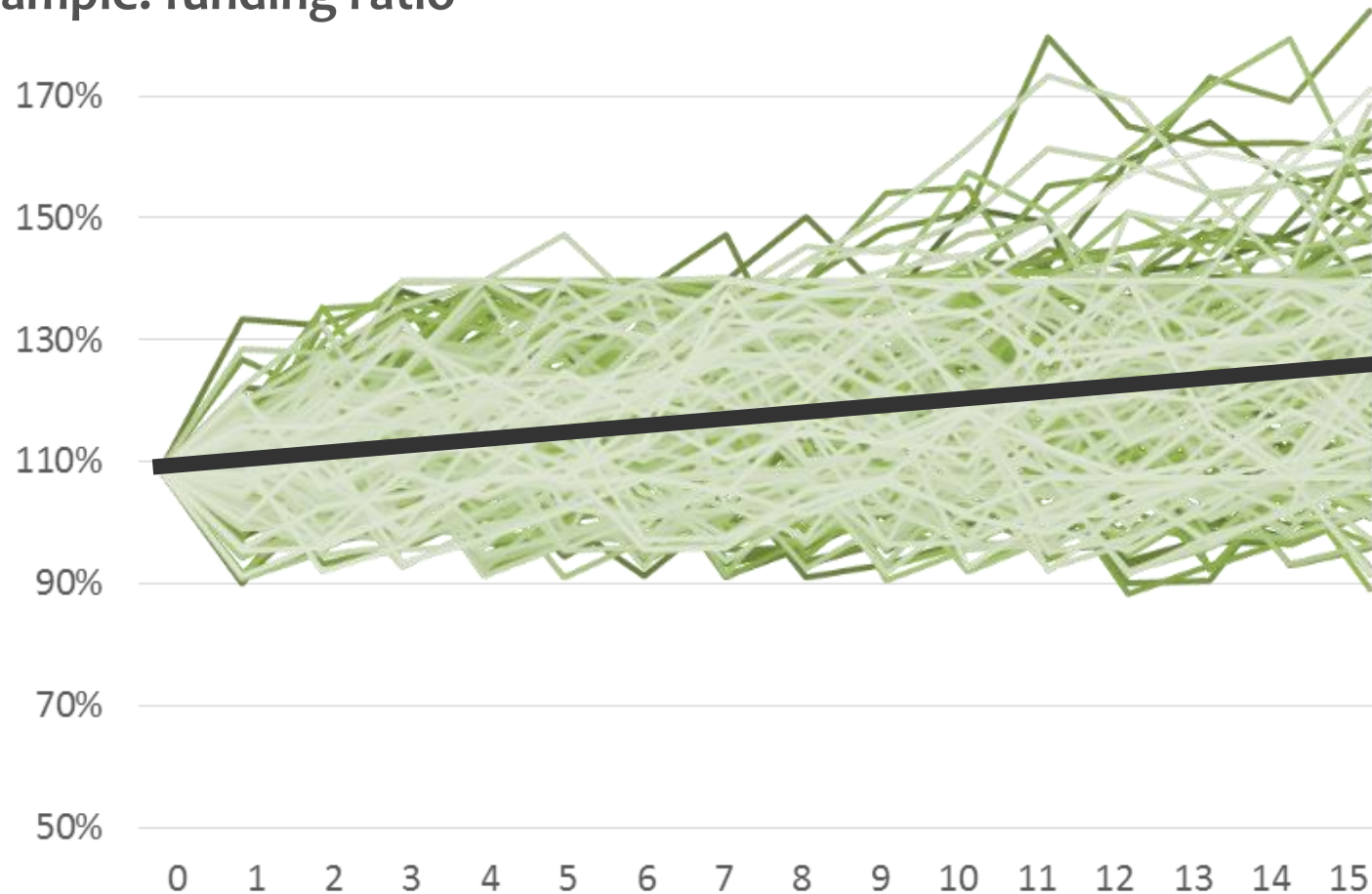
**cost**  
contributions

**certainty**  
risks



# Predict the future: stochastic scenario's

Example: funding ratio



**2 stochastic clouds:**

1. Inflation quickly back to 2%
2. Inflation persistently high



# Predict the future: deterministic scenario's



## Stagnation & Debt

	transition	LT
LDT:	4%	0%
Inflation:	2%	0%
Equity:	-15%	3%



## Climate trench

	transition	LT
LDT:	-7%	2.5%
Inflation:	4.5%	5%
Equity:	-8%	4.5%



## Good globalization

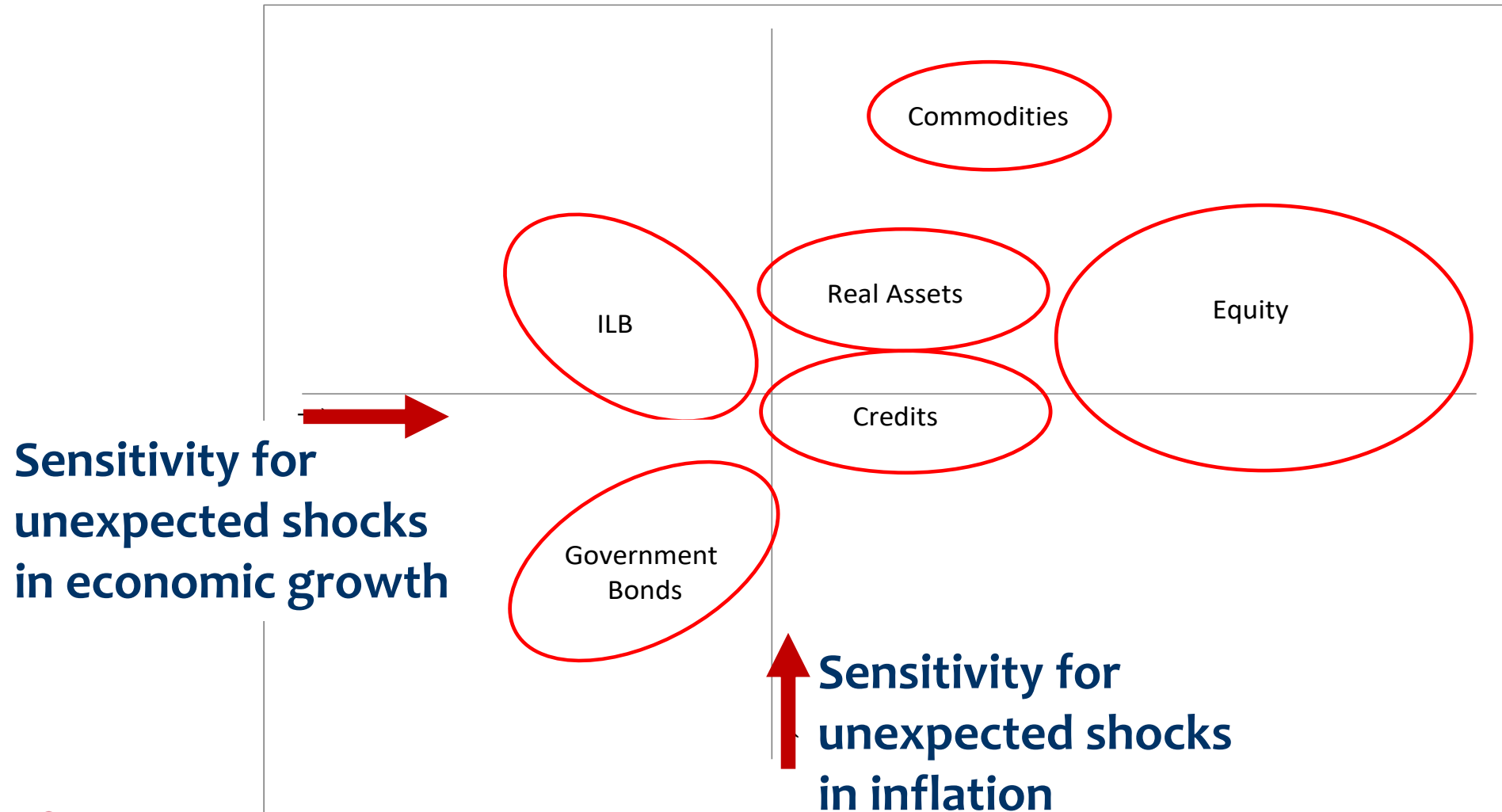
	transition	LT
LDT:	-12%	4%
Inflation:	3%	2.5%
Equity:	3%	5%



## Europe in turmoil

	transition
LDT:	-5%
Inflation:	3%
Equity:	-10%

# Assets in difference economic environments



# Limited tools to navigate the pension fund

1. Honest communication with plan members
2. Adjust the pension promise → reform

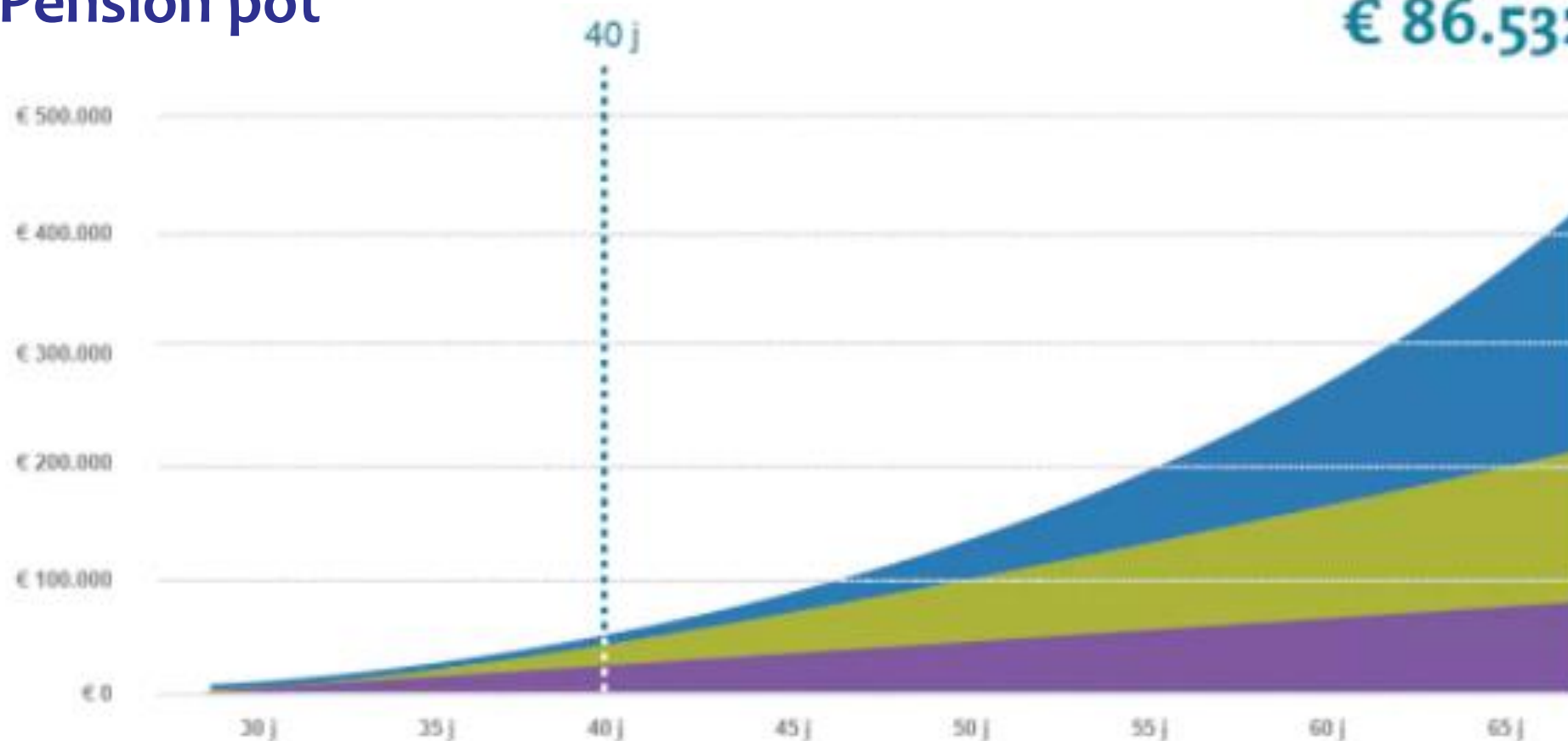
# 1. Communication of ownership

U bouwt nu 10 jaar pensioen op bij ABP.  
Uw pensioenpot op dit moment:

ABP	€ 17.518
Werkgever	€ 48.310
Uzelf	€ 20.704

€ 86.532

## Pension pot





## 2. Communication of risk

**Expected benefit:**  
**€ 1.000**

**Bad weather**  
**Net benefit:**  
**€ 800**

**Good weather**  
**Net benefit:**  
**€ 1.300**

“

**Adjusting the pension promise  
is VERY difficult!**

**→ why?**

# Pension reform: 4 questions

1. Why is pension reform so difficult everywhere around the world?
2. If pension reform is so difficult, why start in the first place  
→ a crisis
3. If there is a crisis to start the process, do we have everything we need? → No!
4. When is pension reform successful?

# To conclude

- A multitude of challenges
- The portfolio can not solve all our problems; think and communicate in scenario's
- Honest communication can be a powerful tool
- Adjusting the pension promise may be inevitable, but it is incredibly difficult