Company Pension Plans And Financial Crisis: Lessons Learned?

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Most funded pension plans suffer under huge losses due to the financial crises and global economic downturn, initiated by the US sub prime crises.

Most questions and problems and even well accepted “solutions” in pension plan financing, pension plan design and pension accounting should be revisited:

1. Is fair value accounting a catalyser of the crisis?
2. Should pension obligations not be financed in a very long term way and hence accounted for accordingly and not under volatile conditions at balance sheet date (like under IFRS and US-GAAP)?
3. Must pension obligations be funded at all, or has the traditional “old fashioned” German way of unfunded (but reserved) pensions its merits?
4. Are long term hedging instruments really a safe way of financing pensions?
5. Should pension funds (Defined Benefits DB <u>and</u> Defined Contribution DC) really invest its monies in equities or only in bonds, even in nearly risk free bonds?
6. Should companies limit their “risks” only to their core business?
7. And should equity investments only be done in the private sphere of “well-informed” individuals (shareholders)? To be considered tax reasons, risk willingness and risk appetite of investors!
8. Is the present trend from DB to DC a “one way” for ever?
9. Can employees bear the pension risks (investment and longevity risk) better than the employer?
10. Most modern DC plans even place all risks to the <u>individual</u> employee (individual retirement accounts or even individual money accounts). Aren’t collective DC plans or collective hybrid plans preferable?
11. What about employer responsibility, realizing that many pure DC plans are indeed poor DC plans?
12. Are pure DC plans really “risk less” to the employer? Employees may be forced to retire later than planned. Employers may not be happy with employees working longer and may be forced to offer expensive termination indemnities?
13. Are ALM (Asset Liability Management) programs really “correct”? Do they place the right probabilities to severe adverse economic scenarios which last for several years? Is it explainable to pension fund representatives that a “one in hundred crisis event” happens all seven years?
14. Is a financial crisis stronger influenced by behaviour (greed and panic) than by “mere probabilistic chance or luck”? Does the capital market work rationally? Hence, some “stochastic independence assumptions” in ALM programs may proof false?
15. And even more problems?

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