

<b>Changing Your Mind</b> <b>KEITH AMBACHTSHEER</b>	<b>3</b>
<b>Reclaiming Fiduciary Duty Balance</b> <i>Fundamental fiduciary principles have survived intact for centuries, yet their interpretation has been dynamic. Years of focus on the fiduciary duty of prudence has disrupted attention to the fiduciary duties of loyalty and impartiality. Reclaiming fiduciary duty balance is critical to sustaining pension promises in the 21st Century.</i> <b>JAMES HAWLEY, KEITH JOHNSON, and ED WAITZER</b>	<b>4</b>
<b>Pension Reserve Funds: Aligning Form and Function</b> <i>Pension reserve funds (PRFs) have been mooted as effective investment vehicles for realising future liabilities and achieving balance between generations. We consider how to hold partisan politics and bureaucratic encroachment at bay. In so doing, we suggest a set of principles and policies that we believe are essential to the functional performance of pension reserve funds.</i> <b>GORDON L. CLARK and ASHBY H.B. MONK</b>	<b>18</b>
<b>International Codes and Conventions: Are Pension Funds Missing in Action?</b> <i>The growing global influence of corporations has led to a vast range of norms, codes and conventions that seek to govern their behavior. This has happened without serious involvement by investors, and represents a missed opportunity. Much needs to be done to close the resulting “investor–codes/conventions gap”.</i> <b>JANE AMBACHTSHEER</b>	<b>26</b>
<b>Buttoning Up Australian Superannuation</b> <i>Missed opportunities flow from the Australian pension industry’s insularity. We compare Australia’s superannuation (a.k.a. pension) industry today to its auto industry 25 years ago. Then, Minister John Button, used market forces and government direction to rationalize the auto industry. Today’s superannuation industry needs a similar rationalization.</i> <b>JACK GRAY and BILL WATSON</b>	<b>38</b>
<b>The Global Financial Crisis and the Performance of Target-Date Funds in the United States</b> <i>We analyze asset allocations and performance of target-date funds in the United States. Our most striking finding is that the 2010-date funds significantly increased their common equity exposure in 2007, immediately before the stock market crash of 2008, resulting in significant losses for investors planning to retire in 2010.</i> <b>LAURENCE BOOTH and BIN CHANG</b>	<b>46</b>

### **DC 20/20: Pathways to a Secure Retirement**

*We propose ways to improve retirement outcomes for defined contribution plan participants in terms of three key drivers: savings rates, investment strategies, and post-retirement distributions. Levers include strategies to raise saving rates, to enhance investment returns, to control inflation and recession risks, and to acquire deferred annuities.*

**RICK WURSTER**

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### **What DC Plan Members Really Want**

*Target-date funds simplify decision making, but they are blunt instruments. We reengineer them to be more responsive to individual goals and to market conditions. The key is to structure a dynamic risk-based glide path that targets replacement income. The result is an improved likelihood of achieving a target income with lower expected risk than current target-date funds.*

**IOULIA TRETIAKOVA and MARK S. YAMADA**

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## **ICPM RESEARCH PROJECT UPDATE**

### **Insights from Seven Research Projects Currently Underway**

*This article presents summary results and insights from the seven research projects currently being funded by ICPM. None of the projects have yet received final approval from the ICPM Research Committee. However, two are near completion and will have been reviewed by the Committee as this issue of the Journal goes to press. The other five have expected completion targets ranging from late 2011 to early 2012.*

**STEFAN LUNDBERGH**

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**Keith Ambachtsheer**

*Director, Rotman  
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**When the facts change, I change my mind. What do you do, sir?**

— John Maynard Keynes

There is some dispute about when, and in what context, Lord Keynes offered his famous retort to an accusation that he had changed his mind about some previously held belief. The message, however, is unambiguous. We tend to cling to outmoded “truths” far longer than is good for us, both personally and collectively. The articles in this issue of the *Journal* illustrate that the field of pension design and delivery is not immune to this “cling-too-long” affliction.

In pension governance, we continue to use outmoded interpretations of fiduciary responsibility at a time when new interpretations are desperately needed. For example, Hawley, Johnson, and Waitzer point out that overly legalistic interpretations of “prudence,” and a de-emphasis of the fiduciary duties of “loyalty” and “impartiality,” are negatively affecting pension plan sustainability in the decades ahead. Clark and Monk note that the rise of pension reserve funds around the world requires extra efforts “to hold partisan politics and bureaucratic encroachment at bay.”

Ambachtsheer notes that the growing influence of corporations around the world is being countered by “a vast range of norms, codes, and conventions to govern corporate behavior.” Investors such as pension funds have to date not had much involvement in this important process, a mistake that must now be addressed. Gray and Watson assert that Australian governments have mistakenly assumed that competition in its pension industry would produce better outcomes for plan members; the facts are that the industry has too many players, its operating costs are too high, and it needs the same rationalization treatment that Australia’s government gave its auto industry 25 years ago.

In pension design, we mistakenly continue to debate the respective merits of traditional “DB vs. DC” pension designs. Instead, we need new designs that combine the best features of both traditional formulas. For example, on the DC side of the design spectrum, target-date funds (TDFs) have come to be accepted as an important advance over plain vanilla DC plans. However, Booth and Chang point out that the specific design and implementation of TDF formulas is important. For example, their research suggests that many 2010-date funds mistakenly increased their equity exposures before the 2008 global financial crisis.

The articles by Wurster and by Tretiakova and Yamada both equip traditional DC plans with DB-like features. Wurster focuses on three: savings rates, investment strategies, and post-retirement distributions. Tretiavoka and Yamada re-engineer TDFs to be responsive to individual goals and market conditions by structuring a dynamic glide path that targets replacement income. The result is an increased likelihood of achieving the income target with less risk.

In the final piece, Lundbergh (Chair of ICPM’s Research Committee) summarizes the important results and insights already gleaned from the seven research projects ICPM is currently funding. To paraphrase Keynes, if we are going to change our minds, we need to know that the facts have changed. And that is what good research is all about.

## About Rotman International Centre for Pension Management

The mission of the Rotman International Centre for Pension Management (Rotman ICPM) is to be a catalyst for improving the management of pensions around the world. Through its research funding and discussion forums, the Centre produces a steady stream of innovative insights into optimal pension system design and the effective management of pension delivery organizations. Using the vision of *Tomorrow's Pension Fund* as its guide, research and discussion topics focus on agency costs, governance and organization design, investment beliefs, risk measurement and management, and strategy implementation. The role of the *Journal* is to disseminate the new ideas and strategies that result from the activities of Rotman ICPM to a global audience. The Research Partners of the Centre believe that this broad dissemination is a win-win proposition for both professionals working in the global pension industry, and for its millions of beneficiaries.

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