

Financialization and pension funds: Does labor make a difference?

Natascha van der Zwan

University of Amsterdam

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Labor and Finance

“Unions are learning to speak the language of Wall Street”

Officer, Amalgamated Clothing and Textile Workers Union, 1988

“Can unions assume a more active financial role in corporate restructuring as a way to help preserve jobs?”

Officer, Communications Workers of America, 1988

“Employees are the better shareholders”


Berthold Huber, IG Metall, 2009



Labor as Finance

“To move labor’s pension agenda, we need to first recognize that organized labor has multiple roles when it comes to pensions. We can no longer think of ourselves as just wearing two hats; that of trustee and that of plan participant. We must recognize that through our pension funds, we own capital in companies, and therefore we wear a third hat, that of shareholder. As shareholders, we have certain responsibilities to vote on company policies and practices that affect not only the value of our shares, but the continued growth of jobs, communities and the economy.”

John T. Joyce, Chair IUD Pension Benefit Committee, 1992



Financialization and Pension Funds [1]

- Institutions that advance financialization;
- Assets invested;
- Portfolio theory;
- Shareholder value;
- Exporters of corporate governance models.

P&I/TW 300 Ranking (in US\$ millions)

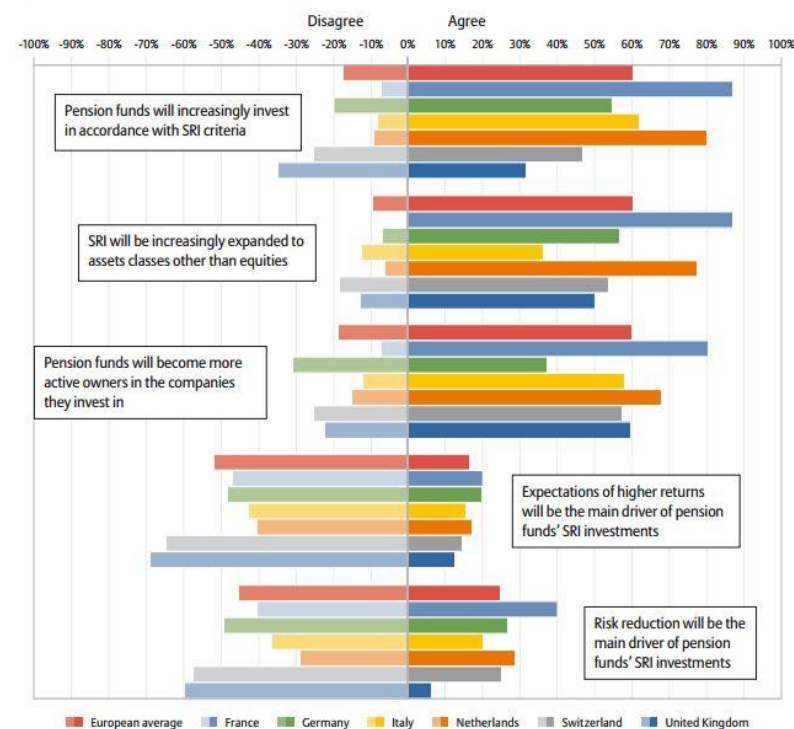
Rank	Fund	Market	Total Assets
1.	Government Pension Investment	Japan	\$1,292,003
2.	Government Pension Fund	Norway	\$712,606
3.	ABP	Netherlands	\$372,860
4.	National Pension	South Korea	\$368,450
5.	Federal Retirement Thrift	U.S.	\$325,682
6.	California Public Employees	U.S.	\$244,754
7.	Local Government Officials	Japan	\$201,443 ¹
8.	Central Provident Fund	Singapore	\$188,430
9.	Canada Pension	Canada	\$184,425 ¹
10.	National Social Security	China	\$177,486
11.	PFZW	Netherlands	\$177,311 ¹
12.	Employees Provident Fund	Malaysia	\$175,720
13.	California State Teachers	U.S.	\$155,739
14.	New York State Common	U.S.	\$150,110
15.	Florida State Board	U.S.	\$134,345
16.	New York City Retirement	U.S.	\$132,071
17.	Ontario Teachers	Canada	\$130,198
18.	ATP	Denmark	\$129,009
19.	GEPP	South Africa	\$122,225 ²
20.	Pension Fund Association	Japan	\$119,199

Source: Towers Watson
2013

Financialization and Pension Funds [2]

- Pension funds as social/political institutions
- Long-term ownership
- Investment outside financial mainstream
- Socially responsible investment (SRI)
- Shareholder activism

Figure 1: Future SRI growth



Source: Allianz 2010

The Netherlands: Best Practice?

Funded pension system: 409 pension funds

Global investors: 14% of assets invested domestically

Asset mix: 50% in bonds, 30% in equities, 20% in other asset classes

Pension fund as social institutions:

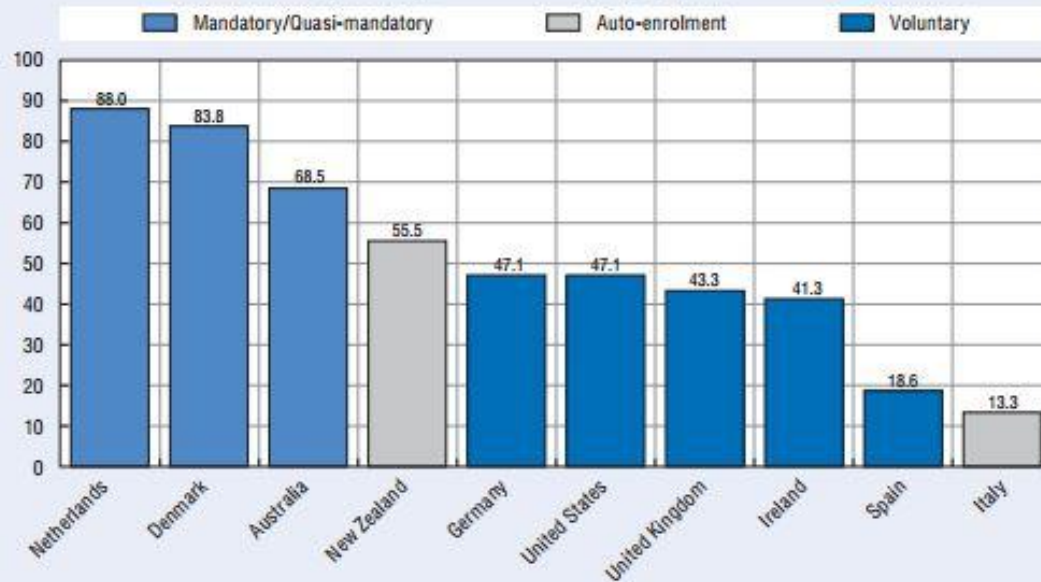
- Mandatory participation
 - Collectively bargained pension schemes
 - Bipartite pension fund boards
-




High participation rate

Coverage of private pension plans in selected OECD countries, 2009-10

As a percentage of the working-age population



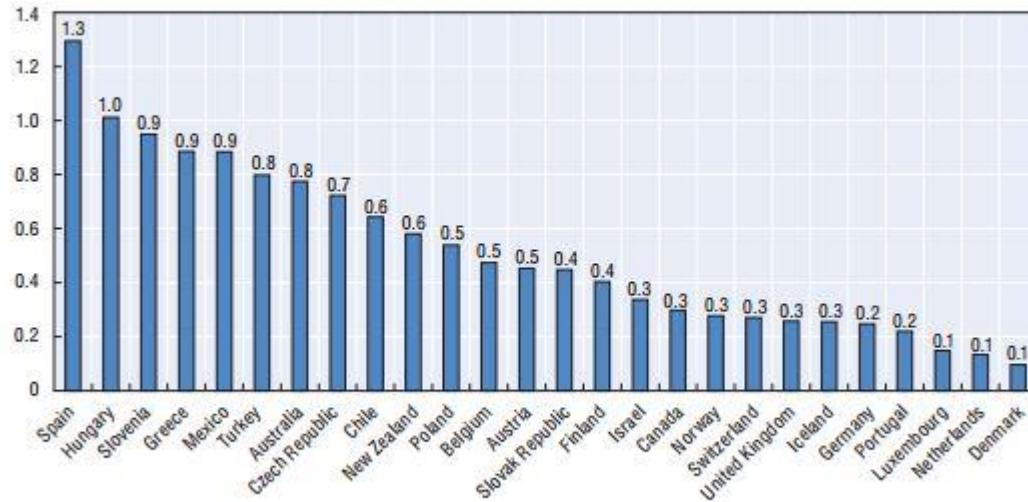
Source: OECD (2012), OECD Pensions Outlook 2012, Chapter 4, OECD Publishing, <http://dx.doi.org/10.1787/9789264169401-en>.

StatLink  <http://dx.doi.org/10.1787/888932936142>


Low administrative costs

8.11. Pension funds' operating expenses as a share of total investments in selected OECD countries, 2011

As a percentage of total investment

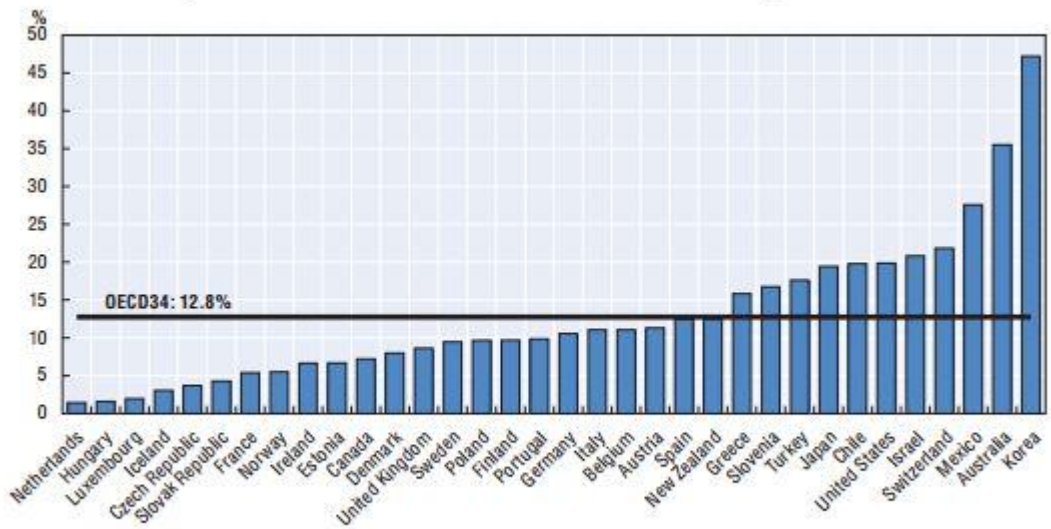


Source: OECD, Global Pension Statistics.


StatLink  <http://dx.doi.org/10.1787/888932908231>

Little poverty among pensioners

Figure 2.8. **Poverty rates among the over-65s**
Percentage of the over-65s with incomes below 50% of the median equivalised income



Source: Authors' calculations based on OECD Income Distribution Database, www.oecd.org/social/income-distribution-database.htm.

StatLink  <http://dx.doi.org/10.1787/888932935933>

Declining legitimacy of system

“They’re raiding the till!”: Boards of trustees agreed to transfer millions of assets back to government (ABP) and employers during the 1990s.

Pension funds need to have a 105% coverage rate; if not, recovery plan, followed by pension cuts. In 2012, 103 funds announced cuts; 68 funds actually did so. Great majority of funds also suspended indexation.

Only 37% of Dutch people have trust in own pension fund or insurance company (CBS 2012)



Development 1: Risk shift (ctd.)

- No more repair payments by employers and conditional indexation;
- New pension contract: from nominal to real pension contract;
- After initial objections (“casino pensions!”), organized labor agrees to contract change;
- Labor federation FNV implodes after major unions withdraw support for new contract



Development 2: Professionalization

- Dutch Central Bank: pension funds' relationship with asset managers is problematic, little known about actual costs of asset management;
- Also: performance pay, technical advantages;
- New pension governance law (2013): Independent “expert” board members;
- Labor's response: separation between collective bargaining and pension administration.



Development 3: Participant involvement

Top down: pension action committees, pension associations, risk assessment surveys.

Bottom up: pensioners' associations (representation on board of trustees), political youth organizations (representation on accountability organ).



For example:



Stelling 2

Pensioenfondsen moeten in actie komen als de economie mee- of tegenzit. En niet te lang wachten met het nemen van maatregelen.

Toon resultaten van

 Eens: 82% | Oneens: 18%

[Meer toelichting](#) [Volgende stelling](#)

1. Pensioen wordt duurder, want iedereen wordt ouder... 2. Pensioenfondsen moeten in actie komen als de economie... 3. Voor mij geen risico's, maar een vast eindbedrag... 4. Als de pensioenen verlaagd moeten worden, doet... [Bekijk alle resultaten](#)

“Pension funds should respond when economic circumstances change. They should not wait too long before taking action.”

Some concluding observations

Since the financial crisis, Dutch funds have not adjusted their investment strategies;

Financialization deepens, if we consider the governance of pension funds:

- Riskier pension contracts;
- Weakening of organized labor on pension fund boards due to professionalization and direct participant involvement;

Less “social”? Role of organized labor within funds is changing; funds are becoming increasingly more autonomous from non-financial realms.

