Editorial

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As we enter the second decade of the twenty-first century it is worth pausing to consider what the pensions landscape might look like when we emerge from the current period of economic woes. Anyone involved with the pensions industry will be able to recognise that we are passing through a key period of transition.

Periods of transition certainly have their benefits and many pensions professionals will be grateful that all the change is keeping them very busy, particularly at a time when that is something to be very thankful for. However, transition is about arriving at a destination. In the case of pensions, it is not yet clear what that destination will be or whether the new pensions landscape will be an improvement on what has gone before.

So, what features of the current period of transition can we identify in order to give ourselves a glimpse of what the new pensions landscape might look like?

At the top of the list is the increasingly urgent move away from defined benefit pension plans. In the United Kingdom (but also worldwide) large companies which one would not previously have expected to abandon defined benefit pension provision are taking the opportunity to do so with alacrity.

This in turn is leading to a shift in companies' perspectives on their existing defined benefit pension plans. Although closed to future accrual, these legacy plans continue to present a very significant risk to companies. Extremely large amounts of volatile assets and liabilities are tied up in trusts that the companies do not control, but which directly impact on their businesses. We are therefore seeing increasing interest in complex investment solutions to manage these risks (the use of derivative contracts to manage longevity risk being the most topical in the United Kingdom during 2009).

The move away from defined benefit pension provision is counter-balanced by an increase in defined contribution pension provision. However, this is usually coupled with a marked decline in the level of employer contributions to such pension plans. So, not only are employees being forced to shoulder the risk of their retirement planning but the available funding is reducing – at a time when increased life expectancy means that the cost of buying pension is increasing.

State pension provision is also under severe pressure and individuals can be sure that they will not benefit from the same level of state protection as their parents. Around the world increases to state pension age are a common theme and governments are also looking for ways to reduce the level of state pension benefits. This is coupled with an expectation that people will need to work for longer, certainly beyond the typical state pension age bracket of age 60–65 years.

But how does all of this stack up against the backdrop of the current economic climate? Delaying the point at which state pension benefits start to be paid on the basis that people can fill the income gap with remuneration from employment only makes sense if there are employment opportunities. The current weak state of economies worldwide does not suggest that this is currently a viable solution.

And individuals are also under pressure in terms of the taxation of pensions. At a time when government revenues are under pressure, pensions are being seen as a new source of tax revenue. Generous tax reliefs that have been treated as sacred for many years are being cut back. This makes the task of the self-reliant defined contribution pension plan investor all the more difficult.

Saving for a decent income in retirement is now more challenging than ever and many may

be justified in concluding it is a futile exercise. This puts an interesting perspective on the UK Government's intended introduction of auto-enrolment in the next couple of years. The new pensions landscape looks set to be one in which compulsion, of varying degrees, is an essential element. However, this looks set to be combined with a need for far greater self-reliance and assumption of risk by individuals.

Optimistically, one would hope that a middle way will develop out of this tension between self-reliance and compulsion so that we see new developments in the direction of risk sharing and collective pension arrangements. If employers and the state are increasingly seeking to withdraw from the risks associated with pension provision, perhaps greater emphasis on the sharing of risk between large groups of pension participants will provide some respite from the increasingly harsh pensions landscape.

The contributions to this edition of *Pensions: An International Journal* reflect some of these themes. In their articles Olayinka Binuomoyo

and Kareem Idowu and Kareem Olanike tackle the thorny subject of the reform of the Nigerian pension system. Likewise Gustavo Ferro and Fernando Castagnolo have examined the stress state pay-as-you go pension systems can face with their fascinating article on the closure of the Argentine fully funded system. Lufuno Nevondwe has also contributed a South African perspective on death benefits.

Alan Kirkpatrick's article on pension tax arbitrage illustrates just one of the solutions open to employers for dealing with legacy defined benefit plans. And finally, Gordon Clark and Roger Urwin have pointed out a possible new direction for pension scheme governance in their article on innovative models for pension fund governance in the context of the global financial crisis.

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