Rethinking Pensions for the 21st Century

Brett Hammond, a speaker at the **marcus evans US Pensions Summit 2010,** addresses some of the challenges facing senior pension fund investment executives in North America today.

Interview with: Brett Hammond, Managing Director & Chief Investment Strategist, Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF)

FOR IMMEDIATE RELEASE

Providing value and financial retirement security to members is upmost on pension fund investment officers' agendas. In the current landscape however, the reality of addressing those issues is not that simple, thus many pension fund members are facing an uncertain future. With the probability of future bubbles and volatility quite high, there is a need to rethink the notion of retirement security in the 21st century, believes Brett Hammond, Managing Director & Chief Investment Strategist at TIAA-CREF. A speaker at the **marcus evans US Pensions Summit 2010,** taking place in Florida, April 18-20, 2010, Hammond puts forward his recommendations for asset allocation, investment management and a revision of pension funds in North America.

What are some of the challenges facing pension fund investment executives in North America, and what solutions would you recommend?

Brett Hammond: Both defined benefit (DB) and defined contribution (DC) pension funds are facing huge challenges at the moment. DB plans are facing funding issues – the combination of interest rates and risky investments have challenged funding ratios in the last few years. Many DB plans are being frozen, closed or converted; therefore many pension fund Chief Investment Officers are also dealing with the challenges surrounding legacy plans. DC plans are facing their own challenges; a lot of the reasons why they were created was to solve some of the problems of the DB plans, but they have simply shifted the risk to the individuals. The pension fund members are now being challenged with some of the same issues of volatility in investment returns, the adequacy of contribution rates, and the question of receiving a satisfactory income through retirement. These add up to a fundamental need to rethink the notion of retirement security in the 21st century.

As we see the percentage of workers covered by DB plans shrinking and the 401K plan not necessarily completely taking the place of the DB plan, we really need to think how we can ensure retirement security for millions of North Americans. We need to question whether we have sufficient plans, and if the savings and contributions are enough to ensure lifetime income. Some pension funds were focusing on finding "hot funds" with good returns in the DC area but that sometimes was at the expense of thinking how much exactly they should be saving, regardless of whether they were investing in a hot fund or not. The other big question is what you should do with the money once it has been saved. Is it adequate or not? How do you make it work for you when you are in retirement? The old rule was taking some money out every month and making it last for the rest of your life. Right now, the critical question is whether we should be considering a sur-fundamental re-thinking of the DC plan to include the notion of a guaranteed income, somewhat similar to DB plans.

What are some of the most prominent areas to invest or gain exposure in at the moment?

Brett Hammond: The outlook for investments is in fact quite cloudy at the moment. We saw some asset classes at their best performances last year but investments have now either levelled off or pulled back. We have seen financials being attractive one week and not necessarily the next – there is a lot of uncertainty in the markets right now.

In the long run there will be some attractive opportunities in real estate areas. I do not think it will happen next month, but we are already seeing an appraisal in values of commercial real estate and the value of high end buildings stabilizing. Selective investments in real estate are certainly something to look for in the next few months.

What long-term investment or asset allocation strategies would you recommend to pension fund Chief Investment Officers?

Brett Hammond: At TIAA – CREF we really recommend a broad diversification of assets. That may sound boring but it is not. With the kind of volatility that we have experienced over the last several years (and in fact I think there is a bias towards asset bubbles in the current environment), the probability for future bubbles, bubble bursts and volatility is quite high. In that kind of a setting, a diversified portfolio and militant rebalancing is something that is more important now than ever before. In the old days, investors might have been told to diversify their portfolio and then take a look every few years to see if the balance in their portfolio matched the goals that were originally set.

Investors need to be much more militant with their investments. As we have seen with the volatility of assets, if you do not rigorously rebalance the minute you start to see one or two assets rising rapidly, you are inadvertently making a bad timing decision. When one or two of your assets are rapidly rising, the risks associated with your whole portfolio are increasing.

Looking back at the last couple of years, the big question is liquidity. Looking at the investor enthusiasm for illiquid investments, alternatives such as hedge funds, private equity, real estate and natural resources specifically, two things emerge. Over the long run, many of these are still very attractive asset classes. In the short run, we saw a lot of them starting to correlate quite highly with equities as they took a tumble in 2008 and early 2009. The difference is of course that being illiquid, some of these alternatives were hard to sell, and institutions and individuals that needed cash were hard pressed. It is the asset based alpha that goes along with alternatives before you get to active management that is good for the long run, even if you have to go through short bouts of volatility. Investors should diversify their portfolios but also make sure they have paid attention to their liquidity goals, to enable them to ride through the tough times.

What are your projections for 2010?

Brett Hammond: Investors are going to need to pay attention to public policy. In normal times we expect public policy or governments to set the boundaries and rules on the playing field. Investors then go and play their hearts out and try to win. That is the name of the game.

Right now there is a lot of debate about what the playing field should look like, where the boundaries should be when it comes to systemic risk, the use of securities and investments when it comes to international capital flows. These are being debated in many countries and one of the biggest sources of investor uncertainty right now. There is a tendency to make investment rules and models too complicated, and I believe there should be an attempt to simplify things. Going back to the basics as opposed to over complicating may be the answer at this point.

Contact: Simone Forde , Media Marketing Manager, **marcus evans,** North America Summits Division

Tel: 246 227 3730
Email: **summitenquiries@marcusevansbb.com**

About the US Pensions Summit 2010

This unique forum will take place at the Doral Golf Resort & Spa, Miami, Florida, April 18-20, 2010. Offering much more than any conference, exhibition or trade show, this exclusive meeting will bring together esteemed industry thought leaders and solution providers to a highly focused and interactive networking event. The summit includes presentations on investment management, projecting liabilities and delivering value to pension fund members.

For more information please send an email to **summitenquiries@marcusevansbb.com** or visit the event website at **www.uspensions-summit.com**

Please note that the summit is a closed business event and the number of participants strictly limited.

About **marcus evans** Summits

marcus evans Summits are high level business forums for the world's leading decision-makers to meet, learn and discuss strategies and solutions. Held at exclusive locations around the world, these events provide attendees with a unique opportunity to individually tailor their schedules of keynote presentations, think tanks, seminars and one-on-one business meetings. For more information, please visit **www.marcusevans.com**