Pension funds are becoming the largest institutional investors in global financial markets. They help individuals save for their old age and protect the value of their pensions. In so far as they improve risk sharing along time and across individuals, pension funds may also support innovation and growth in the economy. However, pension funds operate in an environment characterized by a number of serious market imperfections (poor financial education of investors and managers, informational asymmetries in the delegation of saving and portfolio management decisions, imperfect labour markets, and potential supply versus demand imbalances in financial markets).

This eighth ICMB/CEPR Geneva Report on the World Economy takes a stance on a number of controversial issues concerning the future of pension funds.

The report argues, inter alia, for:

- Reforms of public pension systems involving pension benefits targeted on the poorest and flexible adjustment to demographic change, along the Notionally Defined Contribution (NDC) systems introduced in Italy, Latvia, Poland and Sweden.
- Mandatory participation in standalone, collective pension plans offering a limited number of default choices, with competition occurring on the wholesale rather than the retail level.
- A two-tier governance structure for pension funds, with a supervisory board and a professional executive board to deal with the funds daily operations.
- Harmonisation of accounting standards based on mark-to-market principles and better reporting to individuals about their accumulated pension rights, on the basis of the Swedish ‘orange envelope’ system.
- Development of hybrid collective pension schemes in which participants can transform their defined-contribution type claims into defined-benefit type claims as they grow older and become more dependent on pension wealth for their consumption.

The common thrust of the recommendations is to avoid a scenario in which public sector pension systems crowd out private funded savings for retirement, private sector pension funds shed all risk to banks and to governments, and inflexible labor markets harm the accumulation, maintenance, and use of human capital, resulting in early retirement, low fertility rates, excessive investment in government bonds, and lack of innovation harming long-term growth.