# Low rates complicate balancing of interests by pension fund boards

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In the history of measuring the interest rate of long-term listed, “risk free” financial debt (approximately 400 years), the rate has never been as low as it is now. The idea that this interest rate might fall below zero, may lead to participants’ behaving unpredictably on financial markets. But it’s not only participants who are affected. Low interest rates also greatly concern pension funds and insurers.

The interest rate – which serves as the discount rate by which pension funds and insurers calculate the present value of their liabilities – is derived from this listed, risk-free debt. This leads to pension insurance and pension investments losing their added value. To further compound matters, the risk-free discount rate determines the distribution of pension deficits and surpluses. With these low rates, a pension fund’s management board faces increasing difficulties when weighing the interests of pension members (participants), pensioners and employers in its decision-making. Unfortunately, there is insufficient support for board decisions as they distribute the financial shortfalls among these stakeholders. A farewell to the risk-free market rate would solve this problem. The migration to a different type of pension contract might be an alternative.

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