Adequate understanding of many key challenges and opportunities related to retirement security needs an understanding of pension finance. This book offers an up-to-date introduction to a wide range of topics in this area. The book covers as well as DC plans and corporate pension finance as well as pension fund management, performance measurement, risk management and pension insurance. Moreover a lot of terminology is defined and explained and information on institutions in the UK is provided.

The book targets a broad audience, ranging from investment consultants, pension fund managers to pension policy makers and pension accountants. Many chapters originate in academic teaching and remain very well suited for that purpose.

The heterogeneity in the target group implies that the discussion of a number of topics that are also covered in standard finance courses will be obvious to some, but only a very condensed introduction for others. This applies for example to the discussion of risk management and derivative pricing. Fortunately many textbooks are available that discuss these topics at any required level of depth. What makes this book unique is the discussion of many pension specific subjects that are not covered in other books.

The chapter in the book on DB pension funds, for example, explains the conflict of interest between the sponsor and the scheme members. The sponsor has written a put option to protect the entitlements of the members but also received a call option to benefit from premium holidays and restitutions if the investment returns exceed the expectations. The valuation of these options is discussed as well as the implications for preferred asset allocations. Likewise the discussions on corporate pension finance, pension fund management and longevity risk and the chapter on pension fund insurance are particularly informative and not available elsewhere.

The latter compares the financial regulation of pension funds in the UK with that of life insurers and banks and compares the set-up of the Pension Protection Fund (PPF) with that of its US equivalent, the Pension Benefit Guarantee Corporation (PBGC). The rapidly developing literature on behavioural finance is not reviewed in this book. This literature contains many relevant findings related to the question whether individuals can cope with the decisions imposed on them in pension plans. This topic is considered at length in a companion book, entitled "Pension Economics".

The book is brand new and likely to develop further in future editions. A next edition might discuss annuity markets and the annuity puzzle in more depth and would also open the opportunity to put more emphasis on hybrid schemes that have developed as alternatives to the pure DB and DC plans that are discussed in the book.

Notwithstanding these suggestions for subsequent editions, the book clearly fills an important gap and is to be highly recommended for everyone with a professional or academic interest in pension finance.

Theo Nijman is the F van Lanschot professor of investment analysis at Tilburg University, the Netherlands and scientific director of Netspar – a public-private research network on pensions, ageing and retirement regulation and adverse market conditions has changed employers' attitude from risk takers to risk avoiders. This has led to a revaluation in which employers will only provide a stable contribution rate. The role of the employer as a risk taker has led to a completely new distribution of risks in pension funds. Using his embedded system approach, Kocken makes it painfully clear that the redistribution of wealth between active participants and retirees will eventually be realized. In the long run, a shift to individual DC will, in the current collective pension fund design, make the active participants better off. This is true irrespective of the lack of solidarity and inflation indexation, which implies a fixed relationship between the real money value of today’s wealth and the real money value of tomorrow’s wealth.

Kocken shows that in a system without employers both risk and return are negatively skewed towards active participants. His thesis arrives at a solution which unifies the best features of two competing systems: DB pension plans and Life Cycle DC plans. In Kocken’s ideal system, collective risk sharing is still possible, but only by transferring options at fair market prices. This means that people closer to retirement take less risk. Younger people take most of the risks, but with higher upside potential than they have today; a fair risk-return trade-off therefore increases.

Kocken’s collective risk management system between active participants and retirees does not require any additional solvency on top of the collective pensions sum. This stems from the fact that in his new pension system, active participants provide a kind of guarantee to the retirees.

In fact, active participants’ wealth accumulation serves as the equity (read: solvency) for the retirees, who implicitly own the senior debt of the pension fund. This means that pension fund capital requirements, which in the Netherlands for example amount to 20%–30% of total pension liability value, can be abandoned.

In summary, Kocken’s approach provides an interesting solution to many current problems in the pensions industry. As such, this thesis is highly recommended reading for everyone interested in the future of our pensions system.

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