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# Overconfidence and Active Management: An Empirical Study across Swiss Pension Plans

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## Abstract

Pension plans in Switzerland favor active management over indexing to implement their strategic asset allocation. Empirical surveys show, however, that their success has been below expectations, as the median performance of Swiss pension plans in domestic and international equities is below market indices even gross of fees. The results of this paper's survey across decisionmakers of Swiss pension plans sheds some light on why active management is still so popular across Swiss pension plans. On average the participants in the sample are prone to the better-than-average-effect. A majority expects their managers and their overall pension plan to outperform the other survey participants in the future. The subjective perceptions of the own skill level relative to the competitors can explain the popularity of active management across Swiss pension plans.

Keywords:

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## Notes

“The SBI domestic index covers only CHF bonds from Swiss companies whereas the SBI general reflects the whole universe of CHF denominated bonds. Most of the Swiss pension plans use the SBI domestic as a benchmark.

\*Only 123 out of 174 Swiss pension plans in the sample provide an answer to this question.

\*\*Only 123 out of 162 Swiss pension plans in the sample provided an answer to this question.

\*\*\*Only 130 out of 172 Swiss pension plans in the sample provided an answer to this question.

\*10% significance level.

\*\*\*1% significance level.

\*10% significance level.

\*\*5% significance level.

1. In September 2006 estimates for the wealth in Switzerland's second pillar are at CHF 650 Bn [Swisscanto \[2006\]](#).

2. Verordnung über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge (BVV 2), articles 50 to 59.
  3. A pension plan portfolio is defined as a single mandate to an in-house or external asset manager within a certain asset class or a consolidation of single mandates of a pension plan within an asset class. There is no further data available about the performances of each single mandate that is included in the consolidation of mandates of a pension plan.
  4. In 2004 [BFS \[2004\]](#) counted 2935 pension plans in Switzerland. There is a decreasing trend in the last 10 years.
  5. The risk free rate is the 12 month money market return according to the Swiss National Bank (SNB) for the period from June 30, 2003 (June 2001) to June 30h, 2006, and is 0.78% (1.47%) annualized.
  6. For Swiss equities it is easier to replicate the market index (SPI) than for world equities because the universe of shares is much smaller. That is why different levels of tracking errors for Swiss and world equities are used to define active portfolios. The relatively homogenous universe of CHF bonds in the SBI domestic explains the low tracking error limit to define active portfolios.
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