

Pension reform as defined ambition

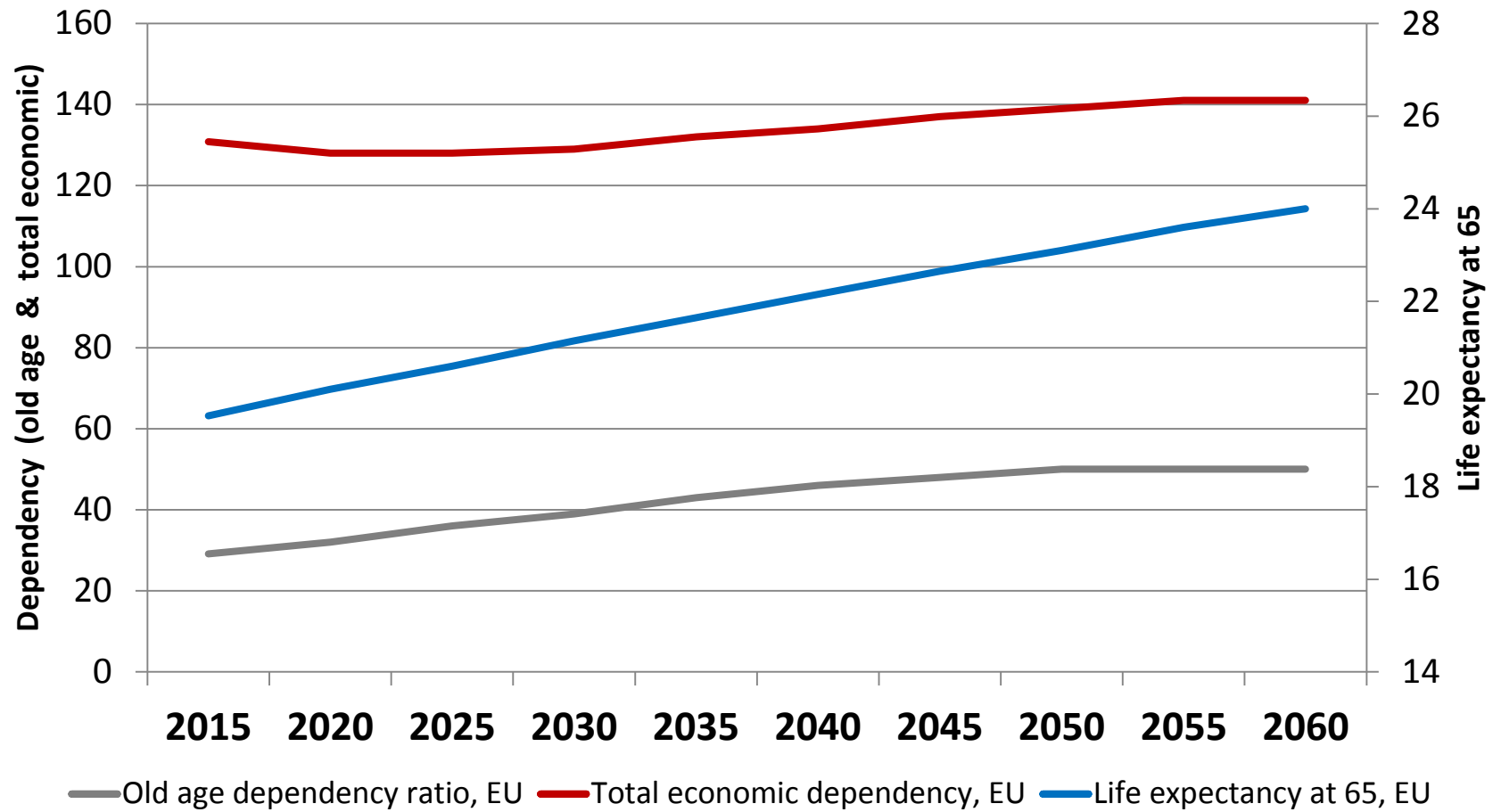
Frank Vandenbroucke
University of Amsterdam

Seminar Belgische Petroleum Federatie - Fédération Pétrolière Belge
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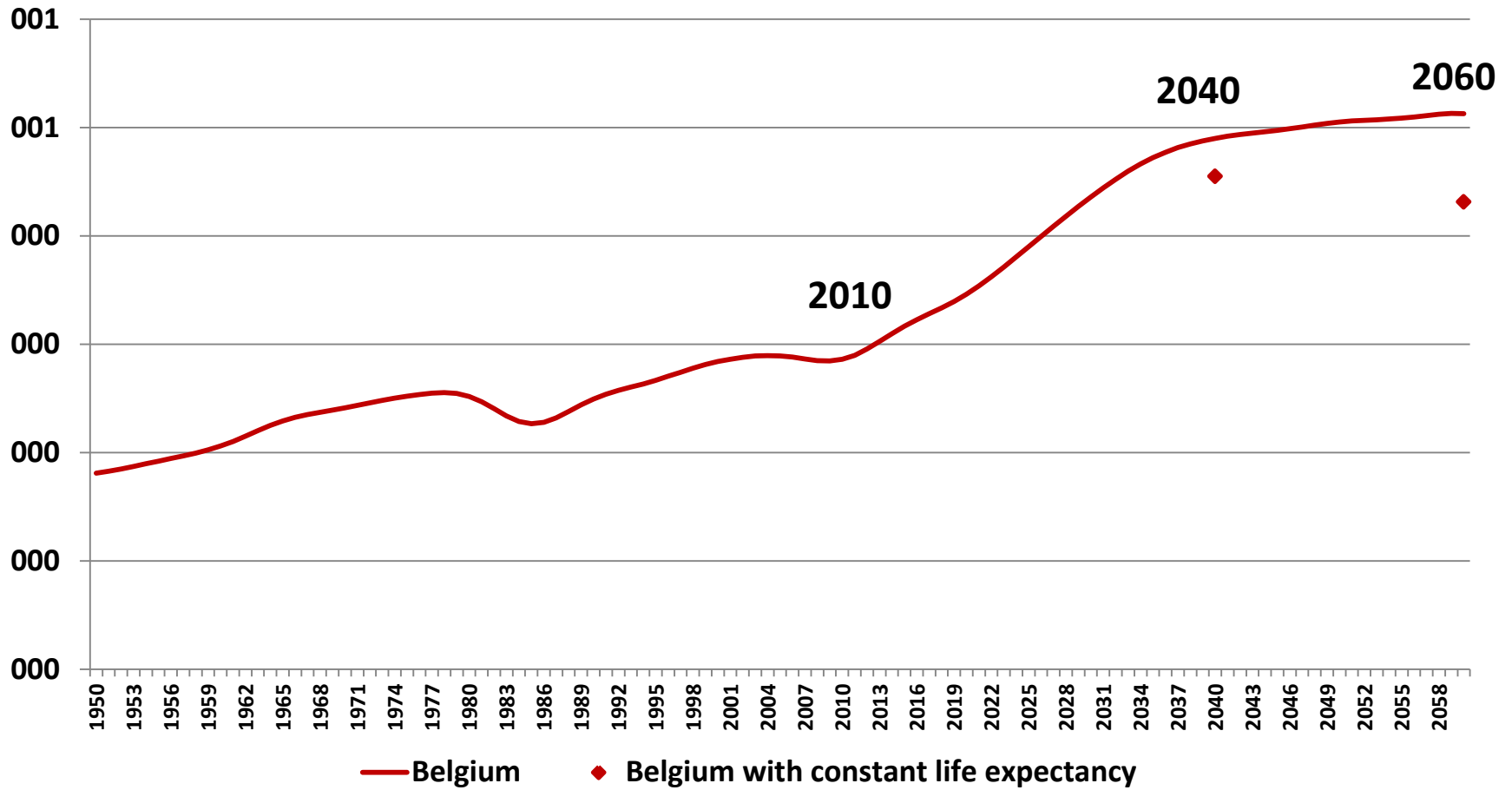
Resources

- European Commission, *The 2015 Ageing Report*, European Economy 3/2015
- Belgian Commission on Pension Reform 2020-2040
 - www.pensioen2040.belgie.be
 - www.pension2040.belgique.be
- Schokkaert, Devolder, Hindriks, Vandenbroucke, *Towards an equitable and sustainable points system. A proposal for pension reform in Belgium*, Discussion Paper Series 17.03 Department of Economics, KULeuven, February 2017.
- Hindriks, Devolder, Schokkaert, Vandenbroucke, *Réforme des pensions légales: le système de pension à points*, *Regards Economiques*, numéro 130, Mars 2017.
- Schokkaert, Devolder, Hindriks, Vandenbroucke, *Het pensioen op punten: naar een nieuw sociaal contract tussen jongeren en ouderen*, *Leuvense Economische Standpunten* (forthcoming)

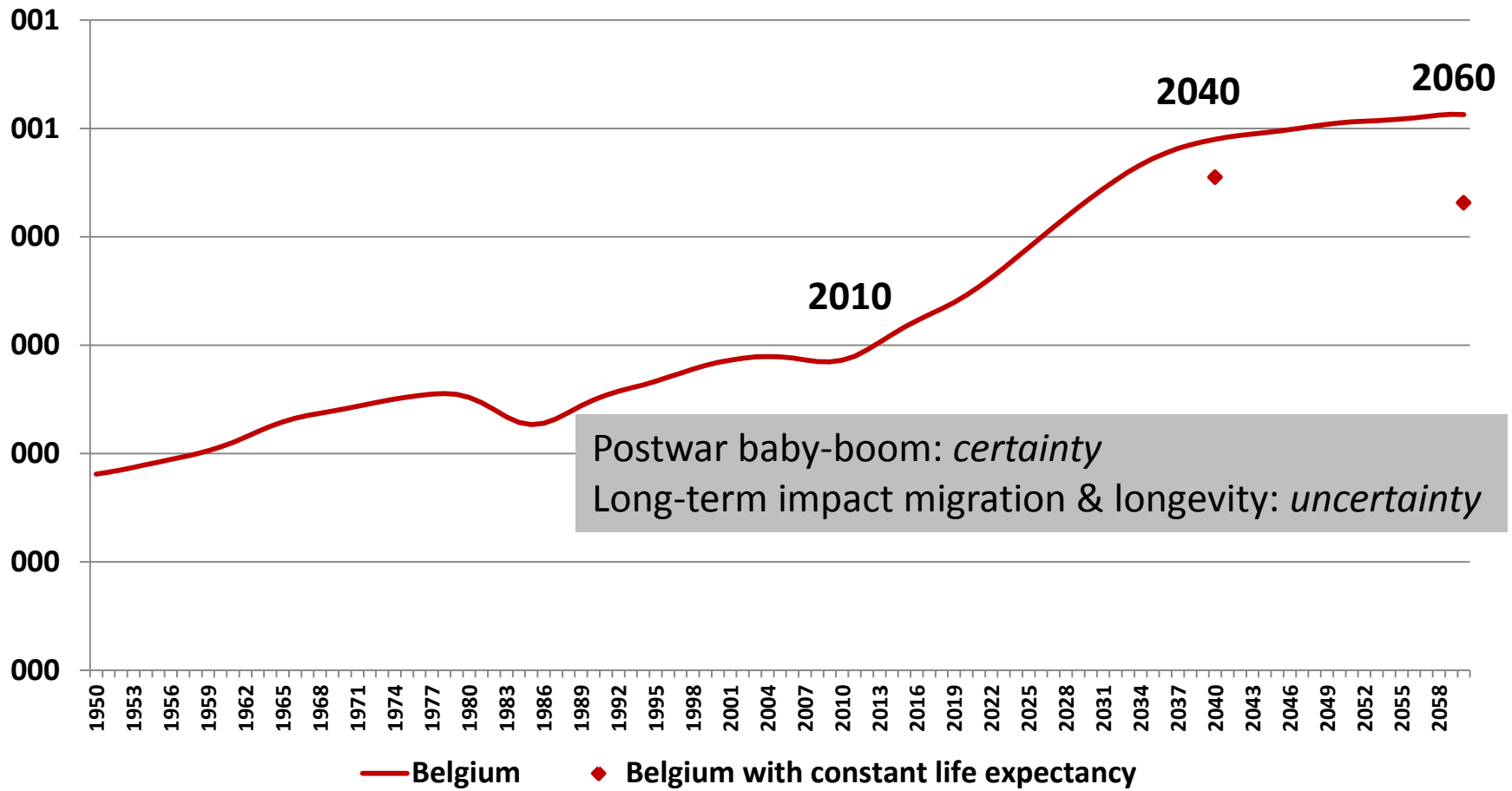
Dependency and demographic change in the EU



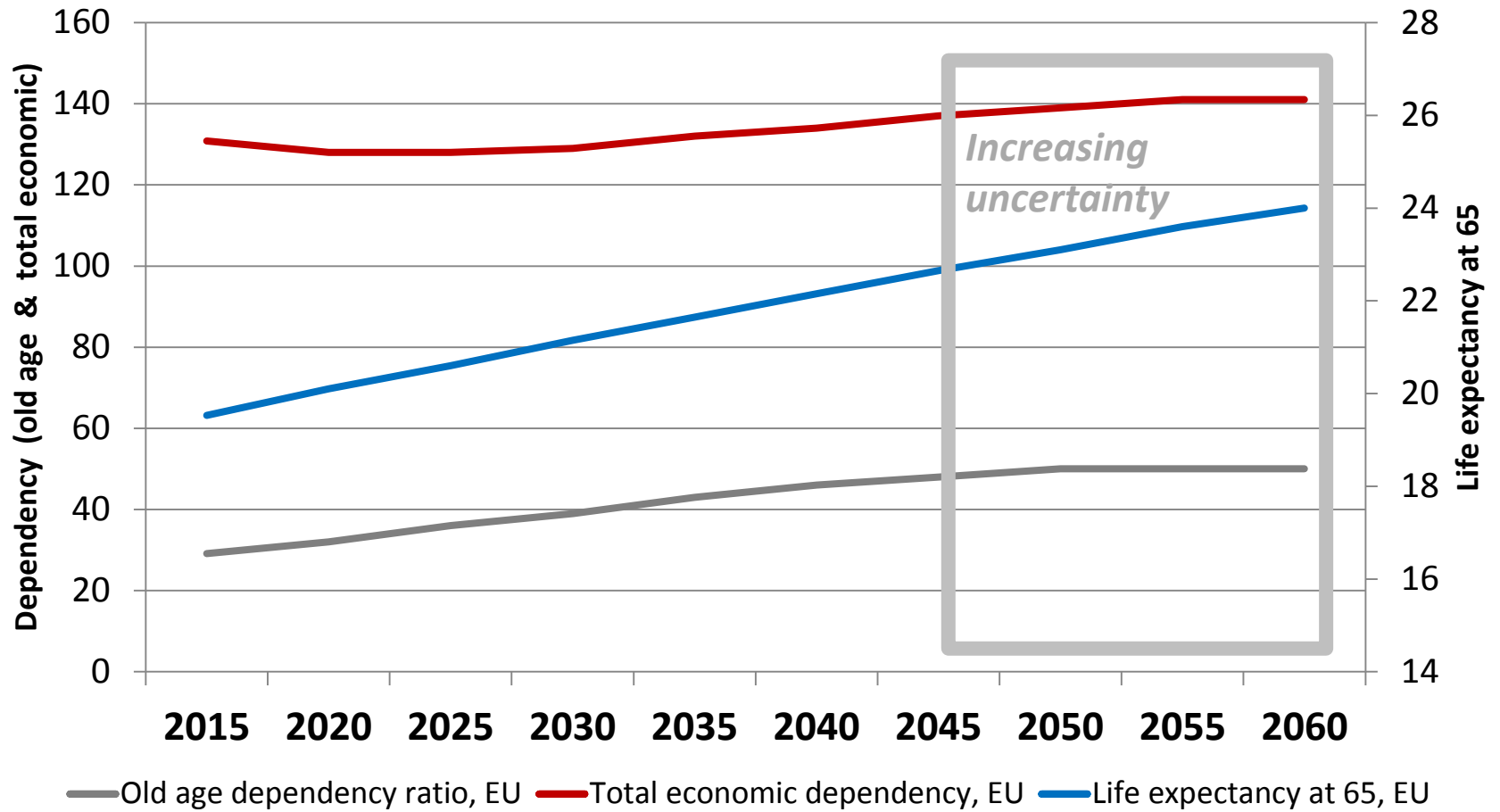
Old age dependency ratio in Belgium [65+]/[20-64]



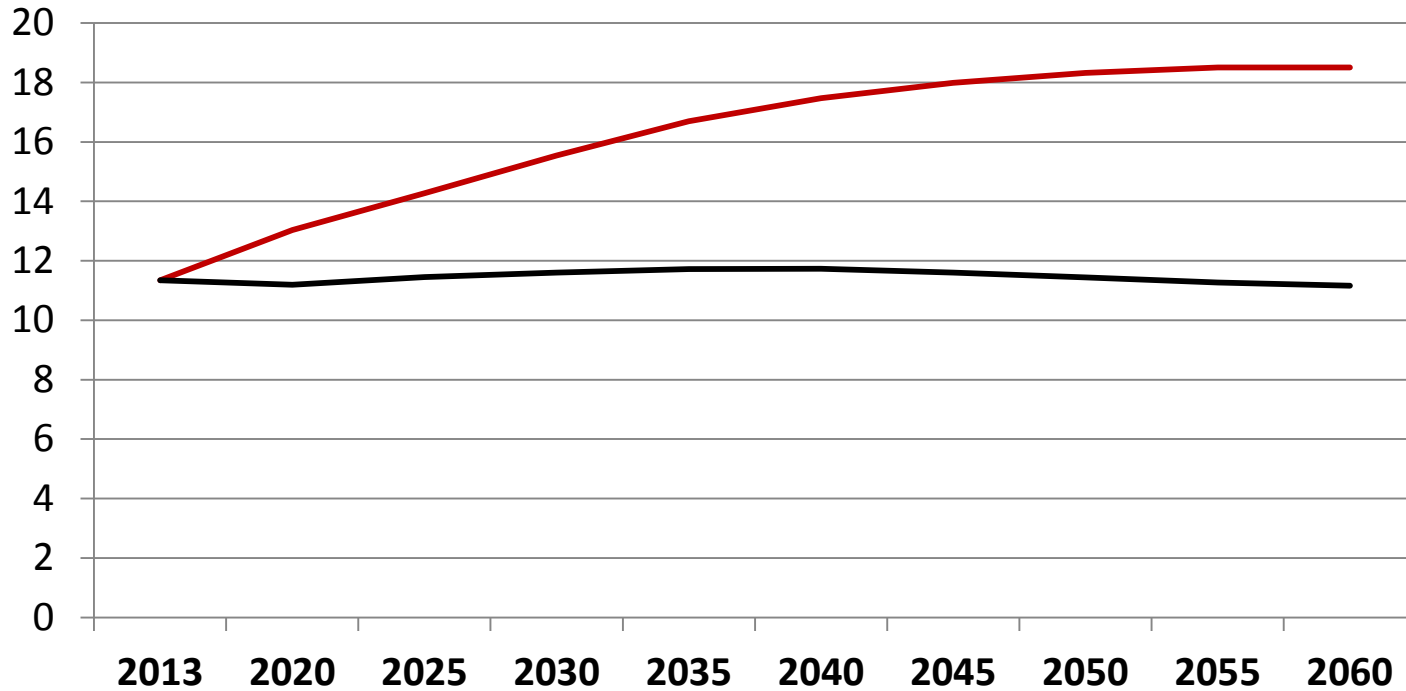
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Dependency and demographic change in the EU

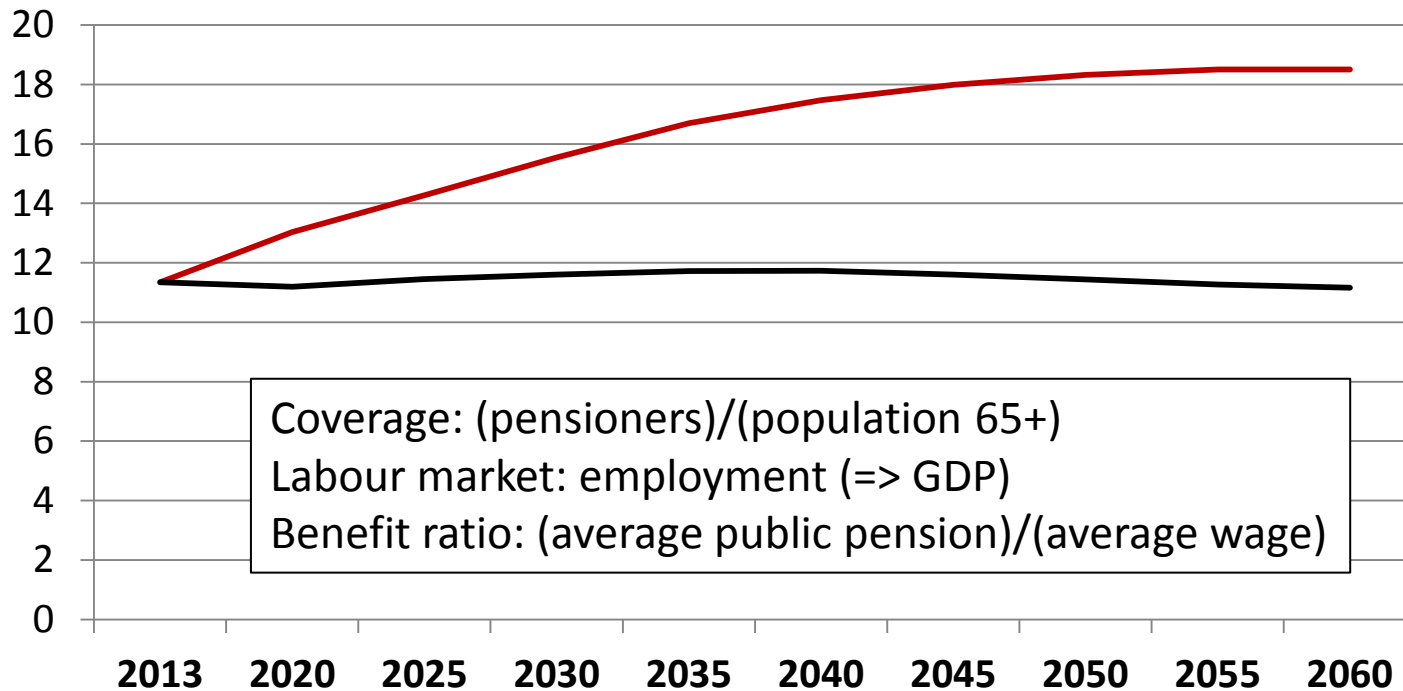


Public pension spending, % GDP, EU



- Impact of dependency (no change in coverage, benefit ratio, labour market ratio)
- actual forecast (incl. interaction)

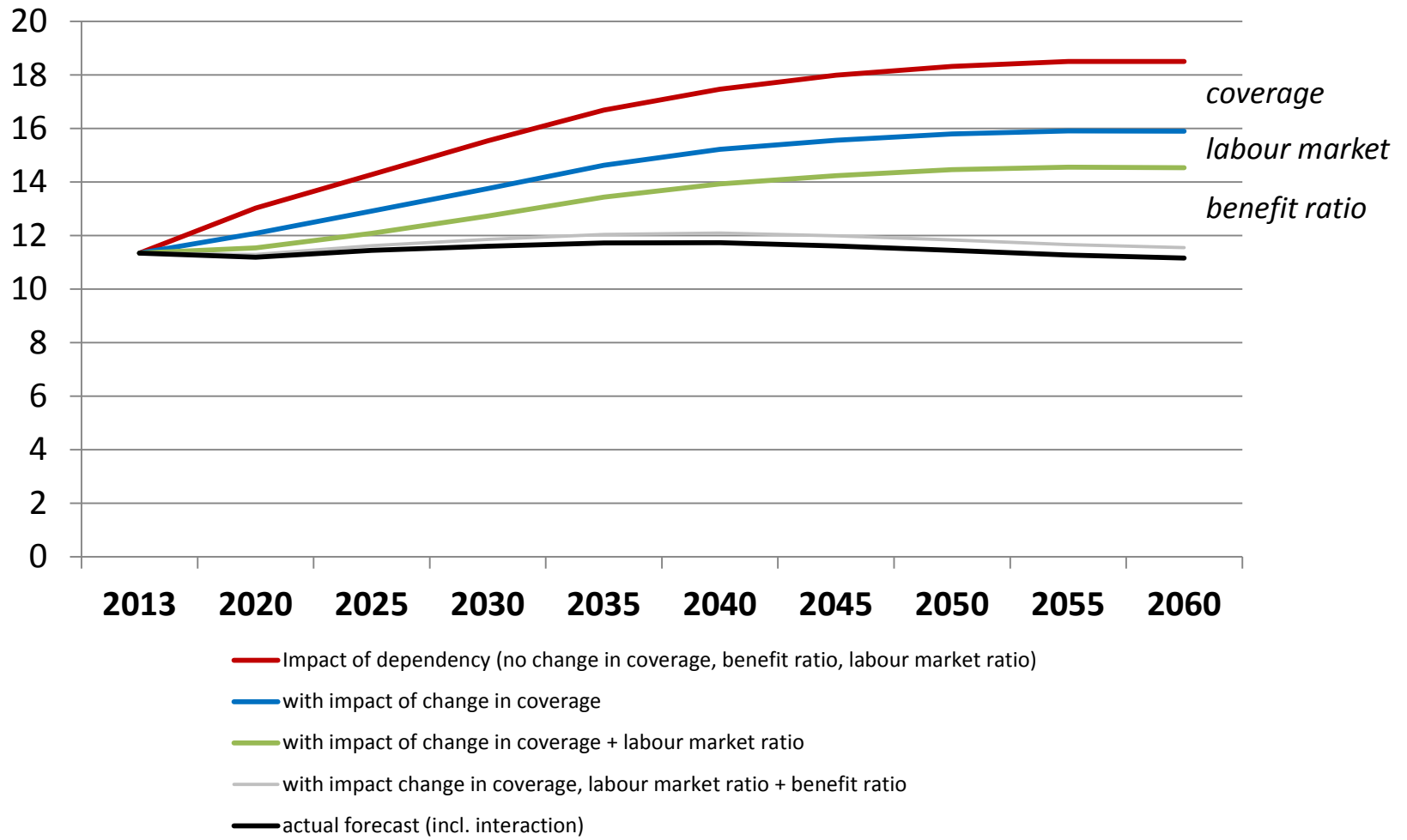
Public pension spending, % GDP, EU



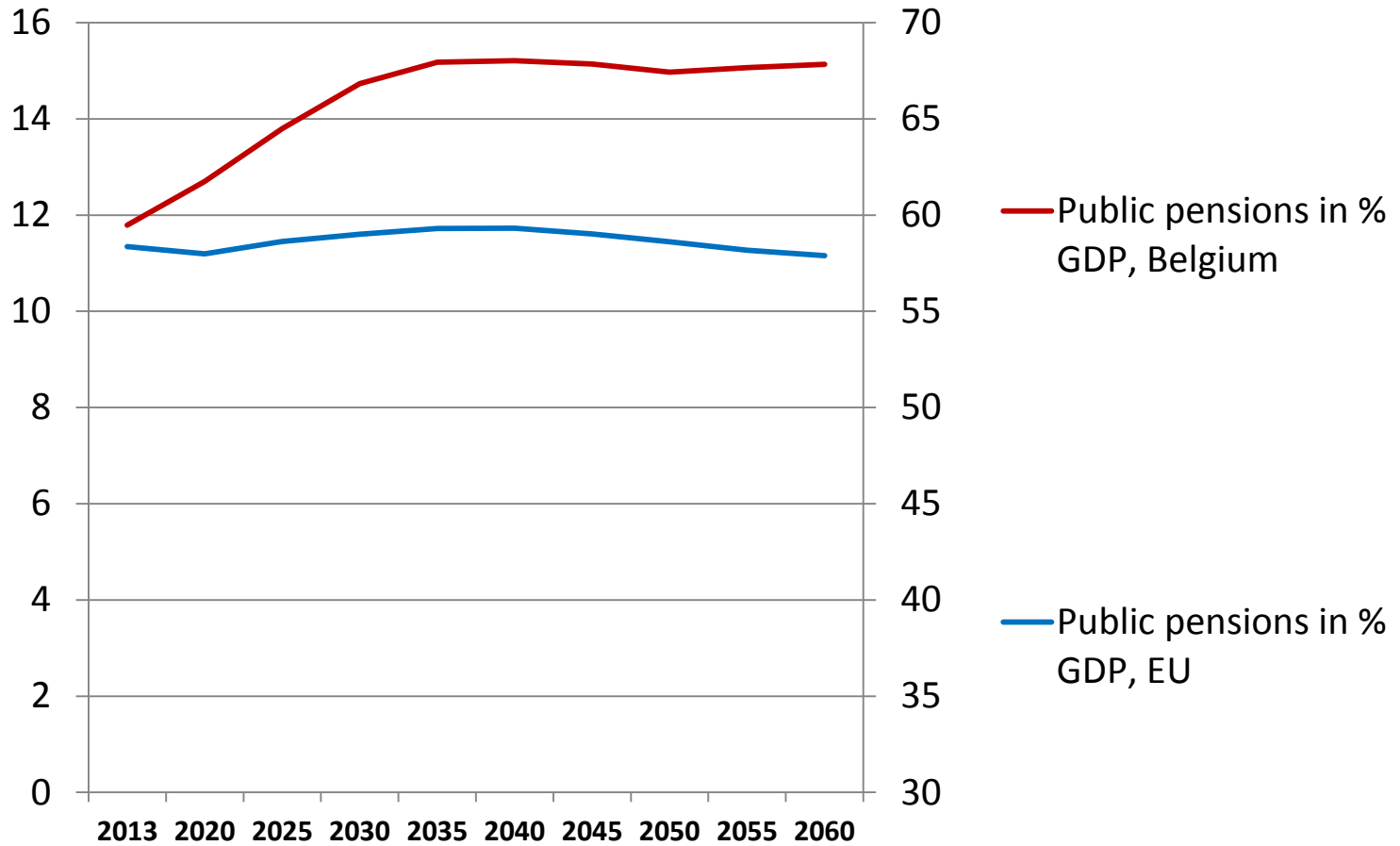
Coverage: (pensioners)/(population 65+)
Labour market: employment (\Rightarrow GDP)
Benefit ratio: (average public pension)/(average wage)

- Impact of dependency (no change in coverage, benefit ratio, labour market ratio)
- actual forecast (incl. interaction)

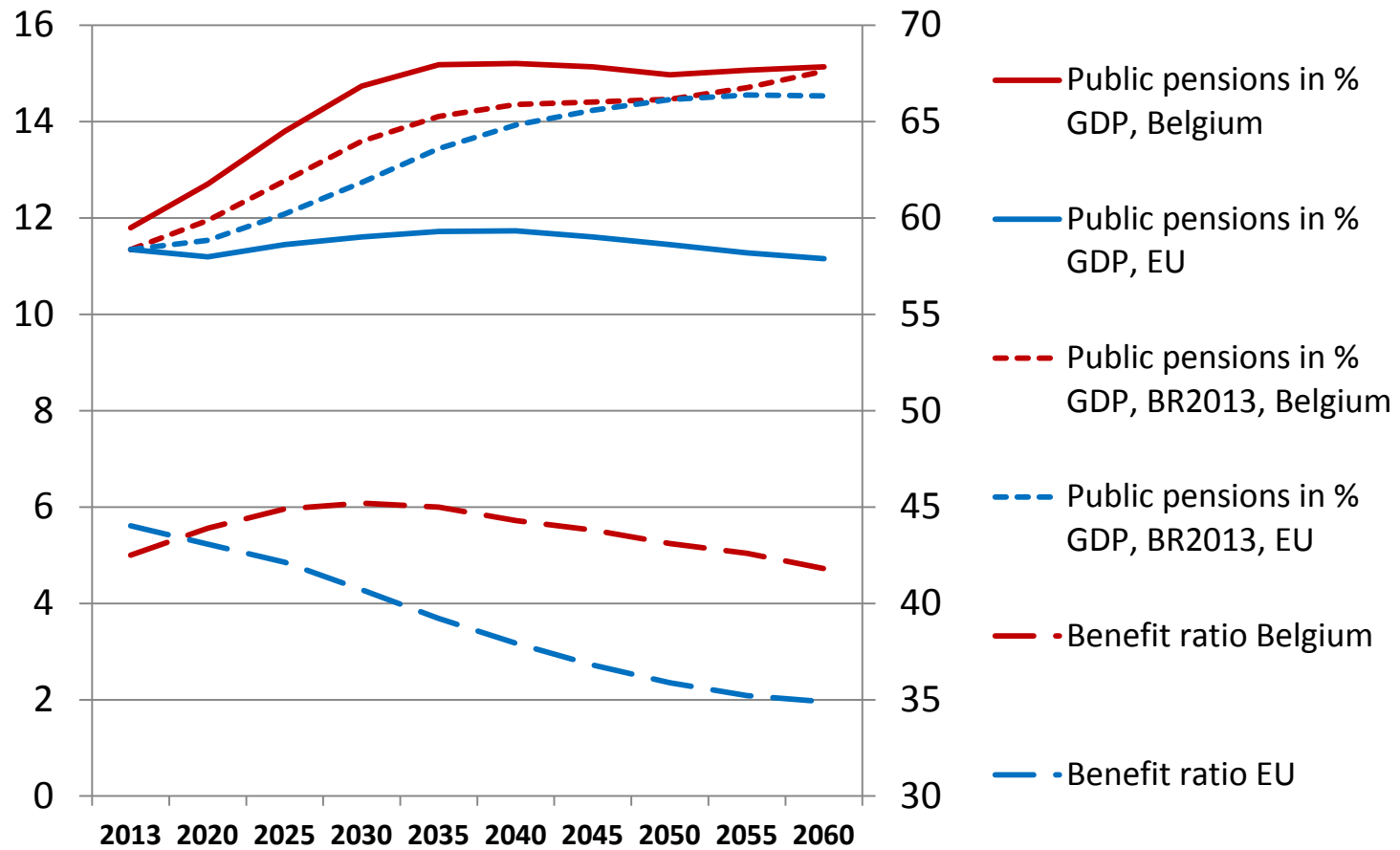
Public pensions spending, % GDP, EU - decomposed



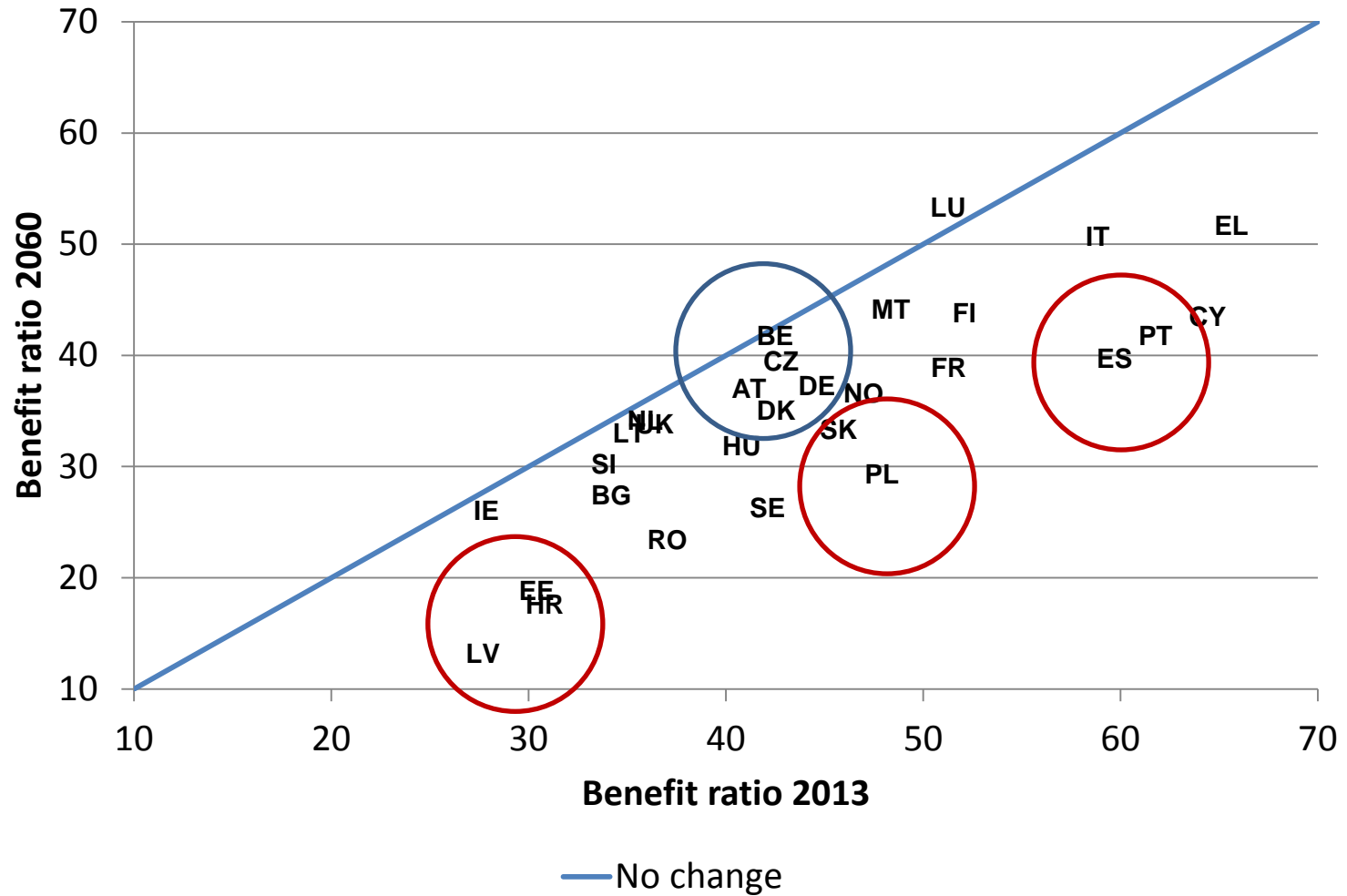
EU average conceals diversity: pension spending



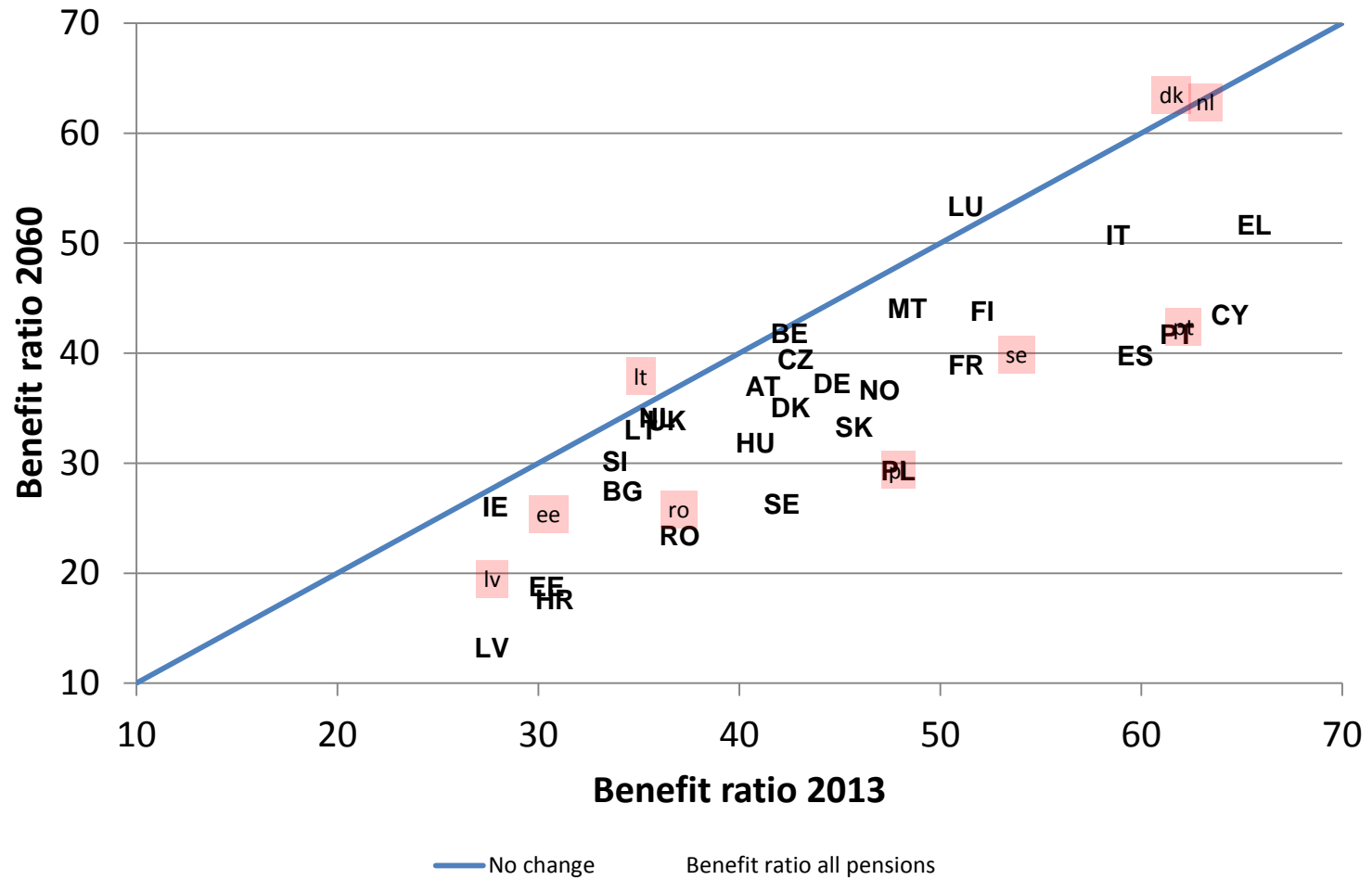
EU average conceals diversity: pension benefit ratio



Change in public pension benefit ratios, 2013 to 2060



Change in pension benefit ratios, including private pensions



Intergenerational risk sharing: the social contract

- Pensions = managing uncertainty
 - by integrating adjustment mechanisms in the pension system
 - EU Commission: by indexing parameters of pension systems to longevity (e.g. career requirements & retirement age)
- Options for risk sharing

	Defined benefit	Defined contribution	Musgrave rule
Fix...	Pension	Contribution rate	(net) pension benefit ratio
Economic risk	Risk for workers	Shared risk	Shared risk
Demographic risk	Risk for workers	Risk for retirees	Shared risk

Intergenerational risk sharing: the social contract

- Pensions = managing uncertainty
 - by integrating adjustment mechanisms in the pension system
 - EU Commission: by indexing parameters of pension systems to longevity (e.g. career requirements & retirement age)
- ‘Conditional certainty’ for the individual citizen
 - Stabilize $\frac{\textit{average net pension income}}{\textit{average net income active population}}$ (Musgrave Rule)
 - Conditional on macro demographic & economic context
 - Conditional on individual choice

Pay-as-you-go allows 'defined ambition', with point system

- Pension = (**number** of points) x (**value** of point)
x (actuarial **corrections**)
x (**indexation** to income growth)

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- **Number** of points \leq career

‘Defined ambition’ : in between DC and DB

Two objectives:

- Target replacement rate for ‘standard worker’ with ‘normal career’

& stabilisation of income ratio pensioners/employed
- Stabilisation of the contribution rates on earned income

‘Defined ambition’ : in between DC and DB

Two objectives:

- Target replacement rate for ‘standard worker’ with ‘normal career’

& stabilisation of average income ratios pensioners/employed
 - Stabilisation of the contribution rates on earned income
- ⇒ Postponing retirement (flexibility in pension system, but !)
- ⇒ ‘Alternative’ funding (tax shift)

Funded pensions in a supplementary second pillar

- Why funding? => diversification of risk
- Law on Supplementary Pensions, 2003
 - ‘Democratization’ of supplementary pensions
 - Sector approach: coverage of SME
 - Embedded in social dialogue
 - Mobility
 - Guaranteed minimal return

Sustainable reform...

- Requires large consensus
- Based on sense of common purpose: defined ambition

www.frankvandenbroucke.uva.nl