



MAX PLANCK INSTITUTE FOR SOCIAL LAW AND SOCIAL POLICY

# Have we achieved adequate, safe and sustainable pensions?

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Conference on „The future of pensions in Europe: Taking stock and looking  
ahead two years after the White Paper”, Brussels, 26 March 2014



# Intro and aims

*Have we achieved adequate, safe  
and sustainable pensions in the EU?*

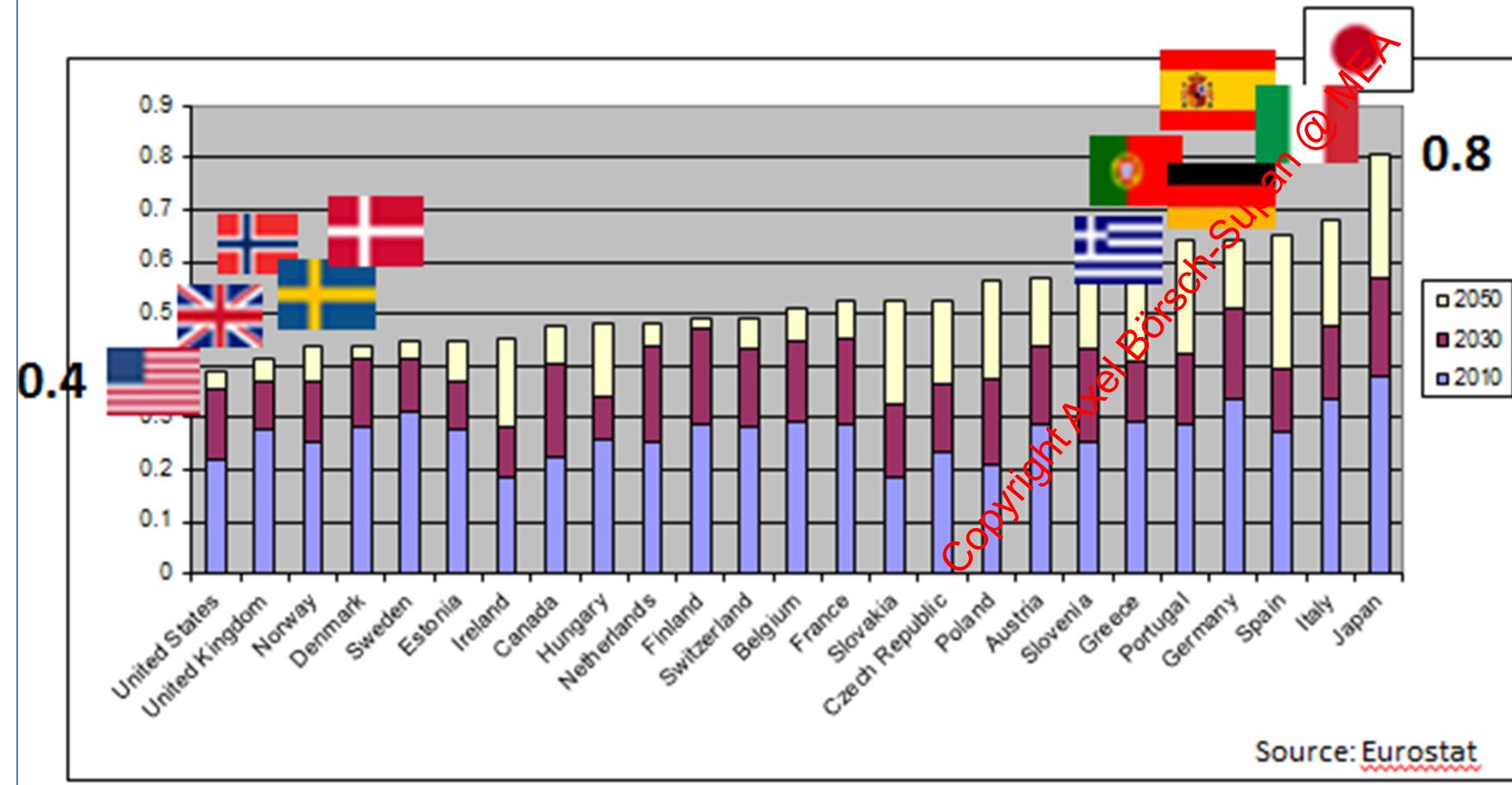
- ▶ Not yet
- ▶ No surprise: history, short-term political costs vs. long-term gains, conflicts between aims
- ▶ Still: much progress has been made
- ▶ *Develop very simple analytical framework, dominated by the force of demographic change*
- ▶ *Fill framework with examples: can be done, has been done*

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# Magnitude of challenge

## Old age dependency ratio (60+/20-59) 2010, 2030, 2050:





# Lesson Adequacy

- ▶ Dependency will roughly double
  - ▶ Thus equal burden for young and old means:  
~40% higher contributions and ~40% lower benefits
  - ▶ *Conflict between adequacy and sustainability*
  - ▶ *Resolve by separate systems (“pillars” vs. other “pillars”)*
  - ▶ *Political economy issues:*
    - *detach pillar 0 from demography*
    - *index other pillars as much as possible to demography*
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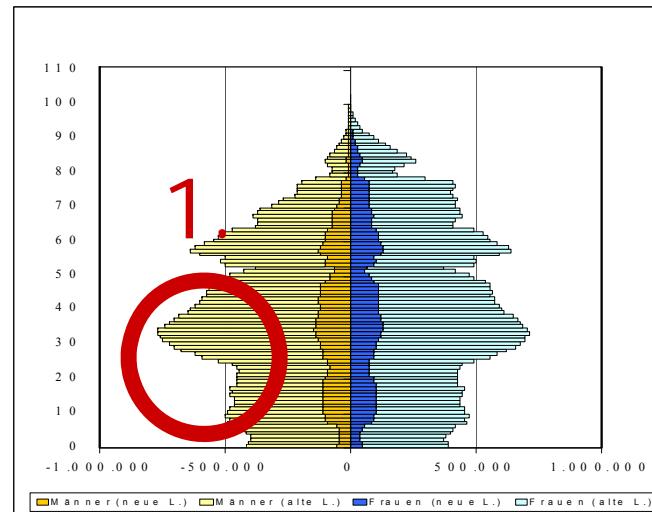


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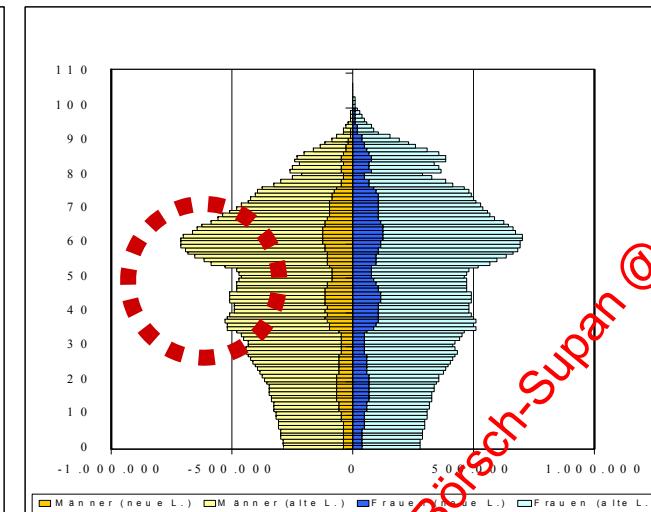
# Three Demographic forces

Schaubild 1.6

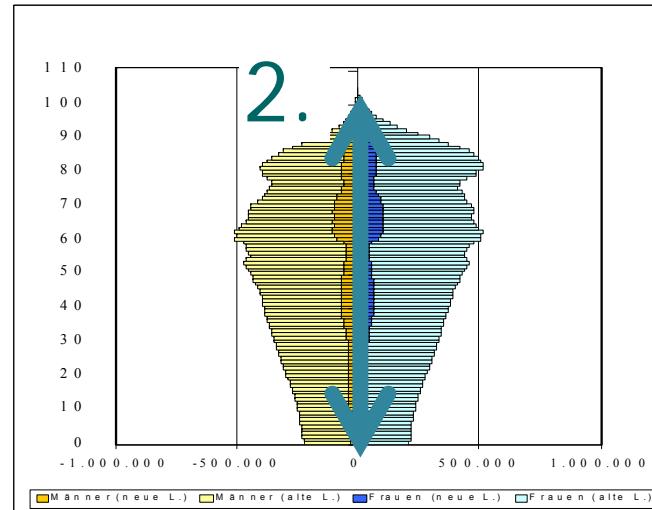
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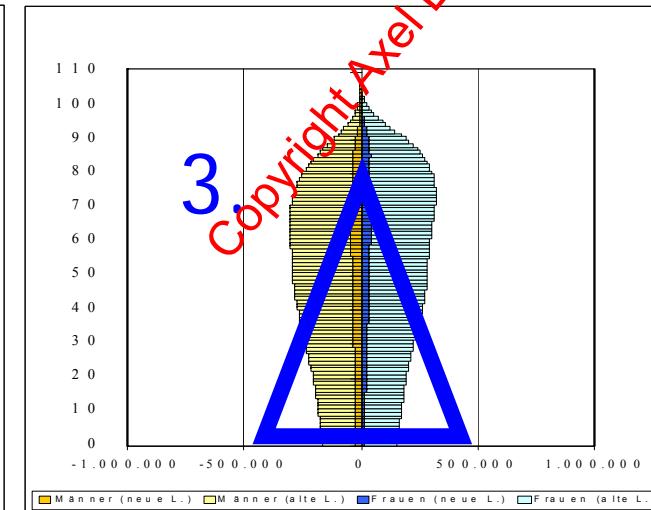
2025



2050



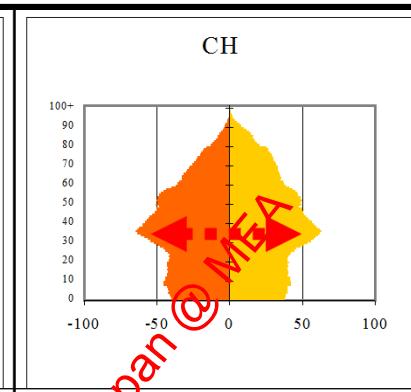
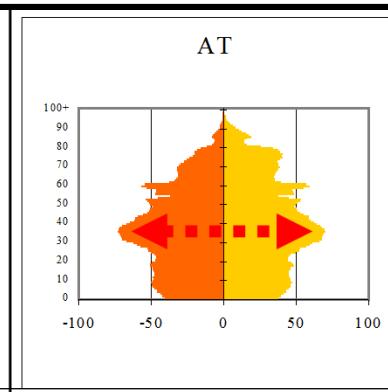
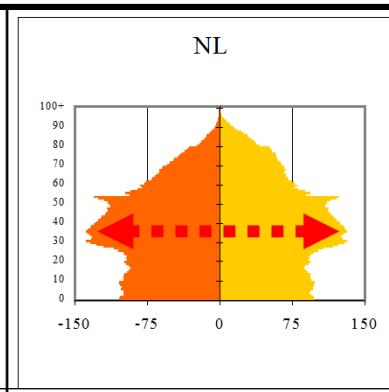
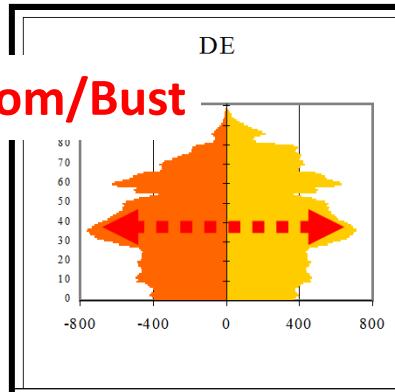
2100



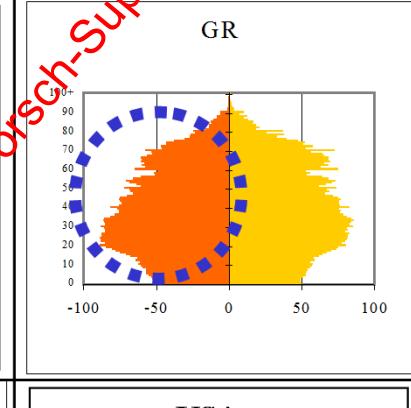
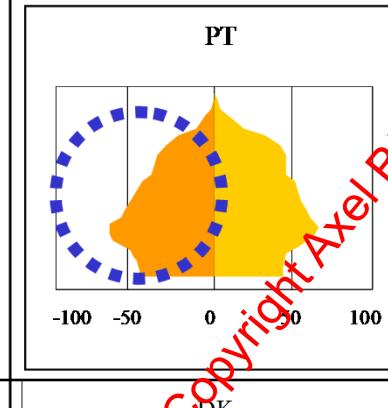
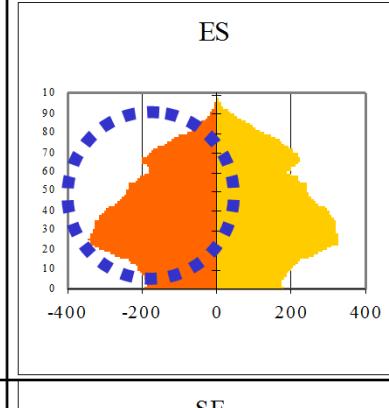
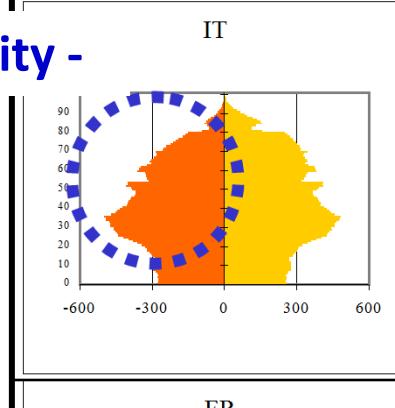


# Three Demographic forces

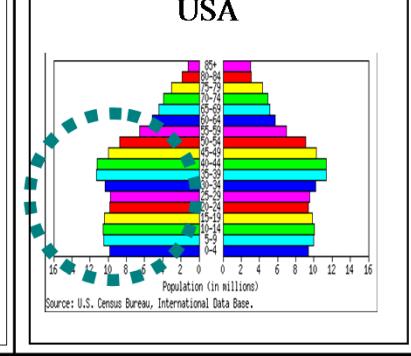
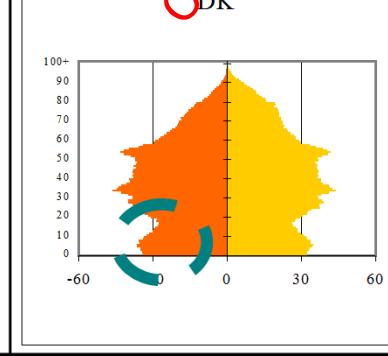
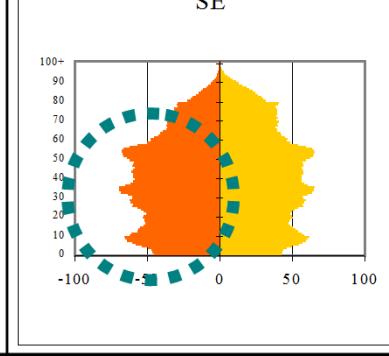
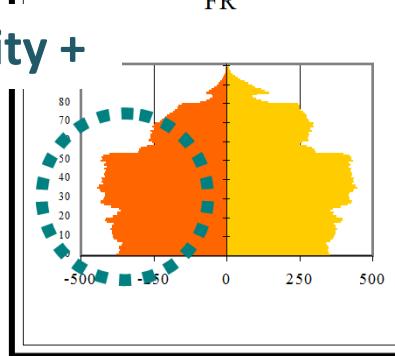
BabyBoom/Bust



Fertility -



Fertility +





# Lesson Sustainability

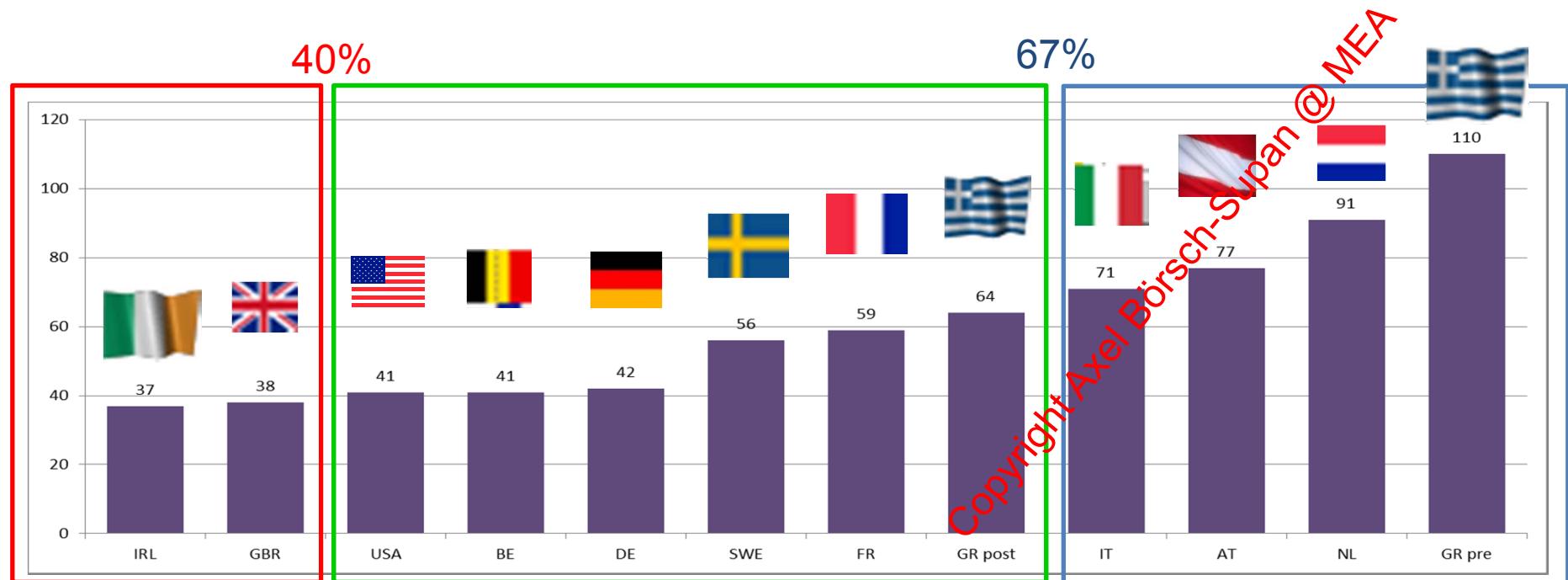
- ▶ Need at least three different policy instruments to tackle demography (sustainability)
  - *Baby boom/bust: pre-funding*
  - *Longevity: retirement age*
  - *Fertility: quantity/quality (education & health)*
- ▶ In addition: separate fourth policy to tackle adequacy
- ▶ *Where do we stand on these four issues?*

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# Adequate?

## Gross replacement rate of pensions:

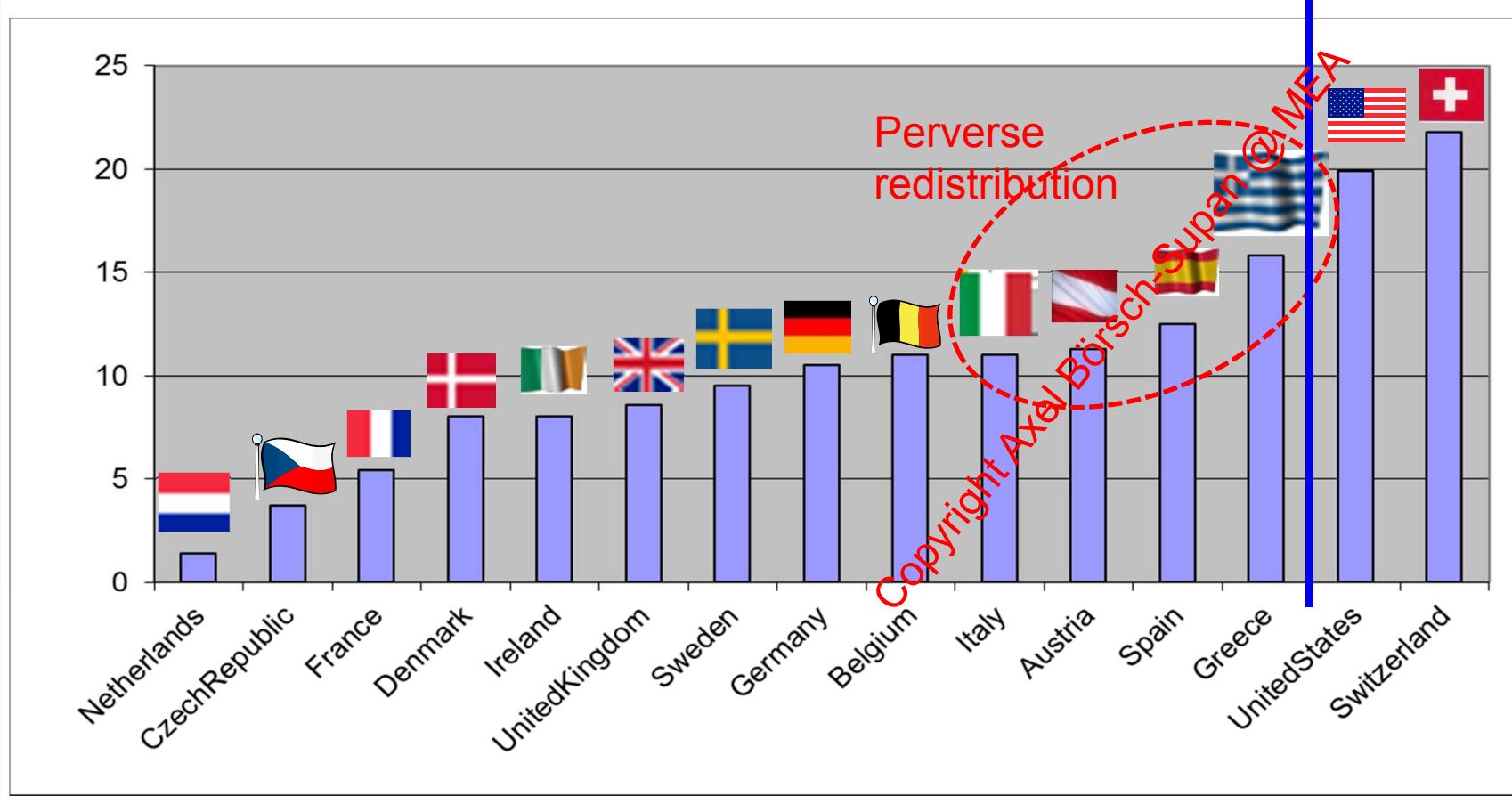




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# Adequate?

*Share of 65+ individuals  
with income below 50%  
median income*



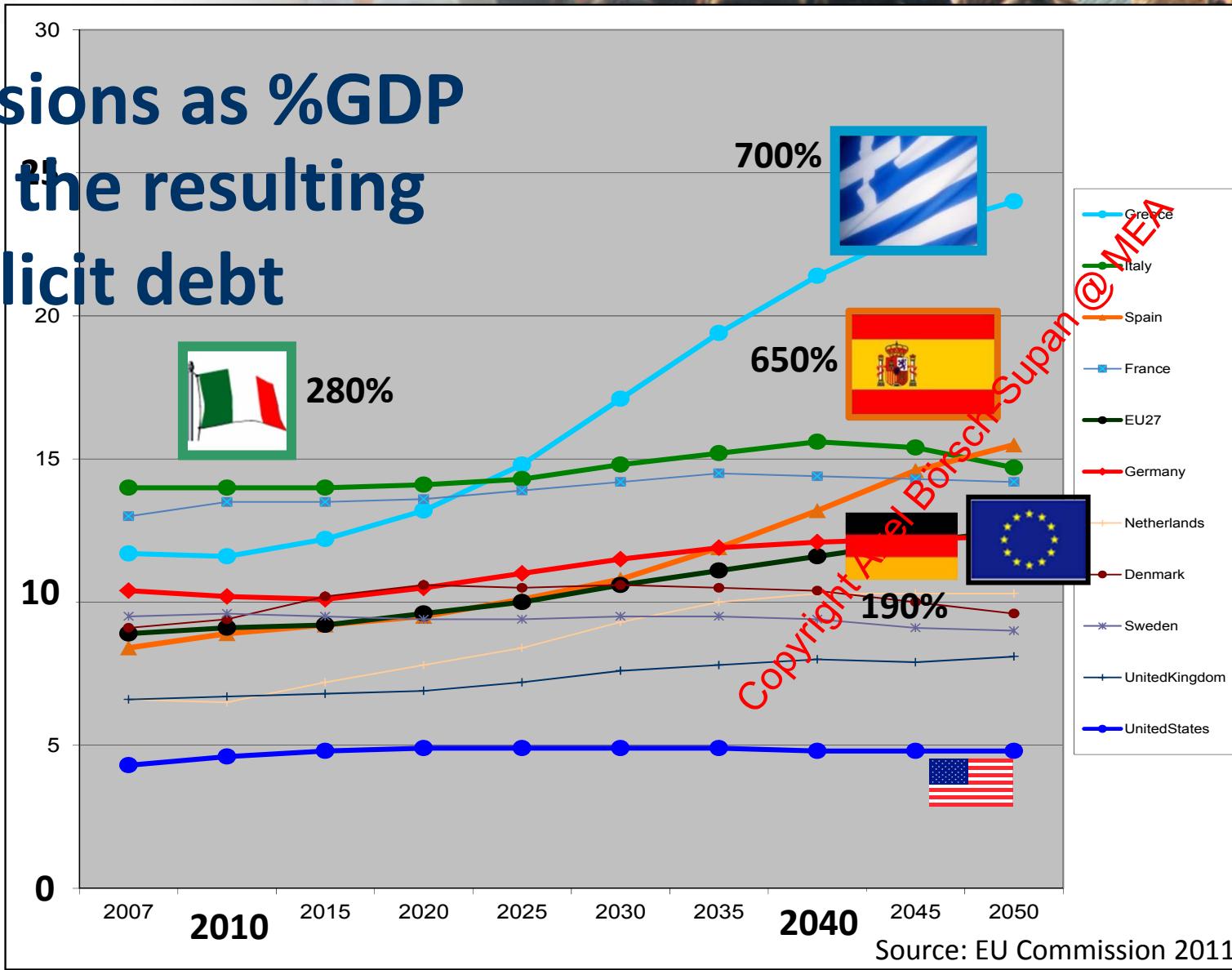
Source: OECD Pensions at a Glance 2013



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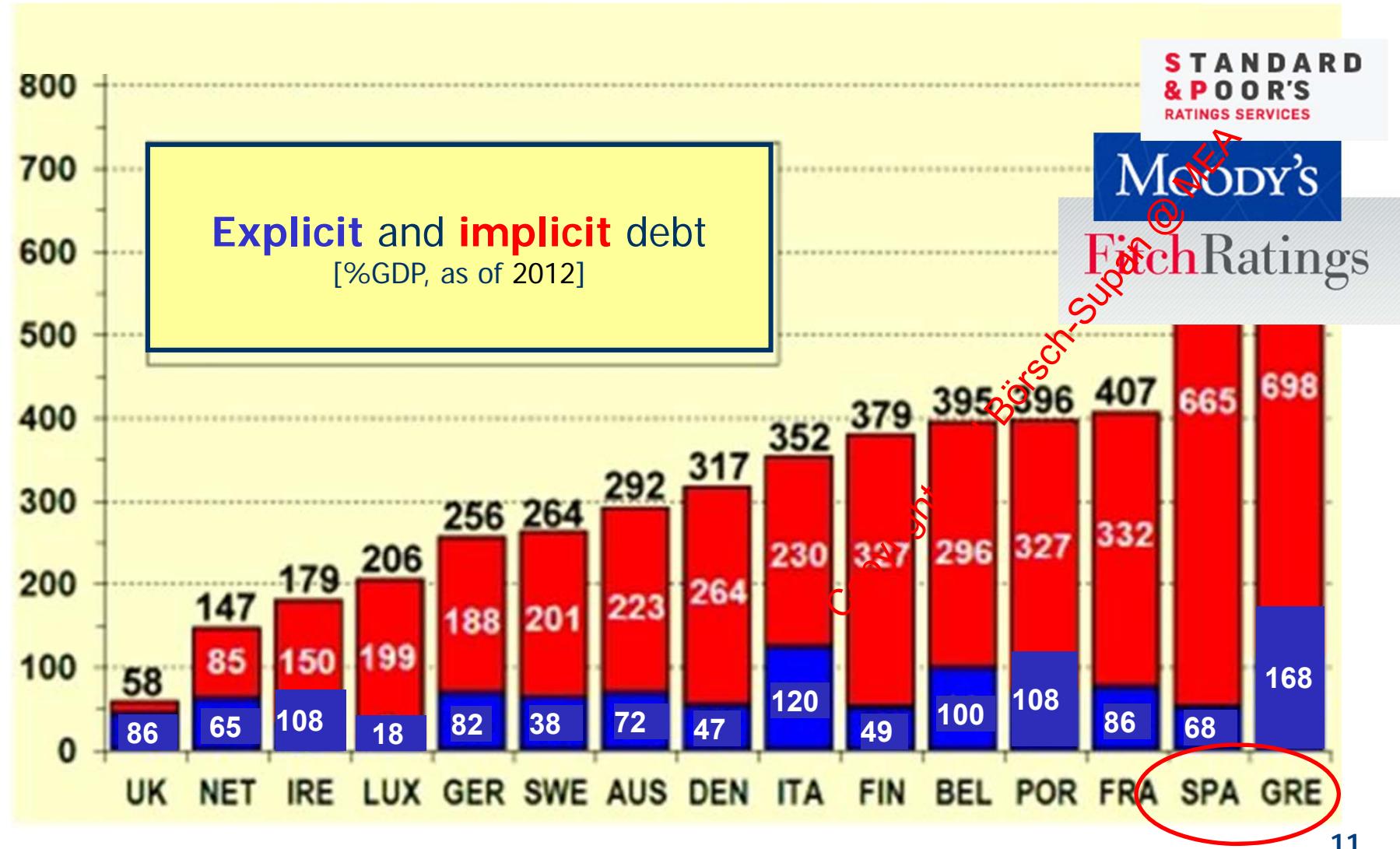
# Safe?

## Pensions as %GDP and the resulting implicit debt





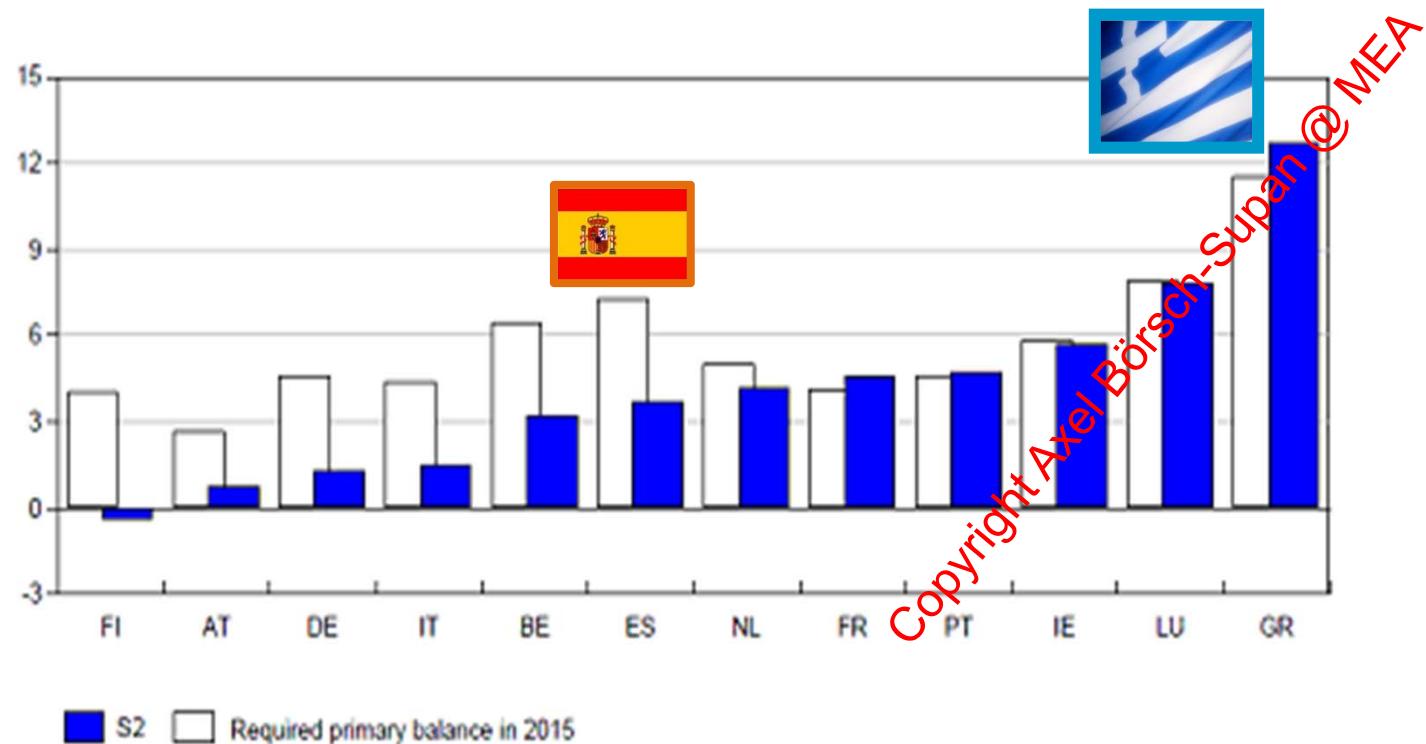
# Safe?





# Sustainable?

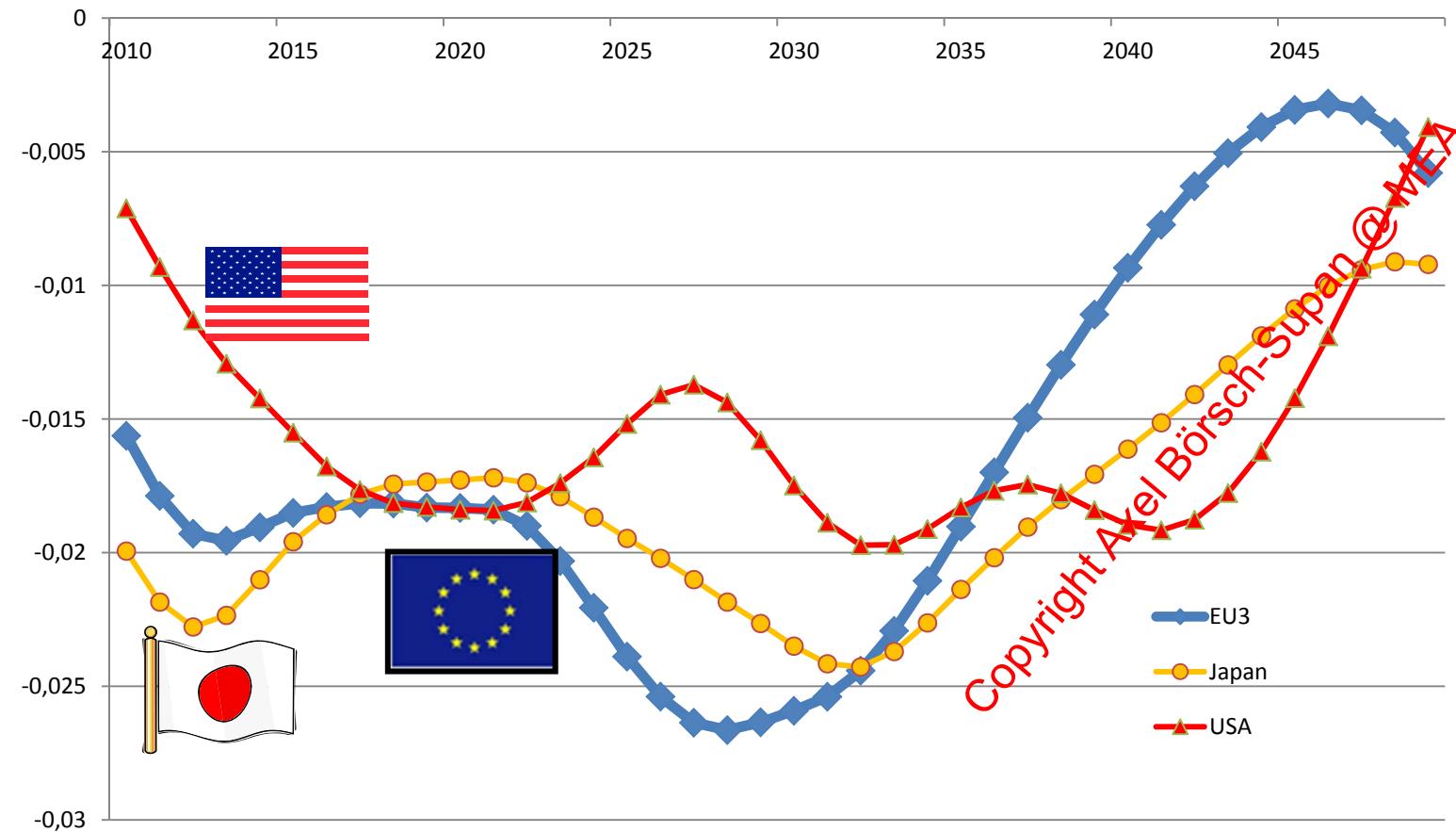
Figure 21: Sustainability gap “S2” in selected European countries (% GDP)



Source: Balassone et al.



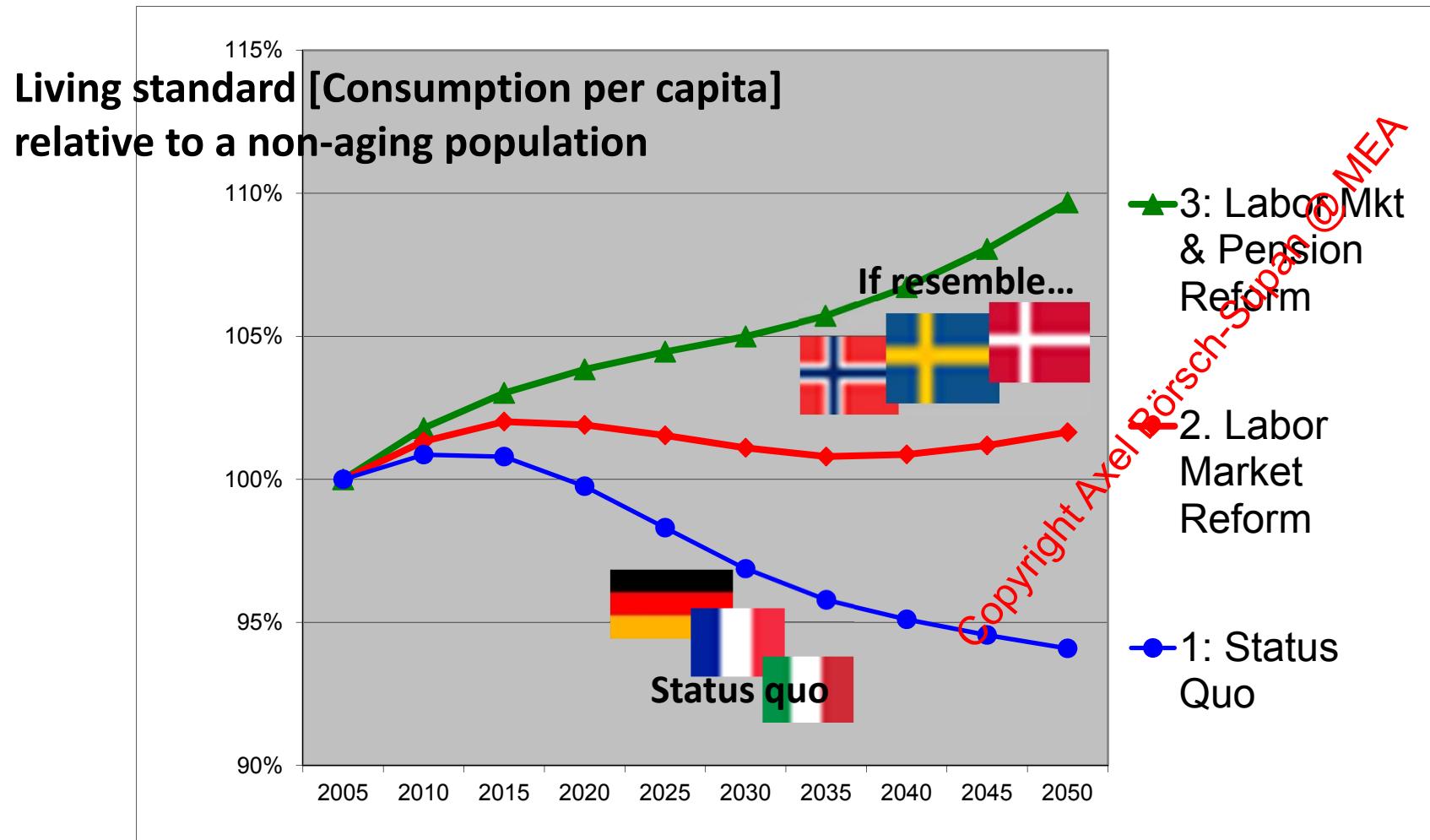
# Economic Growth



Force of ageing:

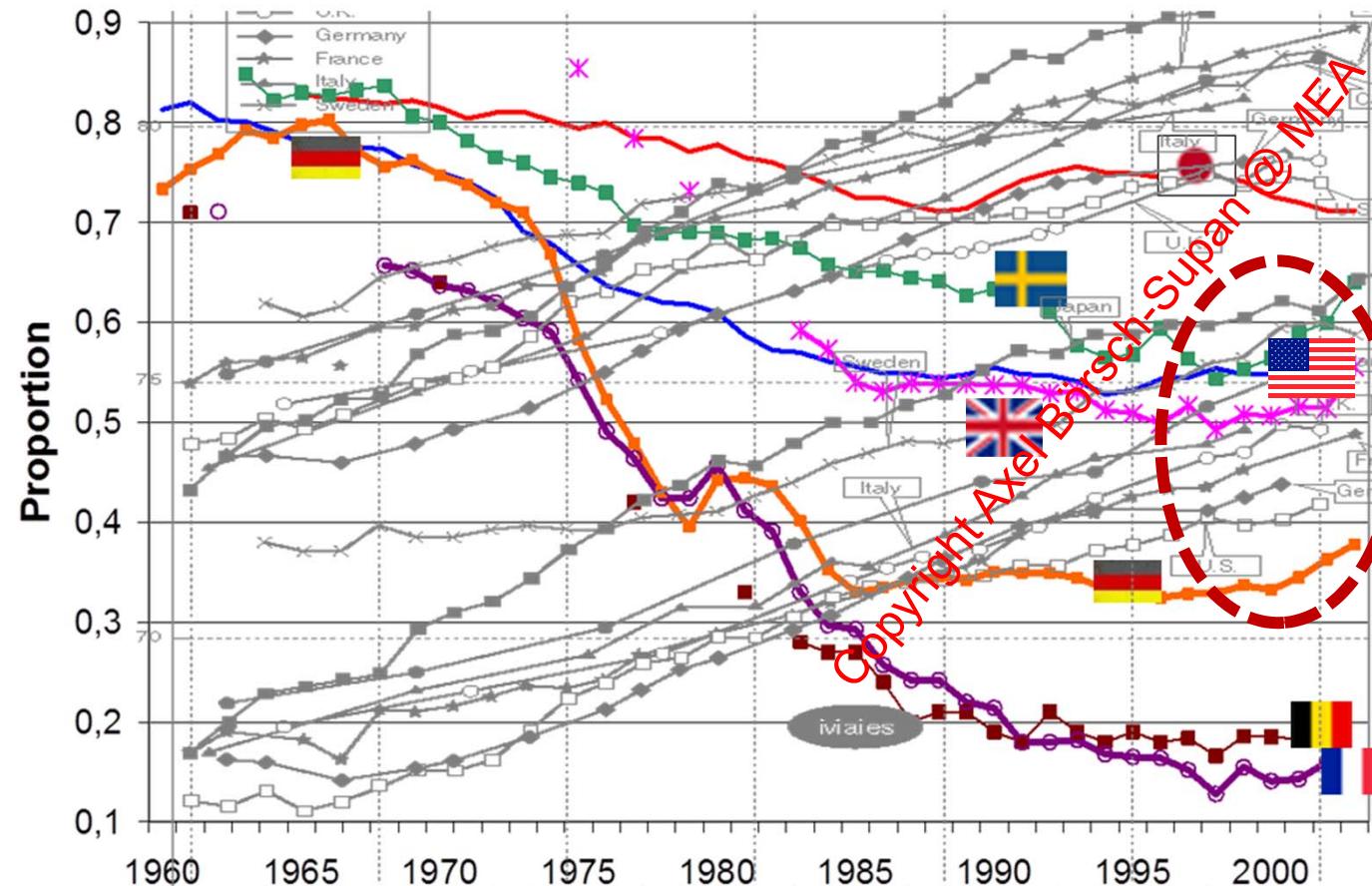
Annual percentage loss in working age individuals per population

# The power of structural reform



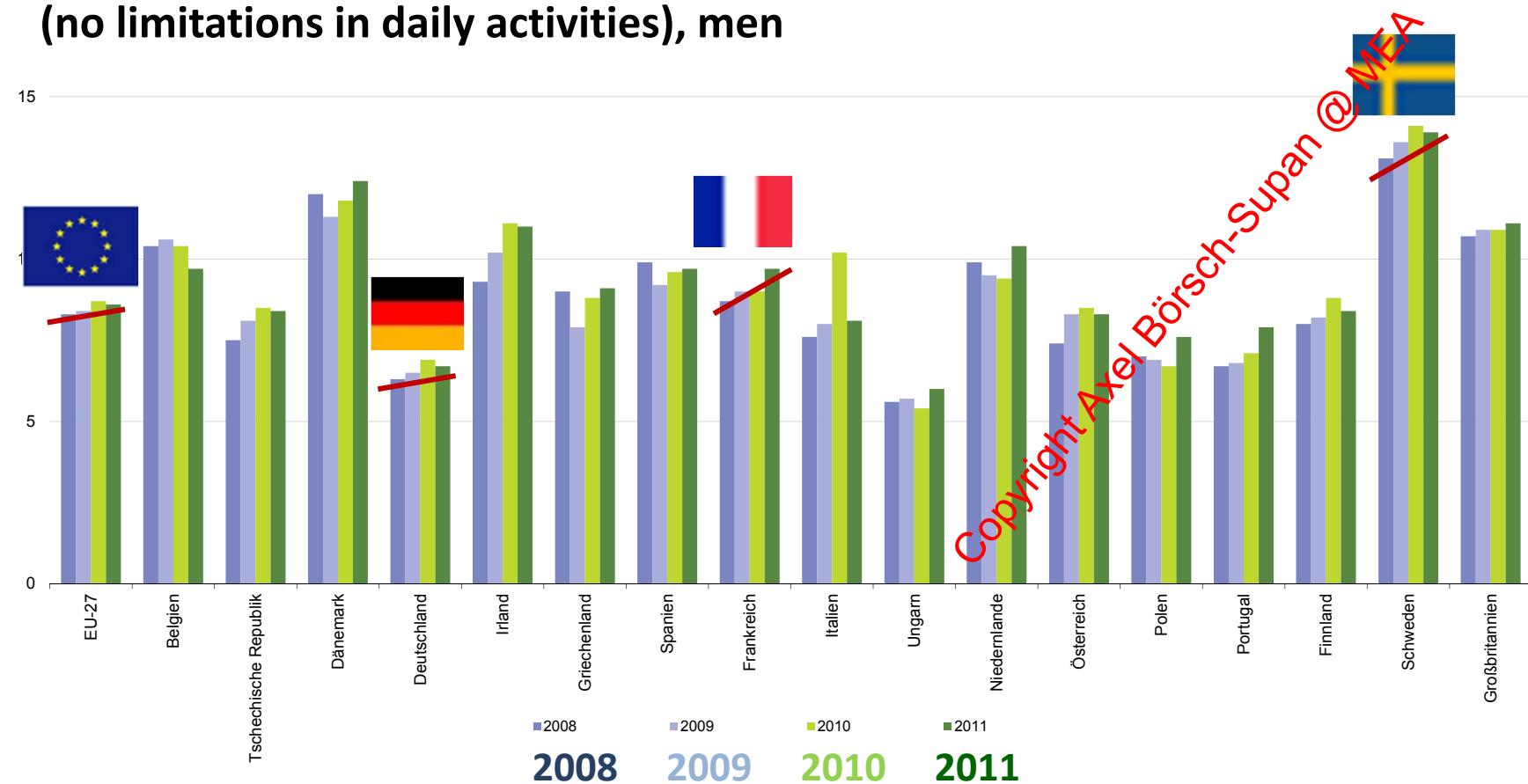
# Key unsustainability

## Labor force participation (Men 60-64)



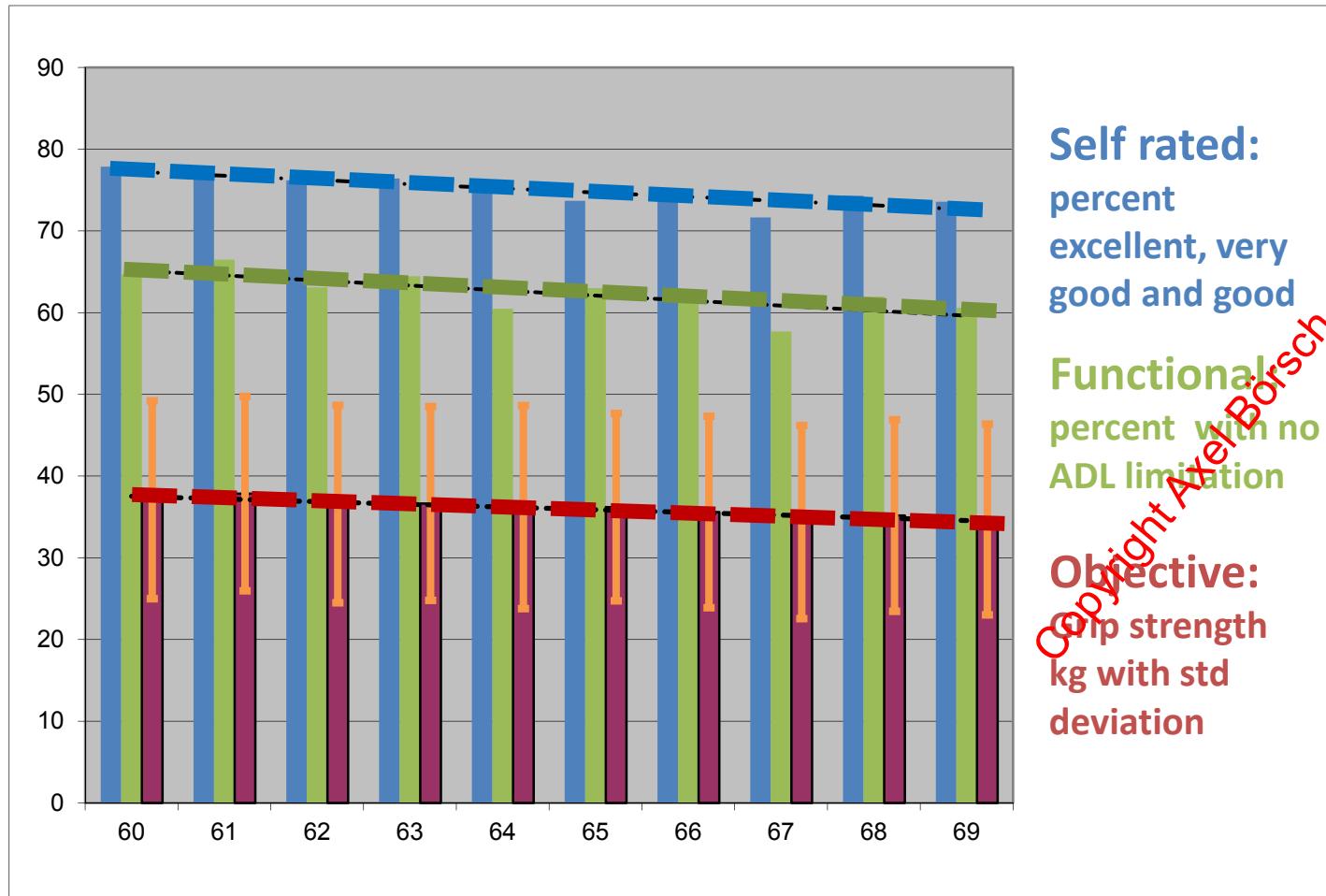
# Expected healthy life after age 65

(no limitations in daily activities), men





## Myth: Health age 60-69 in Europe



Self rated:

percent  
excellent, very  
good and good

Functional:  
percent with no  
ADL limitation

Objective:  
Grip strength  
kg with std  
deviation



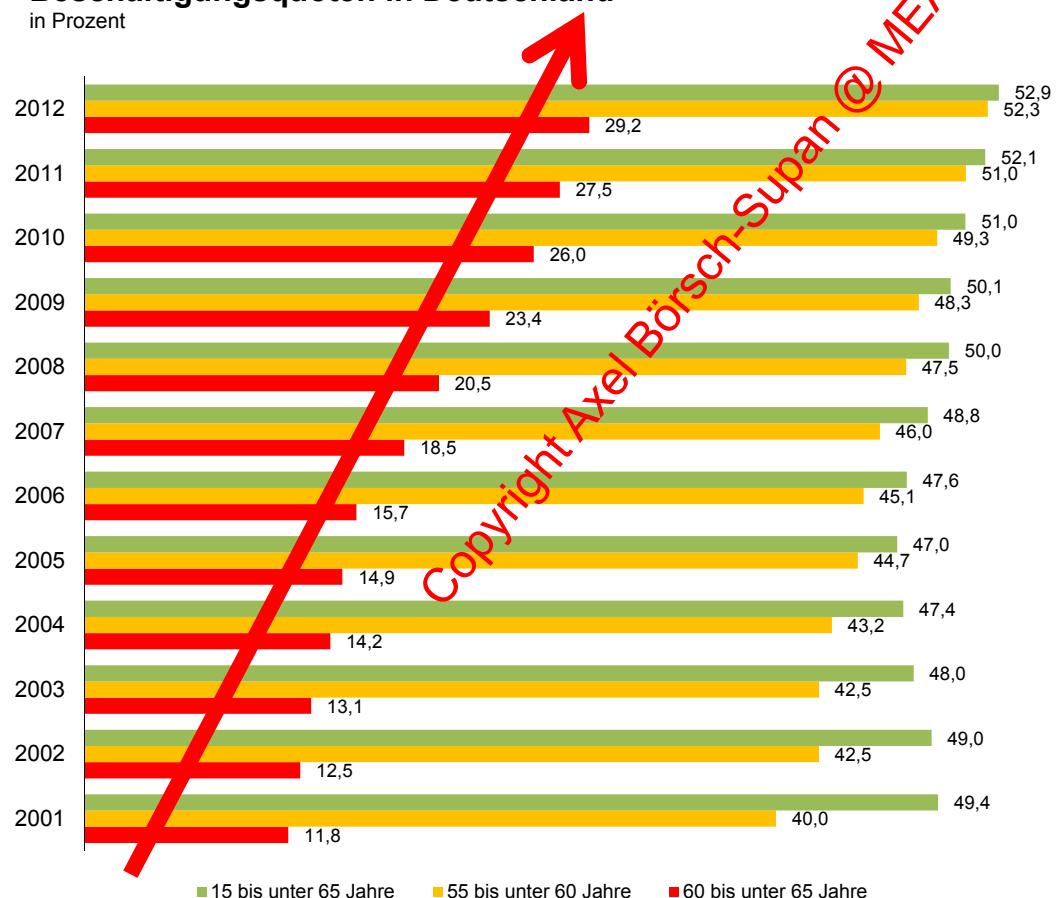
# Employment of older individuals

Can be done,  
has been done:

*Tailwind through  
employment gains  
in spite of  
demographic  
headwind*



Beschäftigungsquoten in Deutschland  
in Prozent



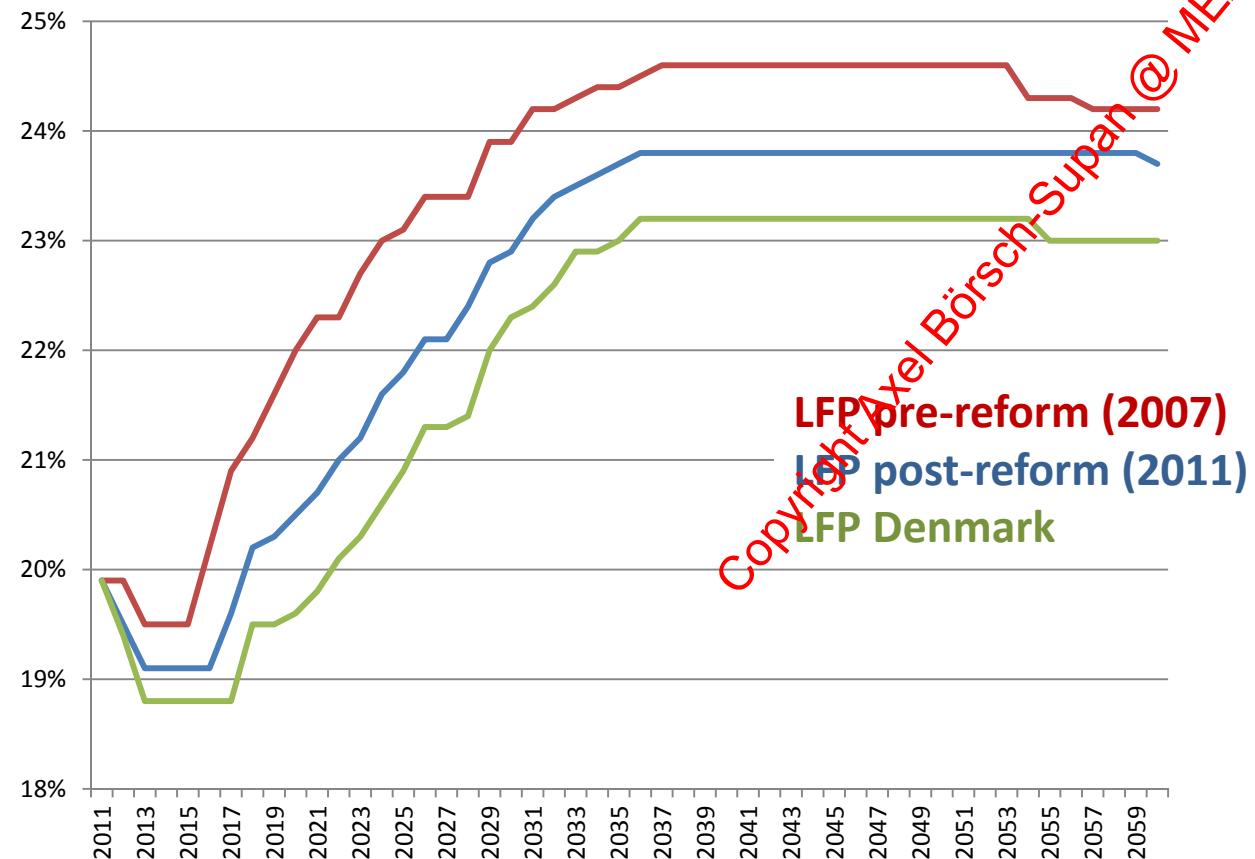


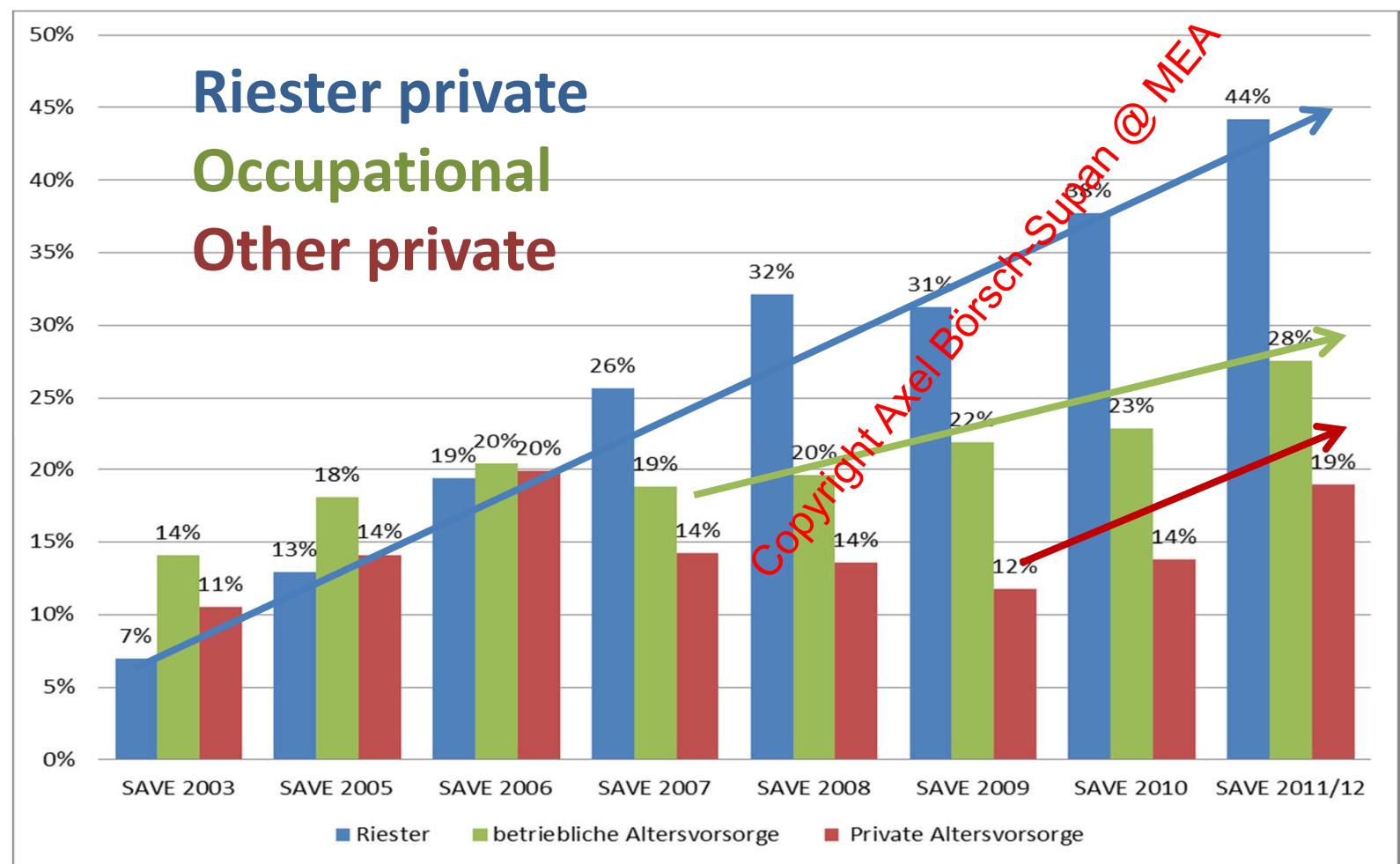
# Sustainability through LFP

Can be done,  
has been  
done:



Contribution rate by labor force participation (LFP)







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# Sustainability reforms

**Can be done,  
has been done:**

**Synopsis of pension reform elements in Europe, 1980-2010**

	Retirement age	Link of benefits to contributions	Indexation
Austria	women → 65	+	
Germany	all → 67	(universal point sys)	sustainability
France	all → 62	Basis of point system	
Italy		NDC	NDC
Spain			
Greece		Partially	
Denmark	all → 67 rev		
Sweden	DI	NDC	NDC
Norway		point	life expectancy
Finland	UI tunnel	scale factors	
Netherlands	EEA, DI		
UK	all → 68		price → wage
US	all → 67		



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# Conclusions

Have we achieved adequate,  
safe and sustainable pensions?

*Have we achieved adequate, safe  
and sustainable economic conditions  
for the young?*

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