Rethinking Pension Policy

Sigurt Vitols and Larry Beeferman

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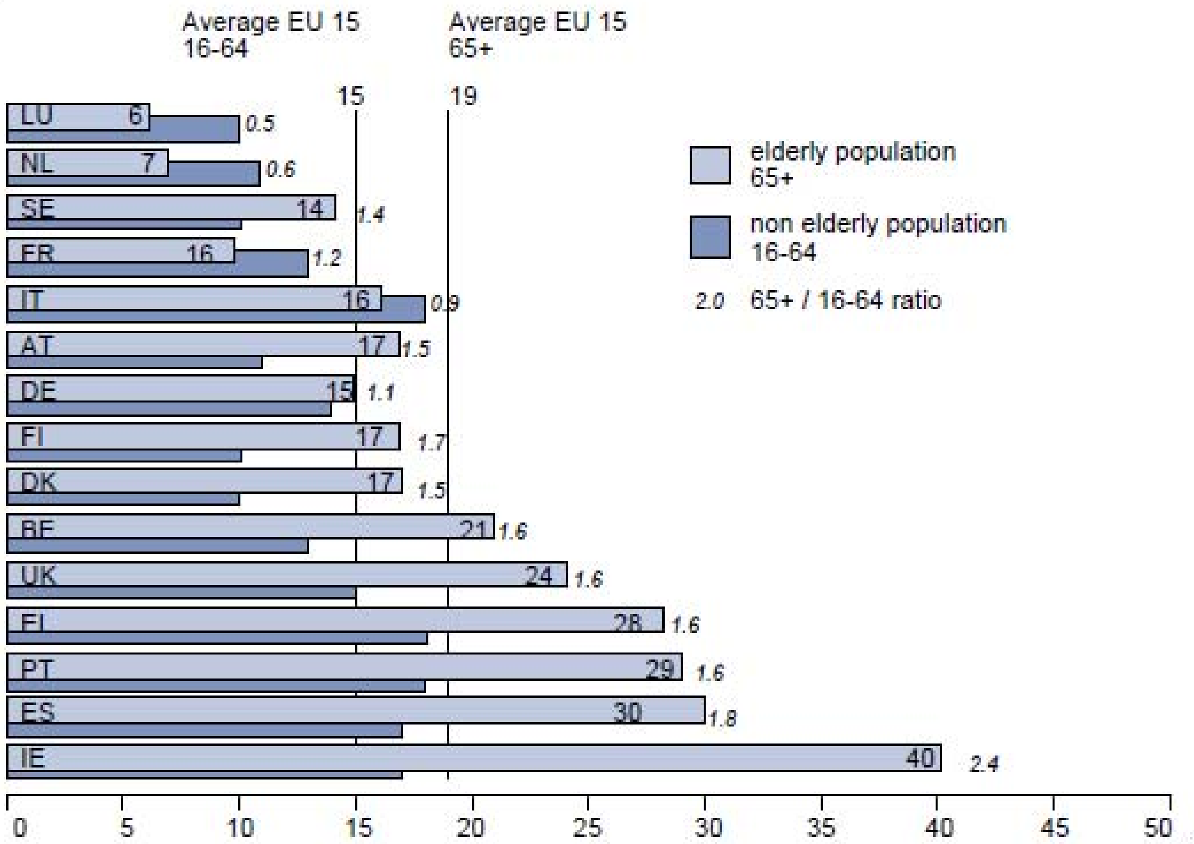
Main Argument

- Primary goal of pension policy: to provide adequate retirement income FOR ALL
- A key performance benchmark is the elderly poverty rate
- Current pension arrangments in most countries fall (far) short of this goal - especially post financial crisis
- Fundamental reform is necessary to achieve goal of economic security

Poverty Rates in the EU 15

Figure 1: Proportion of elderly and working age populations at risk of poverty

At-risk-of-poverty rates (%)



Factors Contributing to Elderly Poverty

- Inadequate overall retirement savings levels/intergenerational transfers
- Inadequate redistribution (Bismarkian dependence upon lifetime earnings)
- Inequality in wages + lifetime work experience
- Both overall savings level + level of redistribution need to be addressed to provide economic security to elderly

Key Questions in Pension Policy

- Three pillars: state, company or individual
- Defined benefit or defined contribution
- Minimum benefit level in state pensions?
- Pay As You Go (PAYG) or funded?

Historical Trends in Pensions

Pre WWII

- Basic State Pensions (starting w/ Bismark)
- Paternalistic HRM – Company Pensions

Post WWII

- Expansion in State Pensions
- Union Bargaining Power over Company Pensions
- Tax Benefits for Individual Pensions

Thatcher + After

- Reduction in Redistributive Role in State Pensions
- Increased emphasis on virtues of private pensions (particularly individual)

Criticisms of State Pensions

- Neoliberal critique of state provision
- Demographic changes put pressure on „generational contract“
- Limited flexibility in saving choices
- Allocative efficiency (particularly in PAYG)
- Social democratic critique of work experience orientation

Criticisms of Company Pensions

- Voluntary provision + long vesting periods = no universal coverage
- Cost pressure on companies w/ pensions
- Trend from DB to DC shifts risks to workers
- Procyclical effect (particularly in equities)
- Double risk for workers (loosing job + pension)
- Changes in corporate ownership weaken company responsibility
- Massive underfunding due to financial crisis

Criticisms of Individual Pensions

- Inadequate savings rate
- Inadequate risk diversification
- Overall risk too high or too low
- High administrative costs
- Lack of transparency in savings vehicles

Rethinking State Pensions

- Financial crisis underlines the case for state pensions
- Attractions of the Swedish reform: universal coverage, increased levels + individual DC component (in most cases choice delegated to default pension plan)
- Reform of US-style system – increase benefit levels + state-administered 401k‘s

Rethinking Company Pensions

- Legislative mandate for supplementary pensions?
- Multiemployer/industry/joint national pension systems (a la Taft Hartley + Metallrente)?
- Expand local/state/regional public pension systems to administer private plans?
- Better coverage for labor markets with higher turnover
- Universal applicability avoids competitive disadvantage for companies w/pensions

In Conclusion

- Current pension arrangements do not provide adequate economic security to many elderly
- Shift away from private individual + single employer to multiemployer and multilevel state plans is needed
- Mandatory participation needed to boost savings levels……plus more equal distribution of wages would help

THANK YOU FOR YOUR

ATTENTION!!!!!!!!