

European Department

Pension System Design: A Macro Perspective



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Outline



- Key challenges for pension systems in CESEE
- Macro considerations in pension system design
- Policy priorities in the post crisis-world

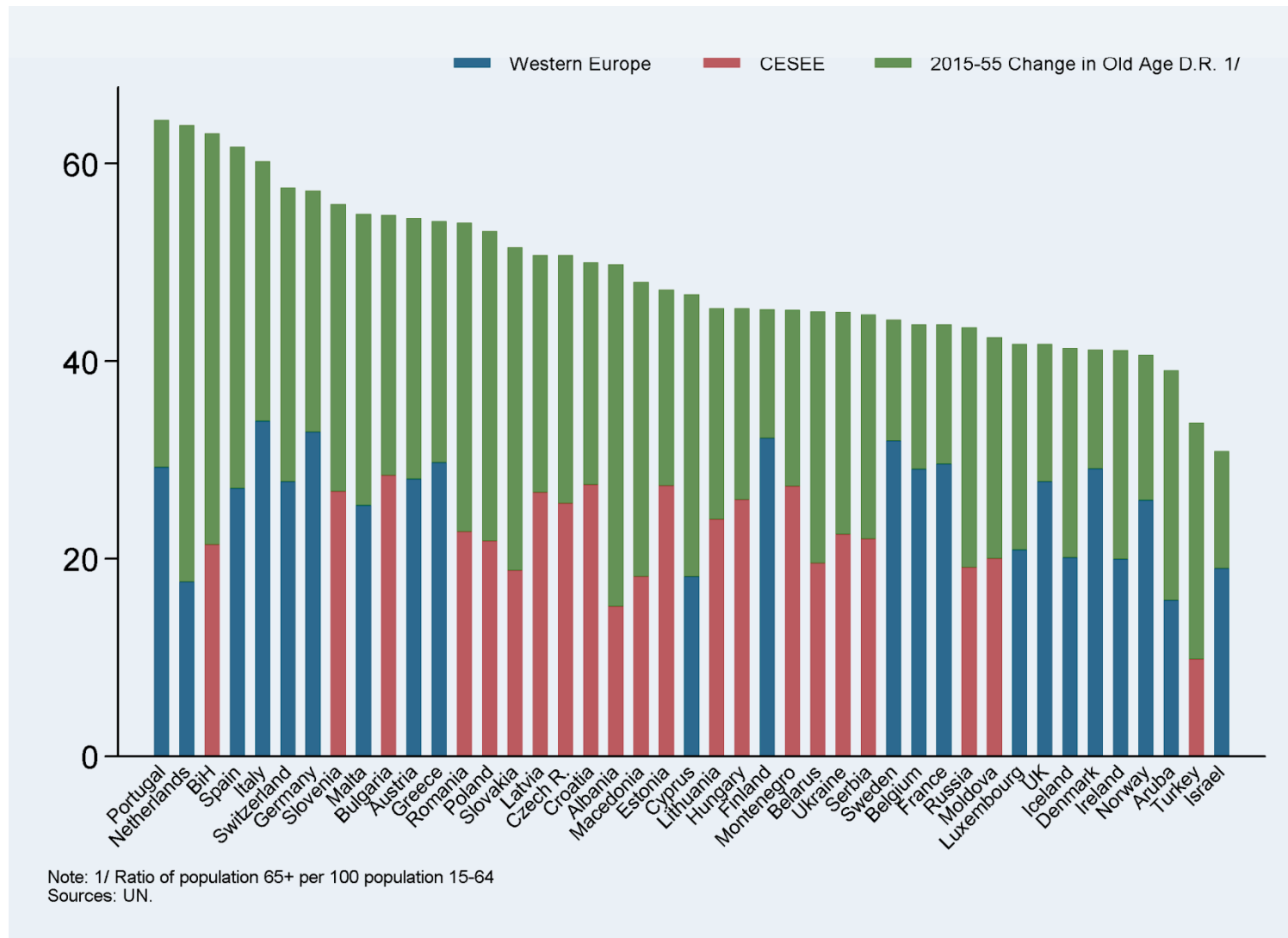
Key challenges



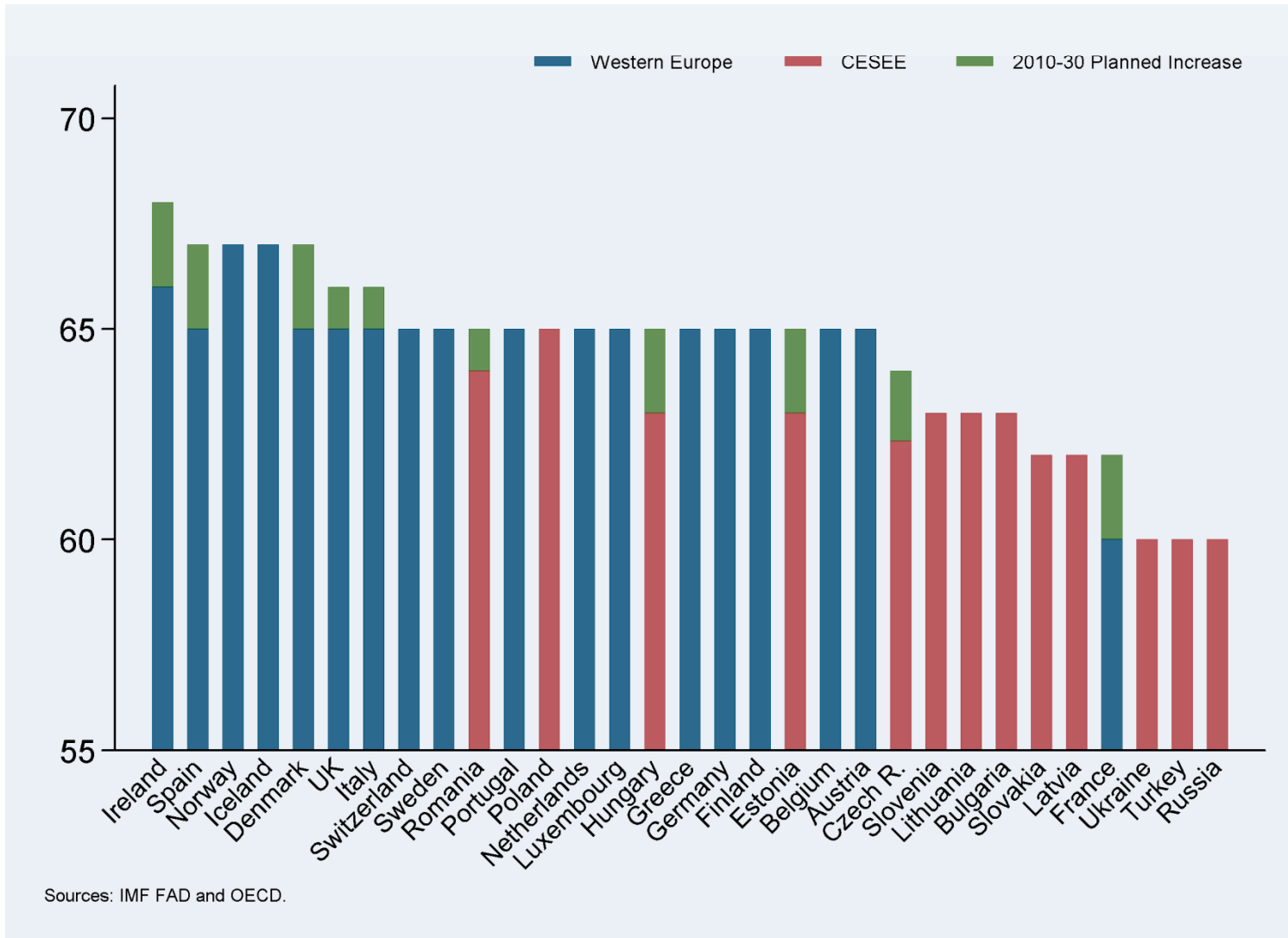
- Demographic transition
- Fiscal pressure
- Benefit adequacy



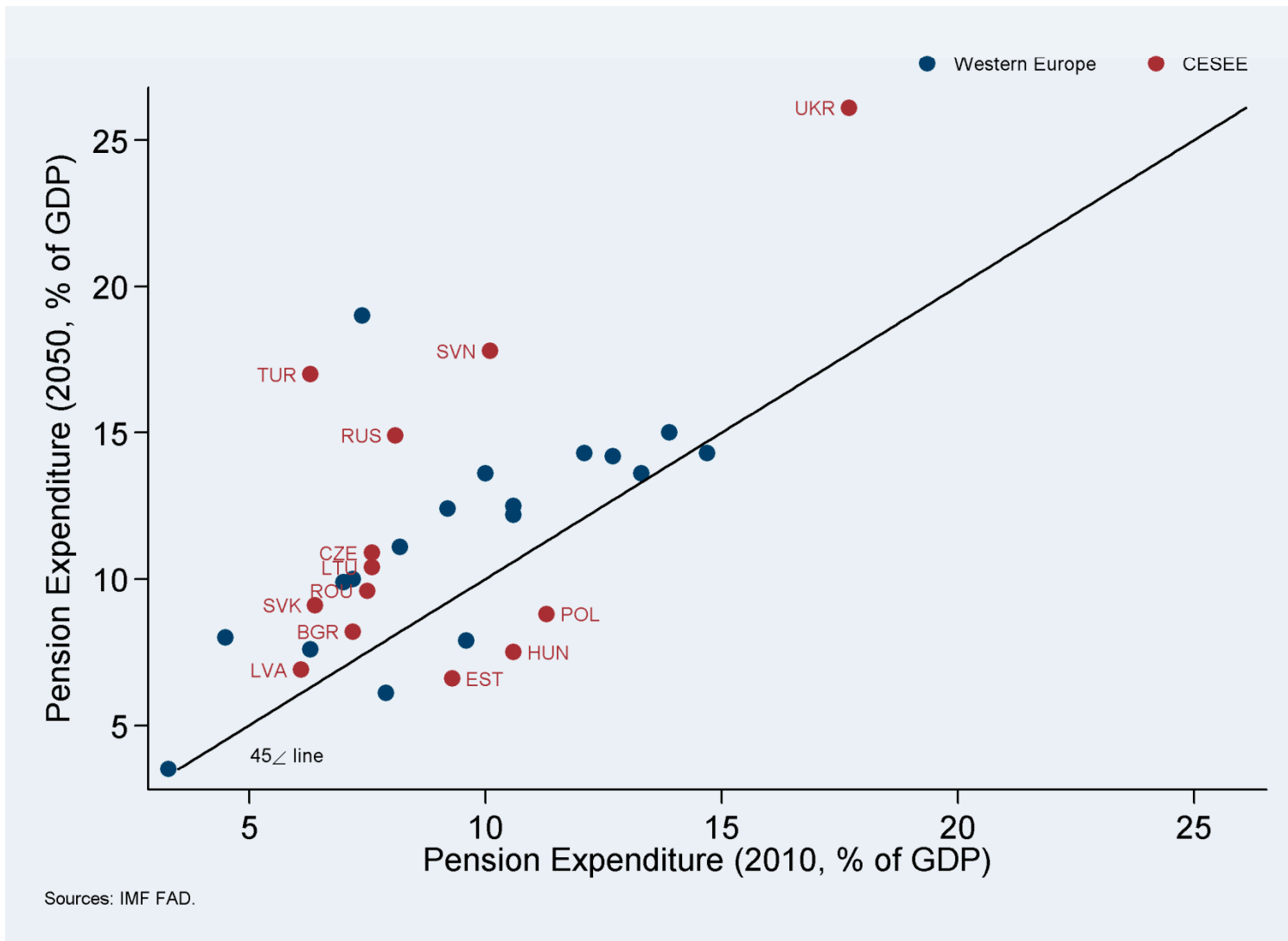
Demographic transition



Pensionable age



Fiscal pressure

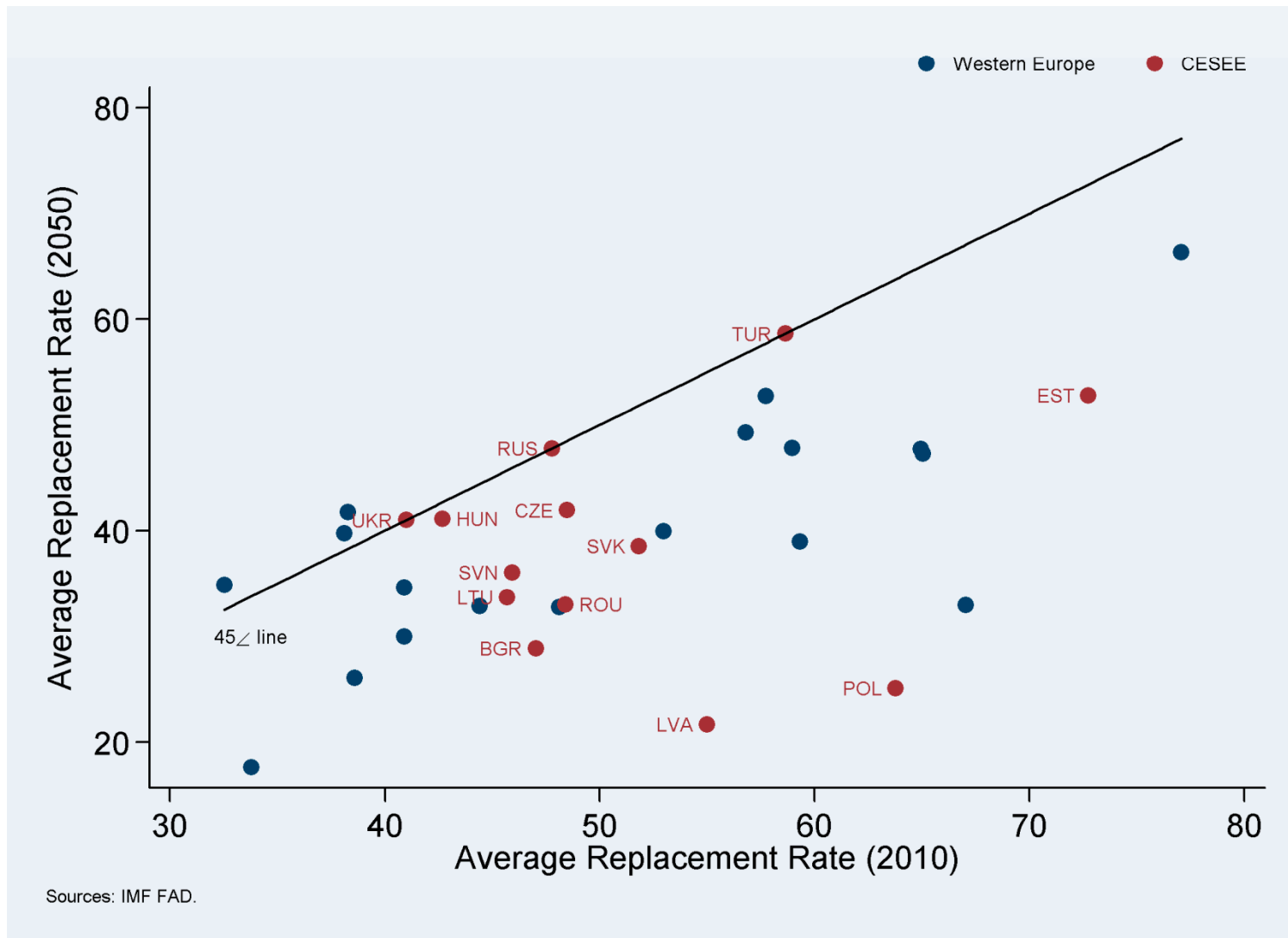


Fiscal impact of transition across pillars

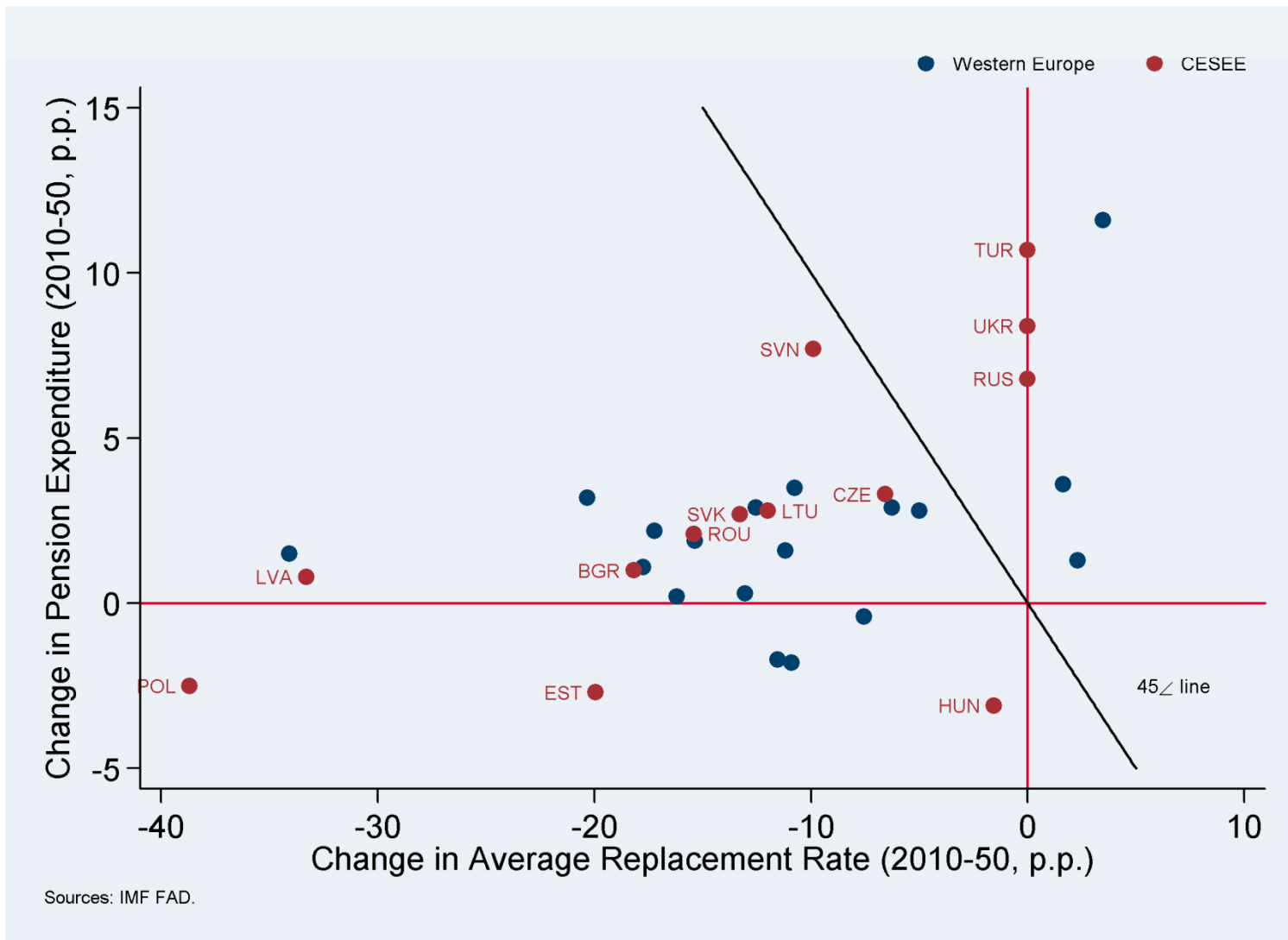


- Transition from pillar one to pillar two
 - Longer-term gain
 - Transition cost
- Transition from pillar two to pillar one
 - Longer-term costs
 - Short-term transition gain—deficit/debt

Benefit adequacy (first pillar) projected to decline ...



... Without significant savings in public pension spending



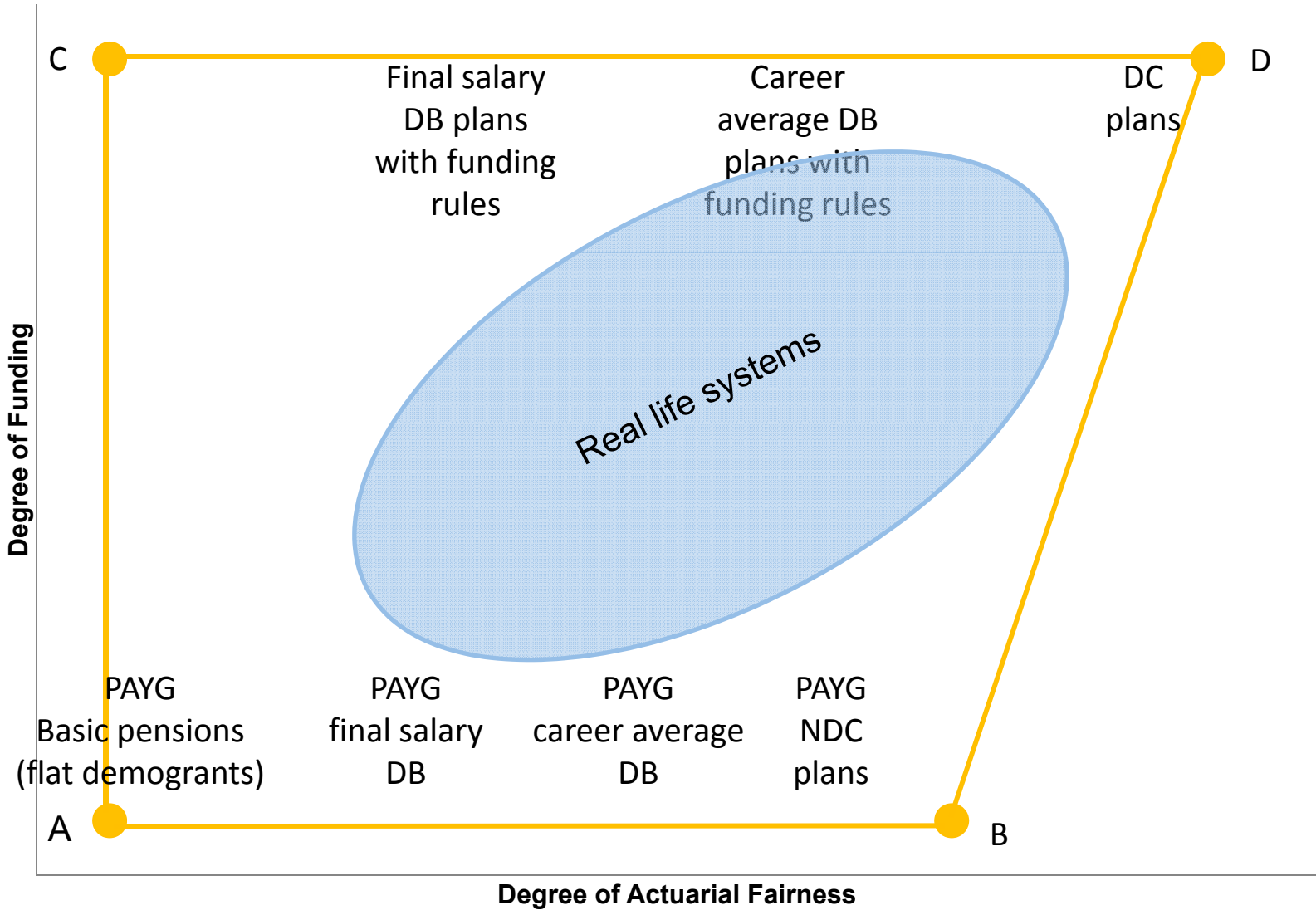
Macro considerations for pension system design



- Goal: enhance growth and minimize volatility:
 - Link between contributions and benefits
 - Funding
 - Defined Benefit versus Defined Contribution



Funding vs. actuarial fairness



Why is link between contributions and benefits important?



- Increases labor participation
- Improves long-term financial stability of pension system
- But reduces progressivity

Why is funding important?



- Increases aggregate saving
- Could raise rate of return on contributions
- Lowers political risk
- But raises other risks, so institutional arrangements matter

Should we maximize actuarial fairness and funding ?



- Actuarial fairness carries some tradeoff between labor market efficiency and redistribution
- Funding implies a tradeoff between capital formation and debt stability or investment risk
- Hence, a mixed system is preferable

Policy priorities in the post-crisis world



- Strengthen fiscal environment
- Address structural pension issues
- Balance actuarial fairness and funding

