

Pension systems and their reforms

Guide to the studies

Pension systems in advanced welfare states

- The backbone of social security systems: 8 – 15% of GDP and growing, contributions typically about 20% of salaries (employer + employee)
- Originated at the end of 19th century as one of the first welfare state arrangements: Bismarck and Beveridge type
- Currently almost full coverage of population, differences in replacement rates pension/previous wage (ILO convention from 1952 which requires 40%rr as a floor)
- The problem of ageing: challenge to the pension schemes
- Three pillar system (I PAYG public compulsory, II FUND publ/priv/empl//comp/vol, III FUND private/voluntary)
- Developing countries: incomplete coverage, only some categories of workforce, fragmented system, low replacement rates, low contributions

J. Myles – philosophy of the pension system and objectives/aims in advanced systems

- PS objectives traditionally: security and adequacy of income in old age + sustainability of the system
- Problem of ageing population – difficult to reconcile basic objectives
- PAYG system $p/w = c \times W/P$
- Fund system (DC, DB) $p = \text{yrs} \times c \times (\text{cap-infl}) / (L_e - P_a)$
- The problem is not financing the system, but a distributional one: how will the costs of population ageing socially distributed? This is the problem of fairness, justice in pension scheme...

Distributional dilemmas

- Intergenerational justice, intragenerational justice, gender equality
- Intergenerational justice – possibilities:
 - FRR
 - FCR
 - FRP (Musgrave condition)
- Context of reforms (towards FUND)

Intragenerational + gender justice

- Adequacy - includes both neediness and merit
- Context: increases of pension age (differentials in life expectancy and distributional impacts), shift to FUND – low income groups are affected – implications:
 - Strong (higher guarantee of) protection against poverty
 - More redistribution on the income side, including funding from general taxation
 - Gender (gender pension gap)
 - Male logic of the system + inequalities in working life
 - What to do about it? Substitute periods/child credits, tax assignments, shared pensions - still only partial impact

Consider about criteria/indications?

- **What indications may reflect the general dilemmas/criteria, which and how?**
- Total/average replacement ratio?
- Individual replacement ratio? (by income level, gender)
- Impact of childcare breaks?
- Impact of unemployment breaks?
- Poverty rate among pensioners?
- Minimum pension levels?
- See also Pensions at a Glance (OECD), Pension adequacy report (EU)