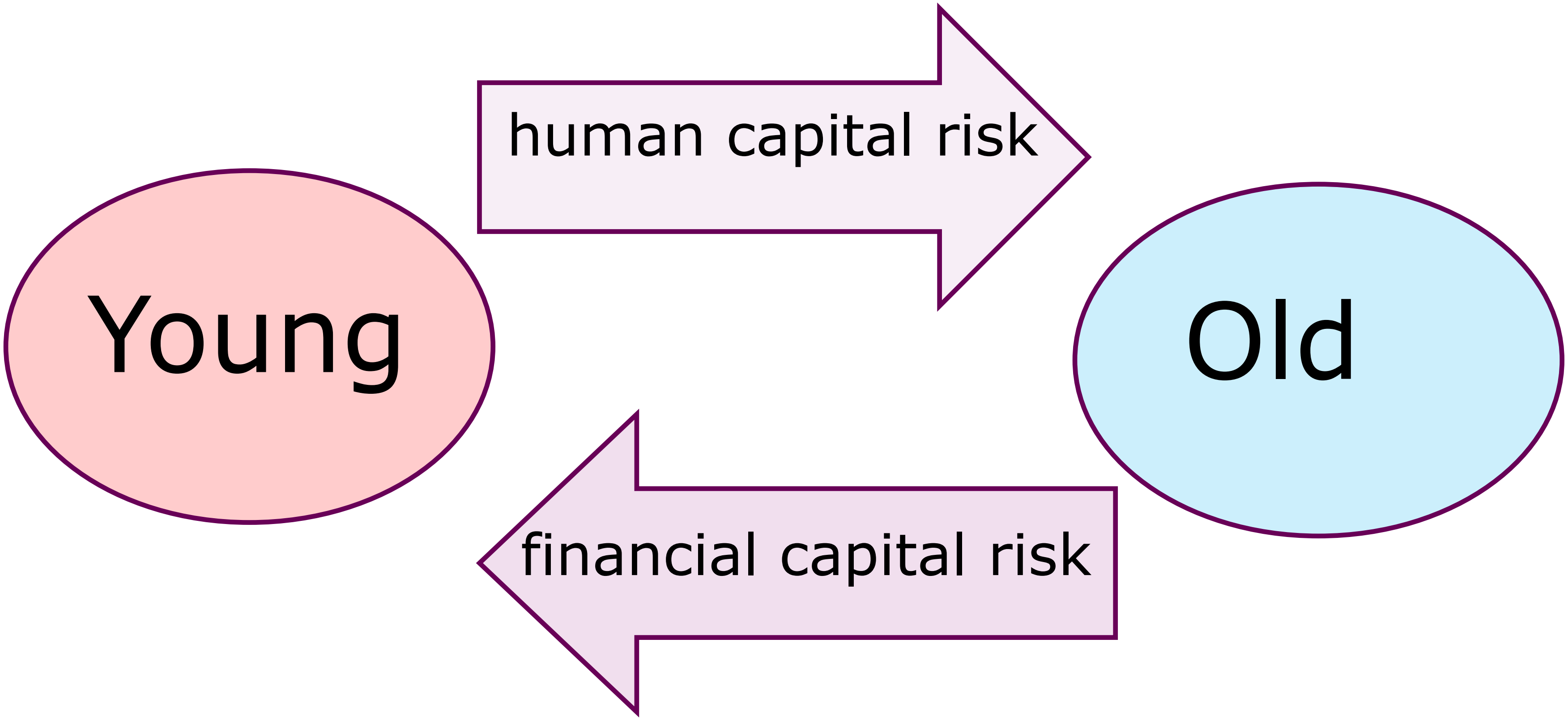
Centraal Planbureau

Intergenerational risk sharing in Dutch pensions

Casper van Ewijk
CPB Netherlands Bureau of Economic Policy Research
University of Amsterdam
Netspar

World Pension Summit
November 15, 2012

Intergenerational risk sharing



Risk sharing in Dutch pension system

- Intergenerational risk sharing:

  redistribute financial risks to the young and human capital risks to the old

  welfare gain 2 % - 19 % of income

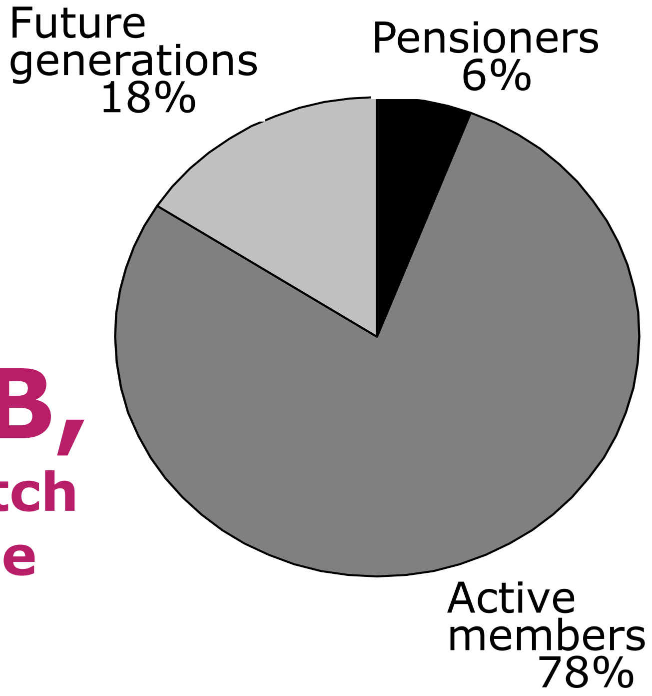
- How to organize?

  mandatory participation

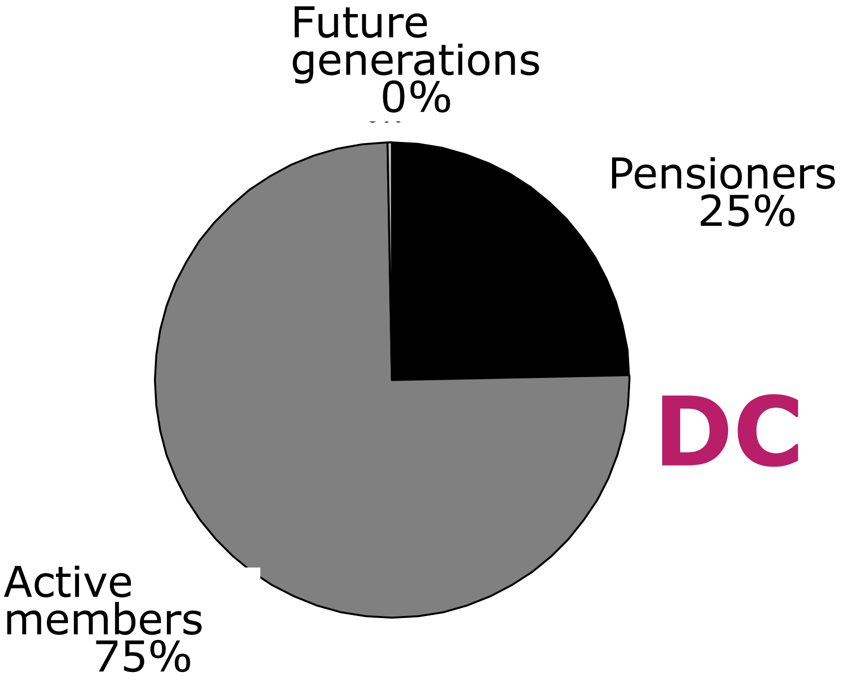
  long smoothing period,

  contribution rate key instrument

Intergenerational risk sharing under DB and DC:
who bears a stock market shock?

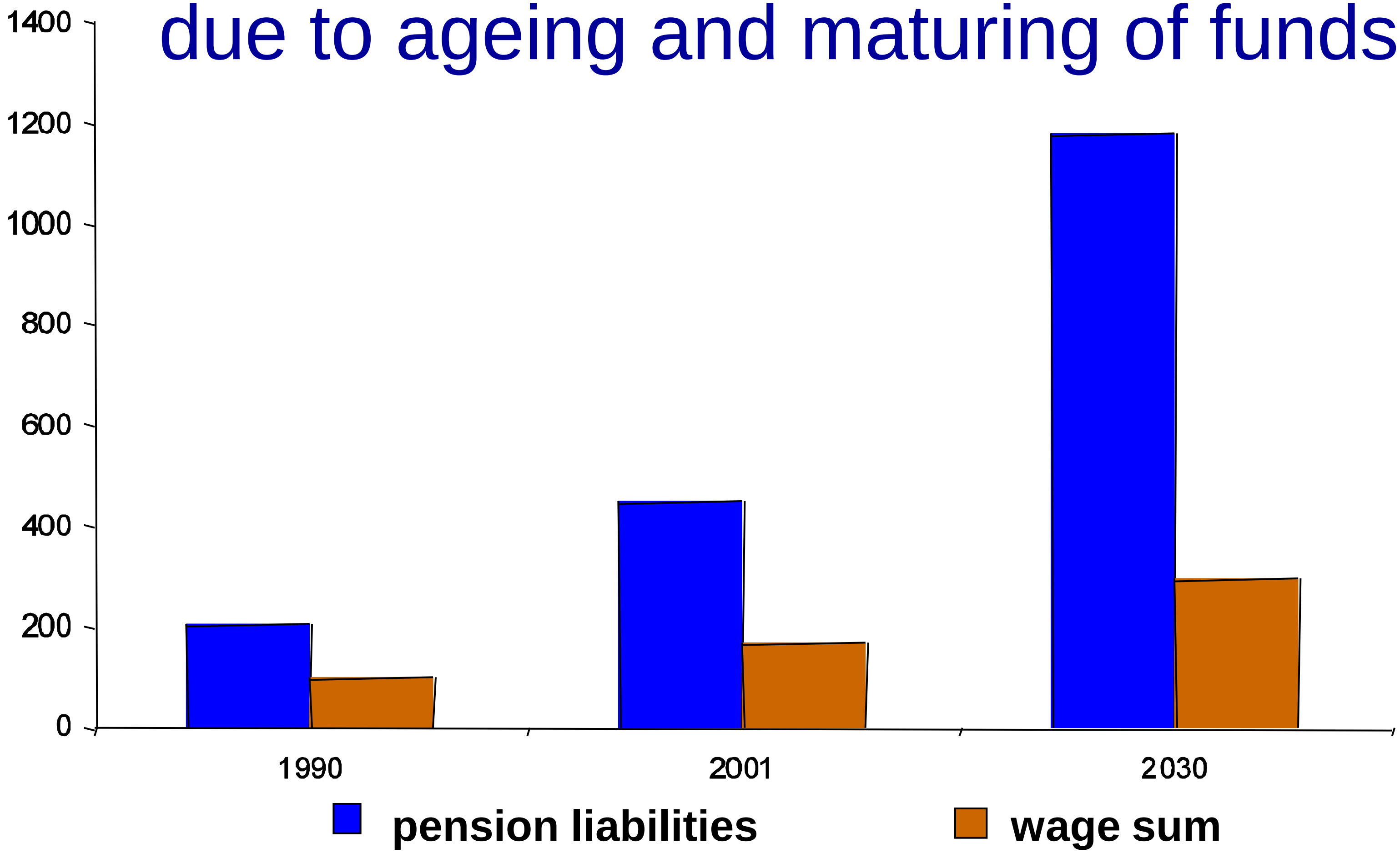


DB, Dutch case

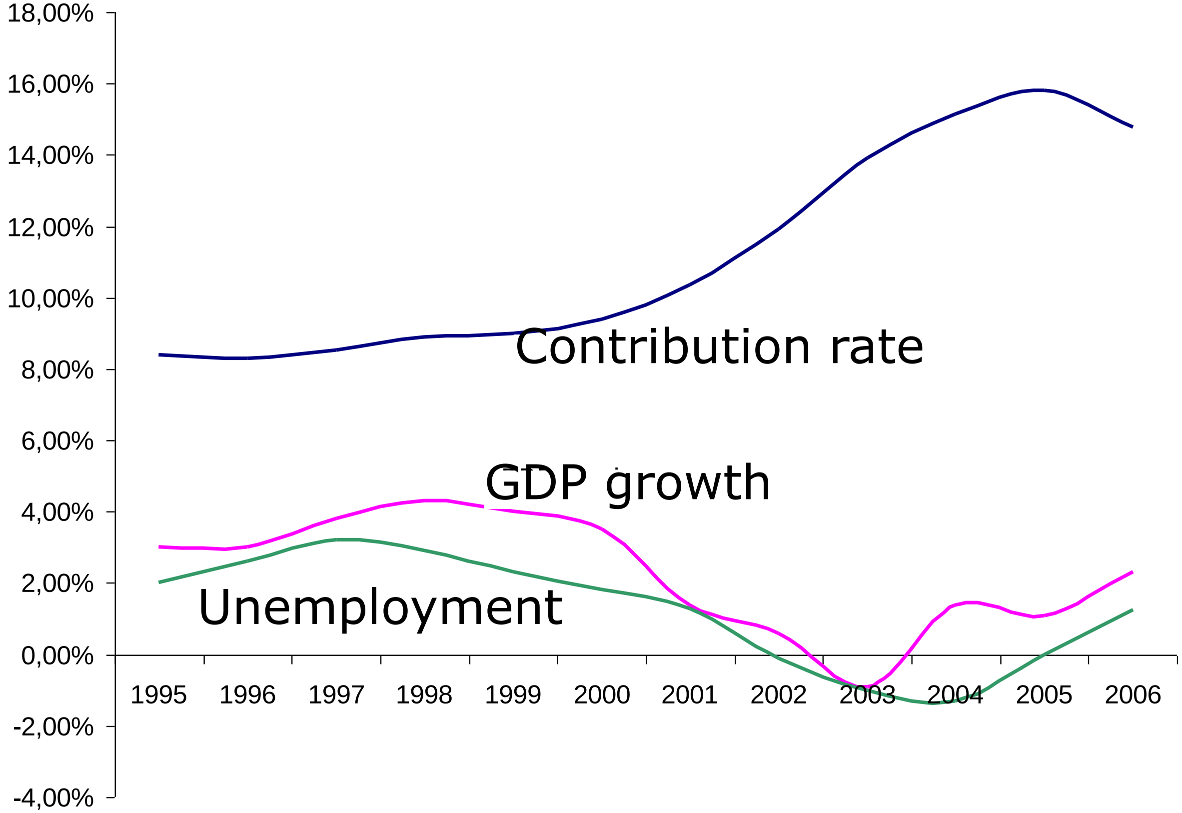


DC

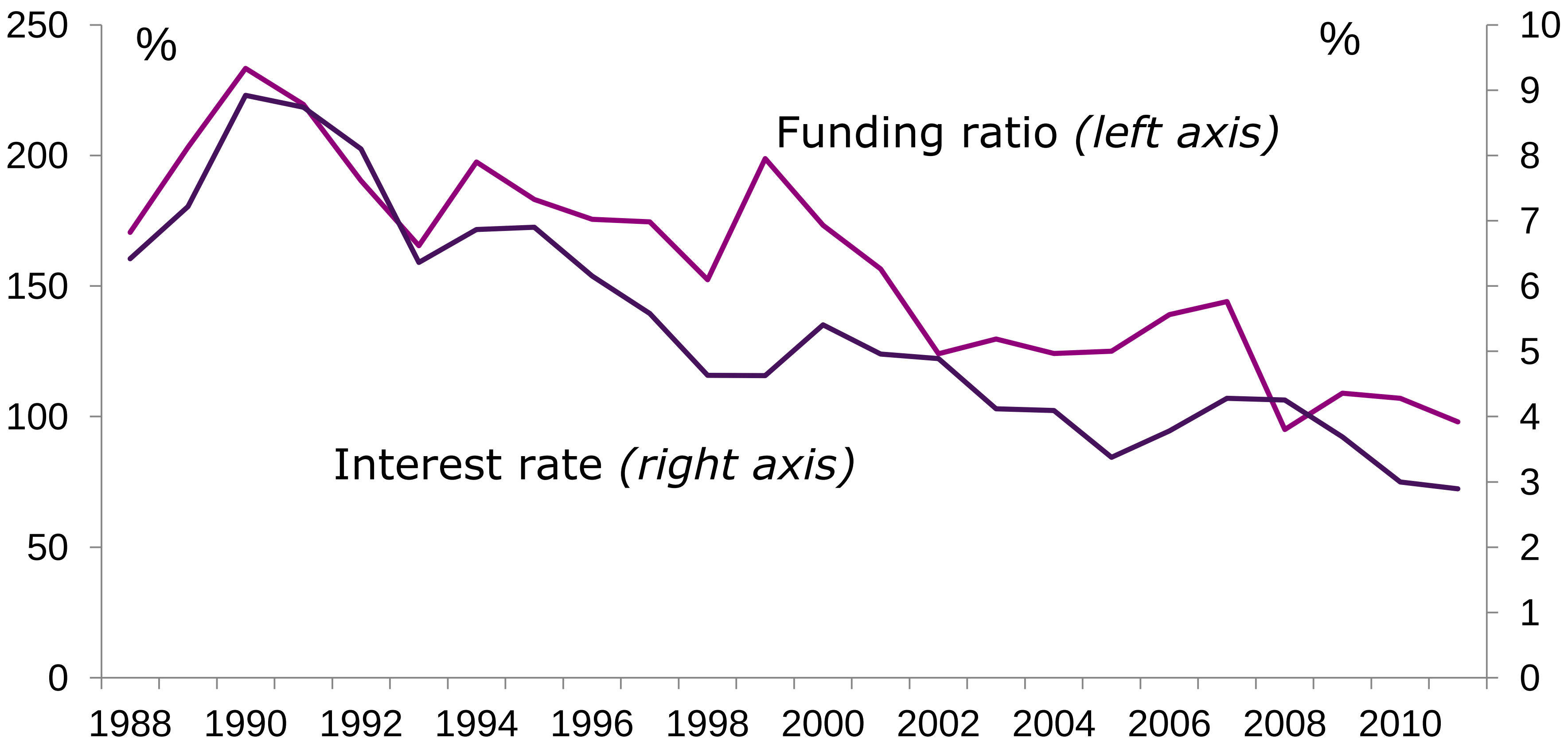
But decreasing scope for risk sharing due to ageing and maturing of funds



Contribution rates hurt the economy: pension recession of 2002-2005



And also: funding ratio out of control



We need a new pension contract

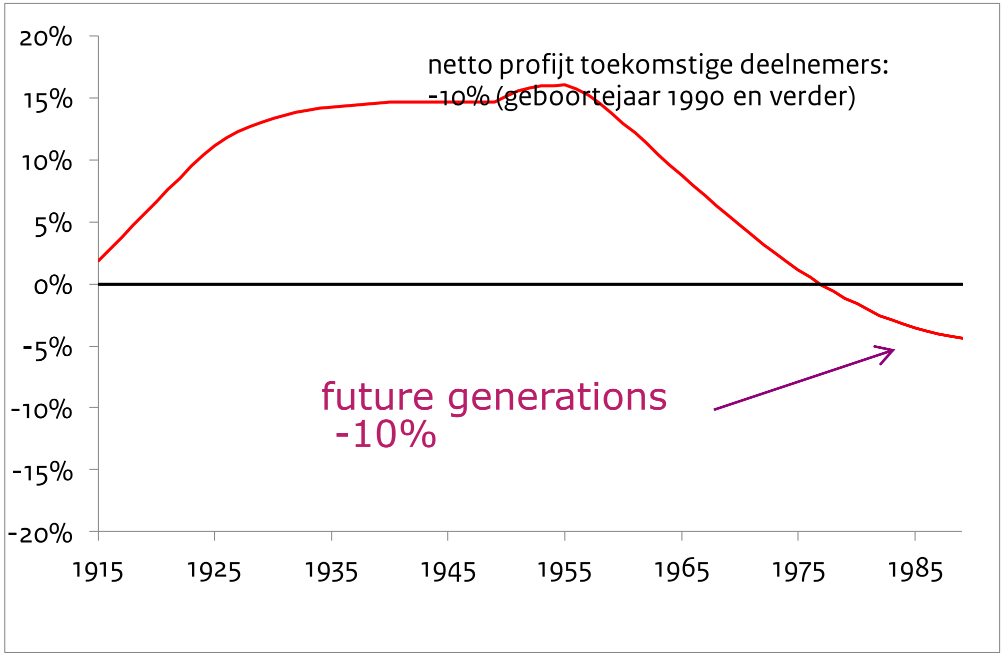
- Put more risk on the elderly
  - varying contribution rates no longer effective
  - “a good pension is a risky pension”

- Intransparancy and ad hoc adjustments have lead to generational conflict
  - property rights unclear

- Tool: value based generational accounting
  - determine redistributive effects pension reforms

CPB: Value based generational accounting
e.g. higher discount rate for pension liabilities (+1 %point)

Redistribution in market value, for each birth-year.



Future of Dutch pensions

- DB no longer sustainable, nor optimal
  - a good pension is a risky pension
  - government could help by issuing wage linked bonds

- Search for optimal balance of transparancy of property rights and intergenerational risk sharing
  - if unsuccessful: individual accounts?

- Take care that pension reform is fair across generations
  - value based generational accounting can be helpful tool