

27th Colloquium on Pensions and Retirement Research
New Developments in Pensions and Retirement

Individualization and de-risking

Prof. dr. Yves Stevens



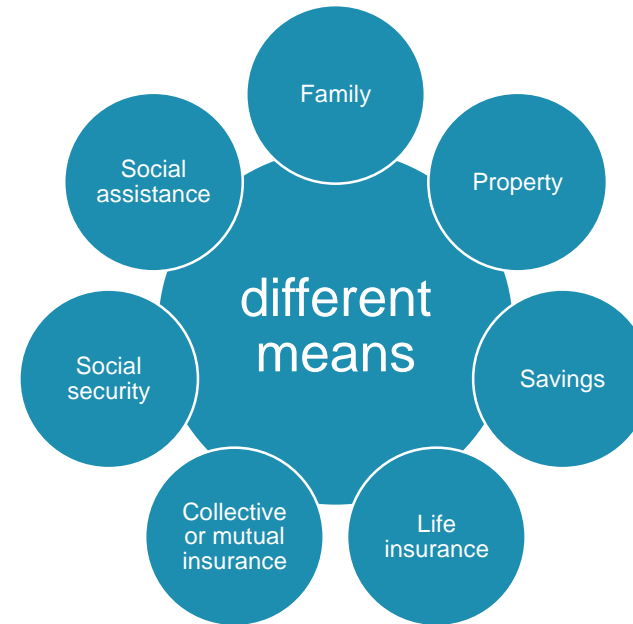
different goals but mainly

poverty alleviation

income replacement

What is a pension?

for these goals different means

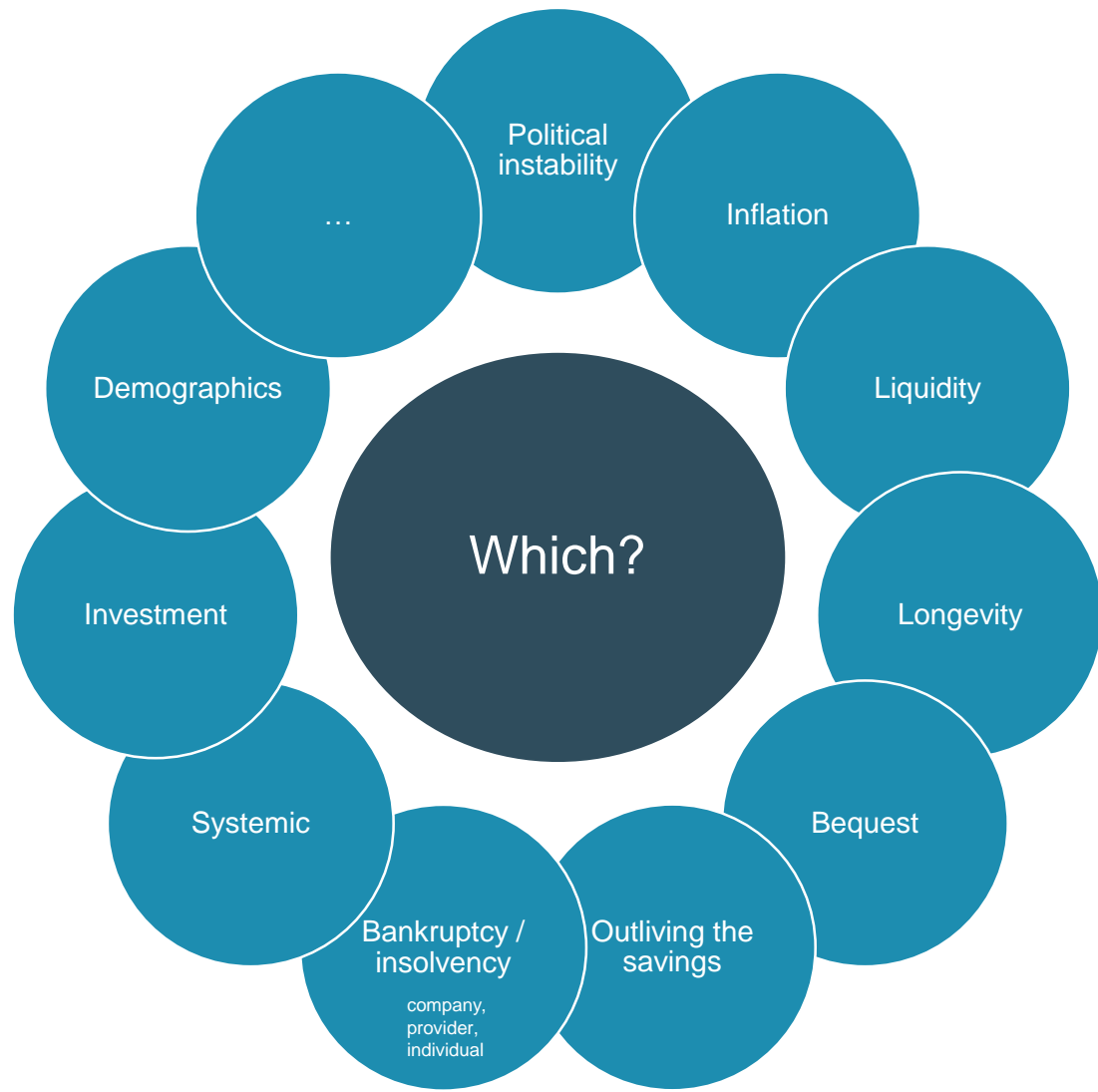


for these means different techniques

entailing different risks depending on the chosen financing techniques

Consequence is that the word the “pension” is used in many ways referring to different systems and techniques

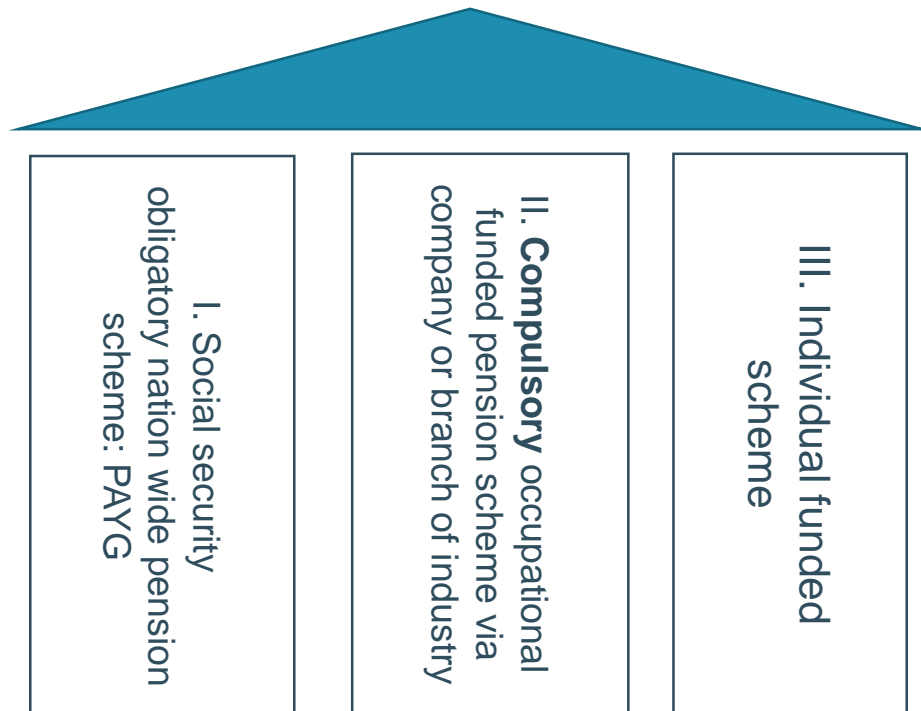
Pensions thus always entail a certain form of risk management



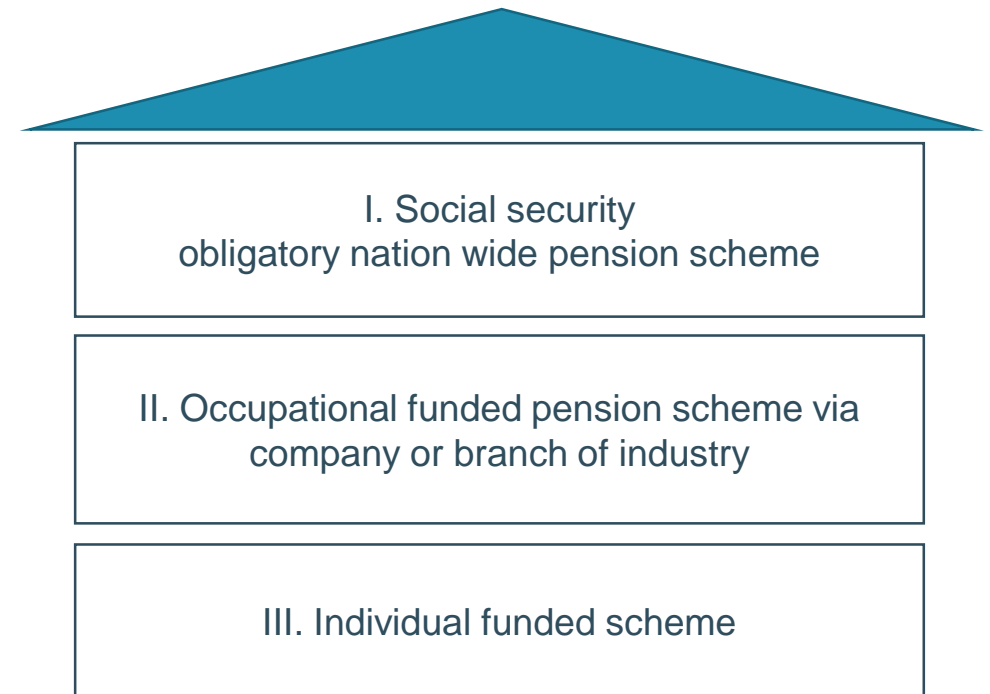
Pensions are often thought about in pillars or layers

Classically there were two models

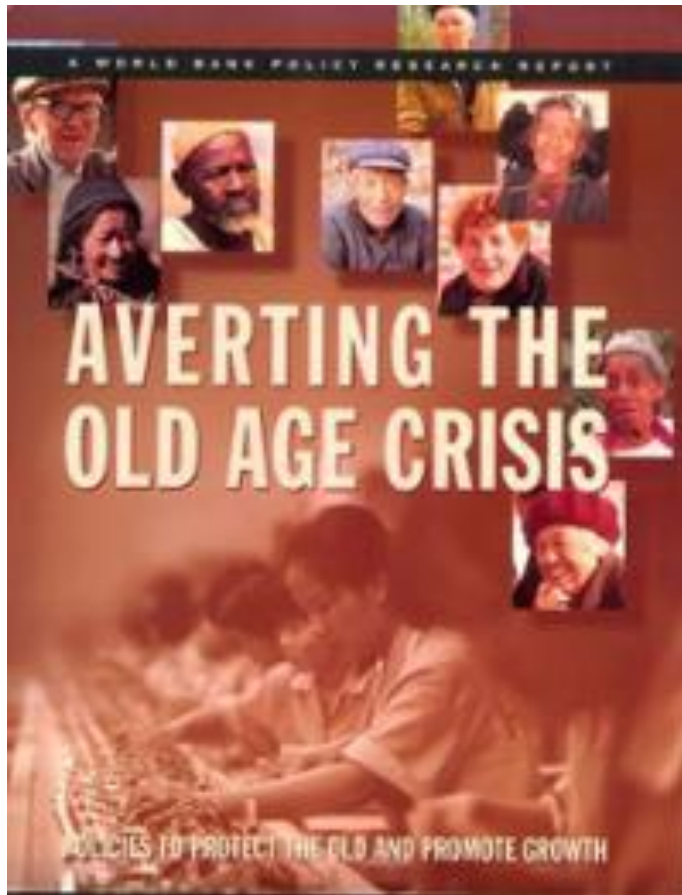
World Bank



International Social Security Agency and ILO

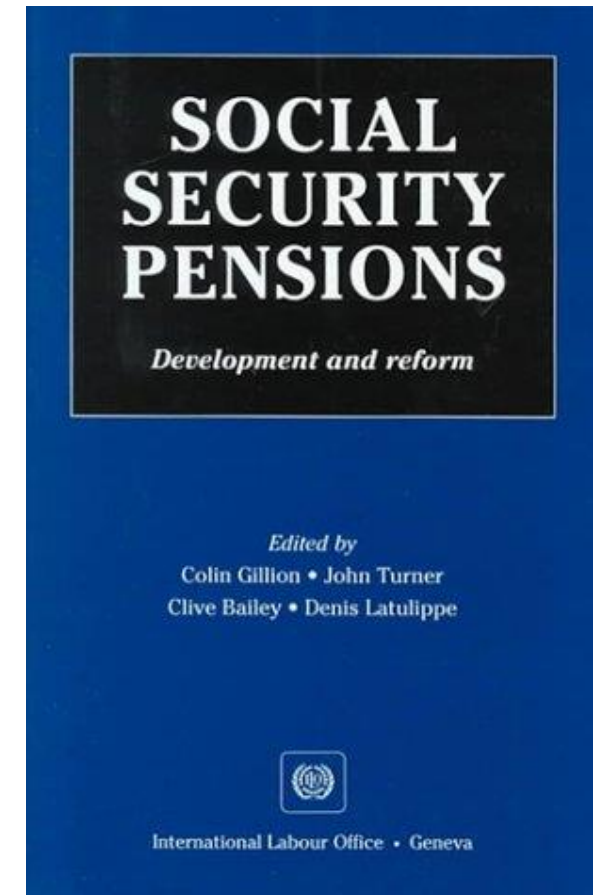


1994



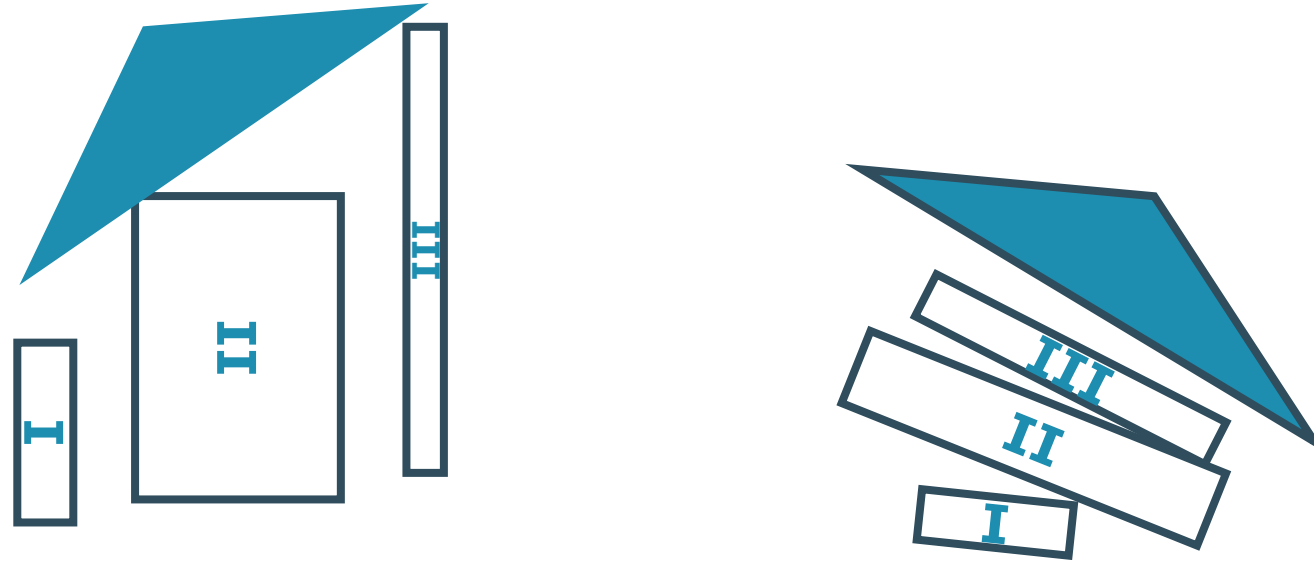
WORLD BANK, *Averting the old age crisis: policies to protect the old and promote growth*, Oxford, Oxford University Press, 1994, 402 p.

2000



International Labour Office, *Social security pensions: development and reform*, Geneva, ILO, 2000, 769 p.

Both models have been criticized



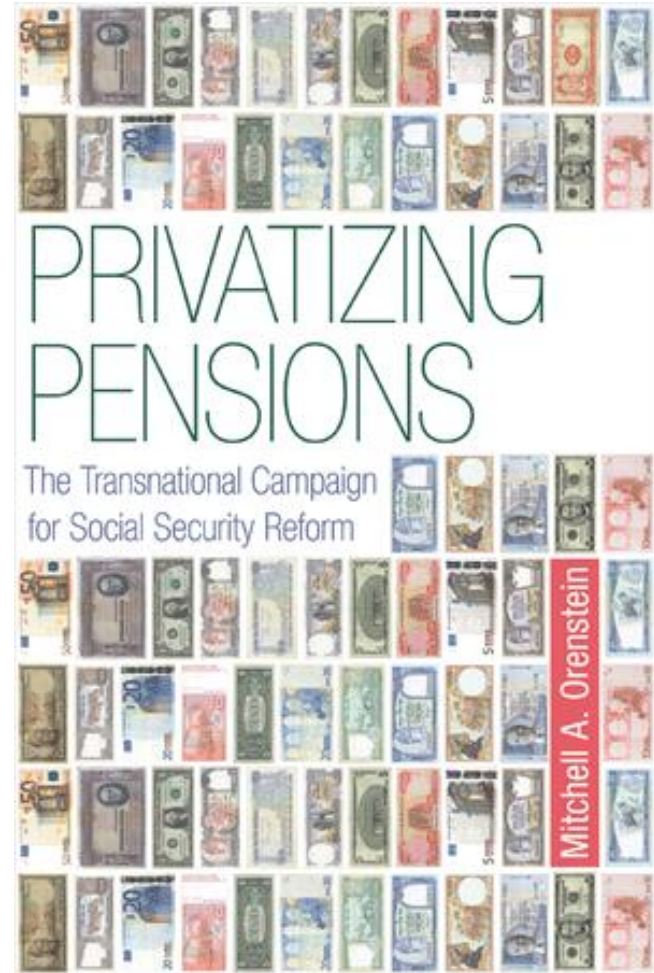
- Increased income inequality – Matthew effect
- Breaches of social contracts between the elder and the young (Musgrave disequilibrium)
- Higher than expected economic interdependency of the “pillars” or “layers”
- ...

World Bank model: great impact since 1994

Quasi global
recognition of the
three pillar model

- Easy recognition
- Balancing of risk idea

CEE and
elsewhere



Meanwhile

... de-risking and individualization in the sense that the individual carries more and more risks

- DB to DC
- Within DC lowering of the contractual guarantees made by pension providers
- Less annuities and more hybrid or lump sums pay outs
- Cutting of occupational pension rights in some EU member states (mainly eastern European countries) whereby individual savings (third pillar products) become more important
- Lowering of indexed annuities whereby the index mechanisms are no longer lead by collective investment strategies
- Calculation of supplementary pension on "average wages" instead of "last wages" whereby the increasing number of "broken careers" (instead of lifetime employment) leads to the need for higher private savings
- ...

Simultaneously

1/ Increased attention towards financial literacy

- Financial literacy is important
- However
 - Underestimation of the complexity of the system
 - Risk of overestimation of capacity of savers (rationality of savers)
 - Trade-off between clarity and precision
 - Gap between expectancy and reality



Shift of responsibility towards individual

Simultaneously

2/ Increase in non-standard employment

- Different forms (temporary, part-time, platform, self-employed, ...)
- Low statutory pensions and difficult access to occupational pensions

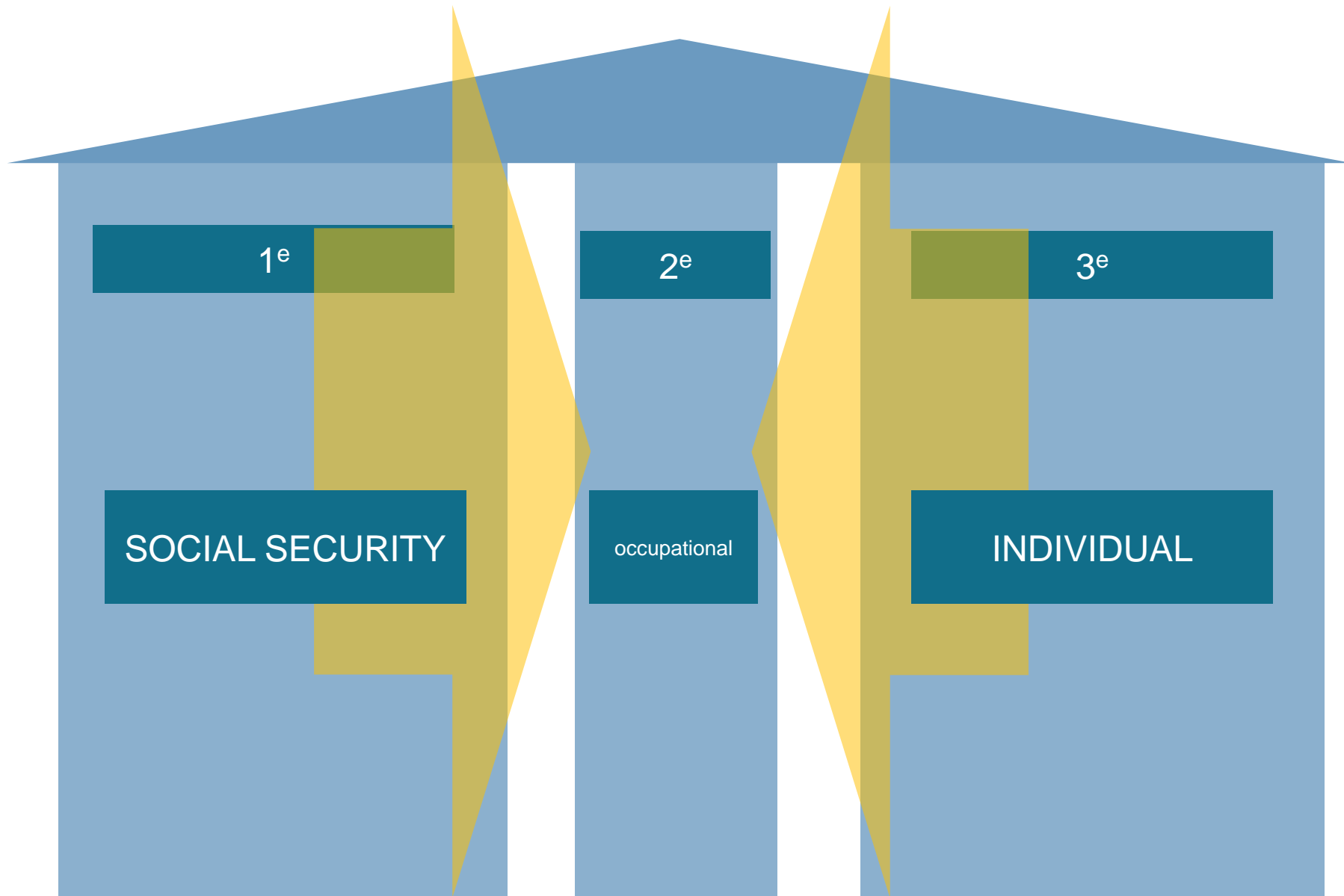
Simultaneously
3/

Decline in TRUST



CURRENT RE-REFORM

Hungary
Fiscal trade
Re-nationalisation
Bulgaria
Estonia
and



A new social contract?

Are we entering the era of Australia?



Thank You

Prof. dr. Yves Stevens
Coordinator Pension Course
Faculty of Law
University of Leuven
Cell. +32 473 473 207

yves.stevens@kuleuven.be

