

Pension reform as 'defined ambition'

Frank Vandembroucke

Toronto, 28.1.2015



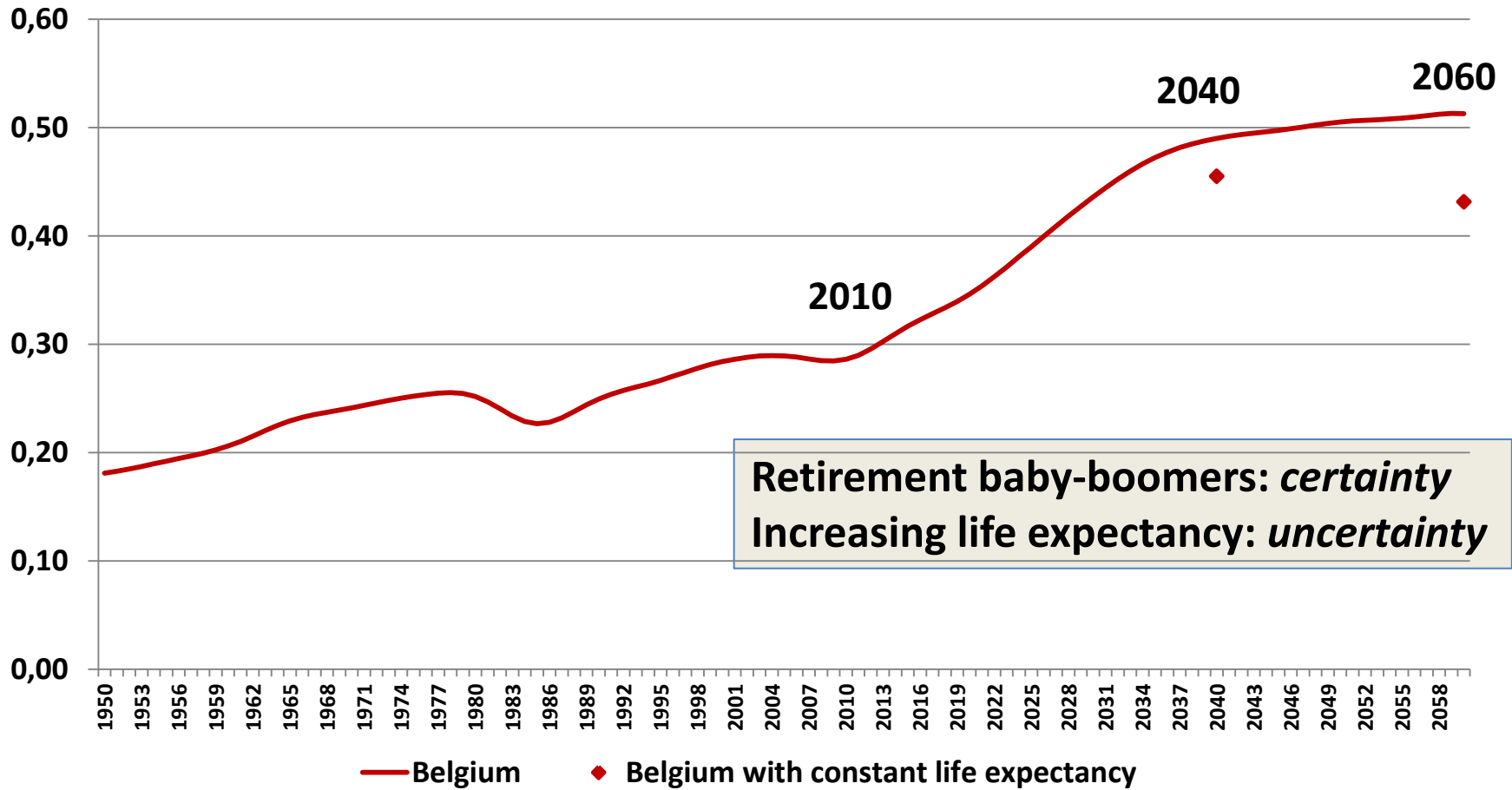
UN CONTRAT SOCIAL PERFORMANT ET FIABLE

Commission de Réforme des Pensions 2020-2040

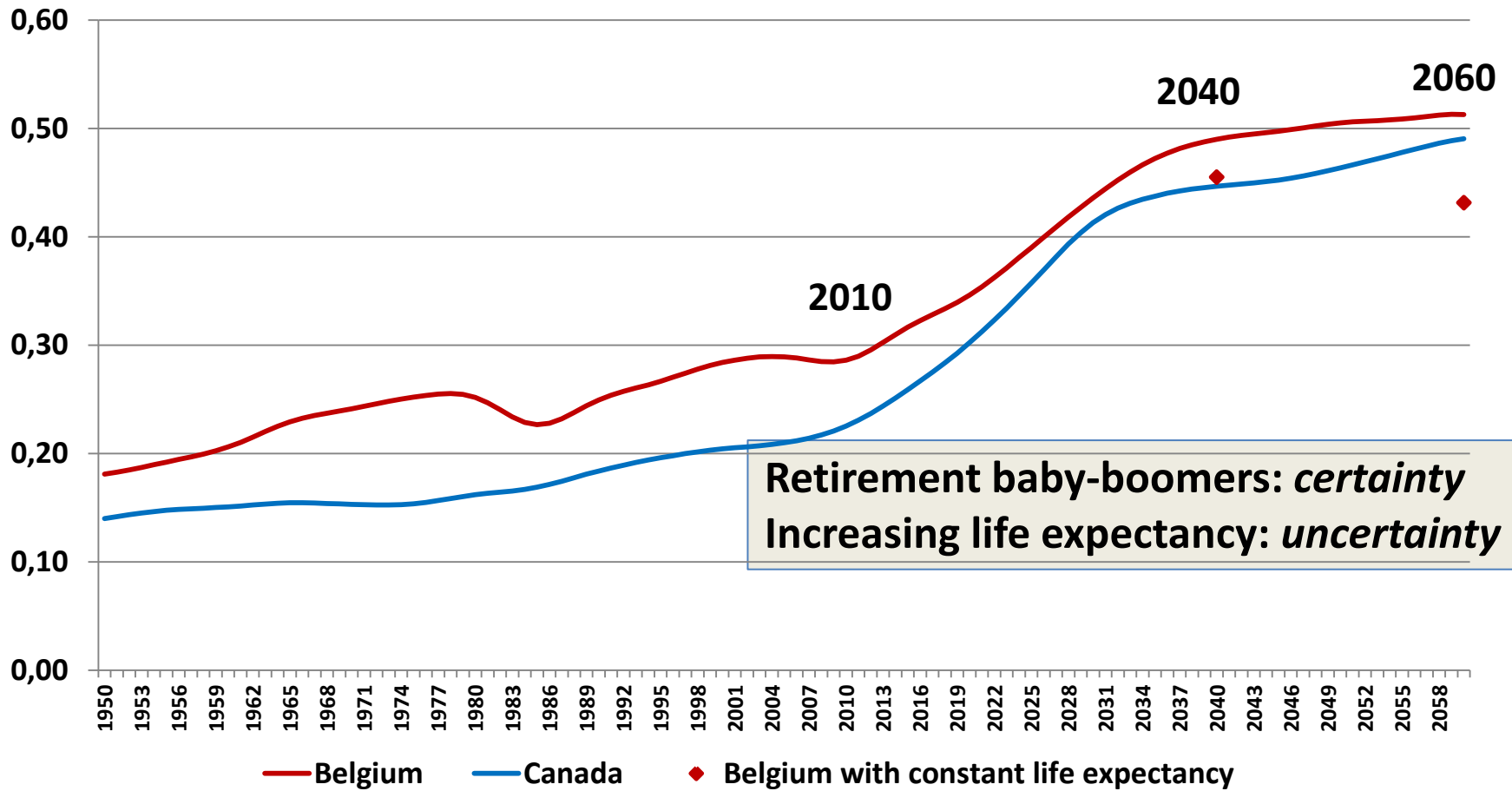
**Propositions pour une réforme
structurelle des régimes de pension**

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Old age dependency ratio: [65+]/[20-64]



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Projection of public expenditure as % GDP

	2010	2015	2035	2045	2060	Change 2010-2060
Belgium	11,0	11,9	16,2	16,7	16,6	+ 5,6
Canada	5,0	5,4	6,6	6,4	6,2	+1,2

Expenditure as % GDP, 2009

	Private pensions	Public + private	Tax breaks private pensions
Belgium	1,4	11,5	0,2
Canada	3,7	8,2	1,3

Replacement rates, OECD (!)

Individual with ... times average wage

	Median earner	0,5	1	1,5
Gross replacement rate				
Belgium	41,4	58,2	41,0	30,2
Canada	51,0	80,1	45,4	30,2
OECD	57,9	71,0	54,4	48,4
Net replacement rate				
Belgium	63,9	80,7	62,1	44,6
Canada	64,4	90,7	58,6	40,8
OECD	69,1	81,7	65,8	59,7

Income poverty 2010

	65+	Whole population	Relative income poverty 65+
Belgium	11,0	9,7	Higher
Canada	7,2	11,9	Lower
OECD	12,8	11,3	Higher

Politically sustainable reform & intergenerational risk-sharing

- Pensions = managing uncertainty
 - by integrating adjustment mechanisms in the pension system
 - EU Commission: by indexing parameters of pension systems to longevity (e.g. career requirements & retirement age)
- ‘Conditional certainty’ for the individual citizen
 - Stabilize $\frac{\textit{average net pension income}}{\textit{average net income active population}}$ (Musgrave Rule)
 - Conditional on macro demographic & economic context
 - Conditional on individual choice

Pay-as-you-go allows 'defined ambition', with point system

- Pension = (**number** of points) x (**value** of point)
x (actuarial **corrections**)
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- **Number** of points \leq career

'Defined ambition' : in between DC and DB

Two objectives:

- Target replacement rate for 'standard worker' with 'normal career'

& stabilisation of income ratio pensioners/employed
- Stabilisation of the contribution rates on earned income

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Two objectives:

- Target replacement rate for 'standard worker' with 'normal career'

& stabilisation of average income ratios pensioners/employed
 - Stabilisation of the contribution rates on earned income
- ⇒ Postponing retirement (flexibility in pension system)
- ⇒ 'Alternative' funding (tax shift)

Funded pensions in a supplementary second pillar

- Why funding? => diversification of risk
- Law 'Vandenbroucke' on Supplementary Pensions, 2003
 - 'Democratization' of supplementary pensions
 - Sector approach: coverage of SME
 - Embedded in social dialogue
 - Mobility
 - Guaranteed minimal return

Funded pensions in a supplementary second pillar

- Current issues
 - Coverage & contribution rates (social dialogue?)
 - Early exit (cf. remarks Myles, Wolfson)
 - Investment portfolio: true risk diversification?
 - Cost efficiency & transparency
 - Systemic risks => European Guarantee
 - Fairness in taxation
 - Guaranteed minimal return
 - Payment in rent
 - Self-employed

Sustainable reform...

- Requires large consensus
- Based on sense of common purpose: defined ambition

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