

Pension Reform: Humanity and Community in Old Age Security



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Overview

- Situation
- Principles
- Problems with public pensions
- Reform proposal

Situation: debt crisis



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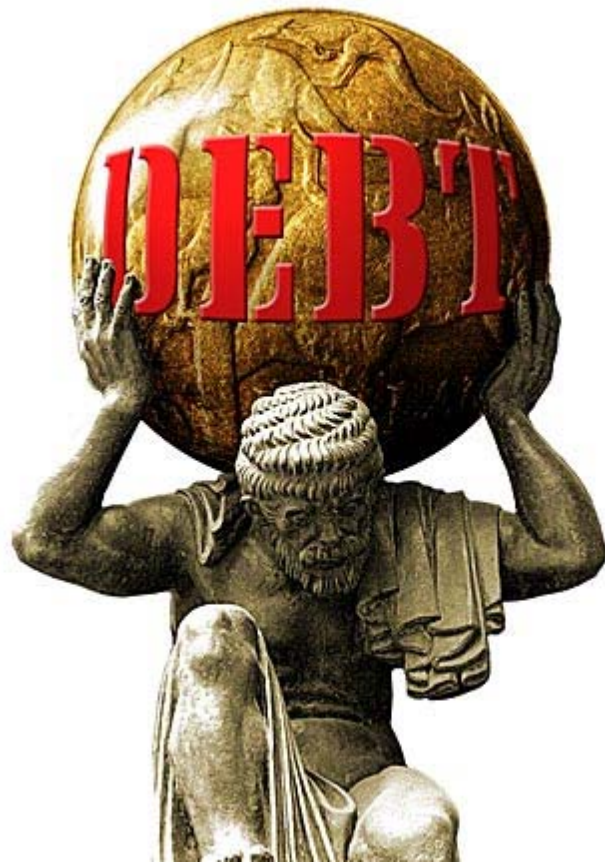


This is Britain's £893.4bn mountain of debt.

If you look very closely you'll see how much it was reduced by the 'urgent' cuts announced yesterday.

(So be prepared for a long hard climb.)

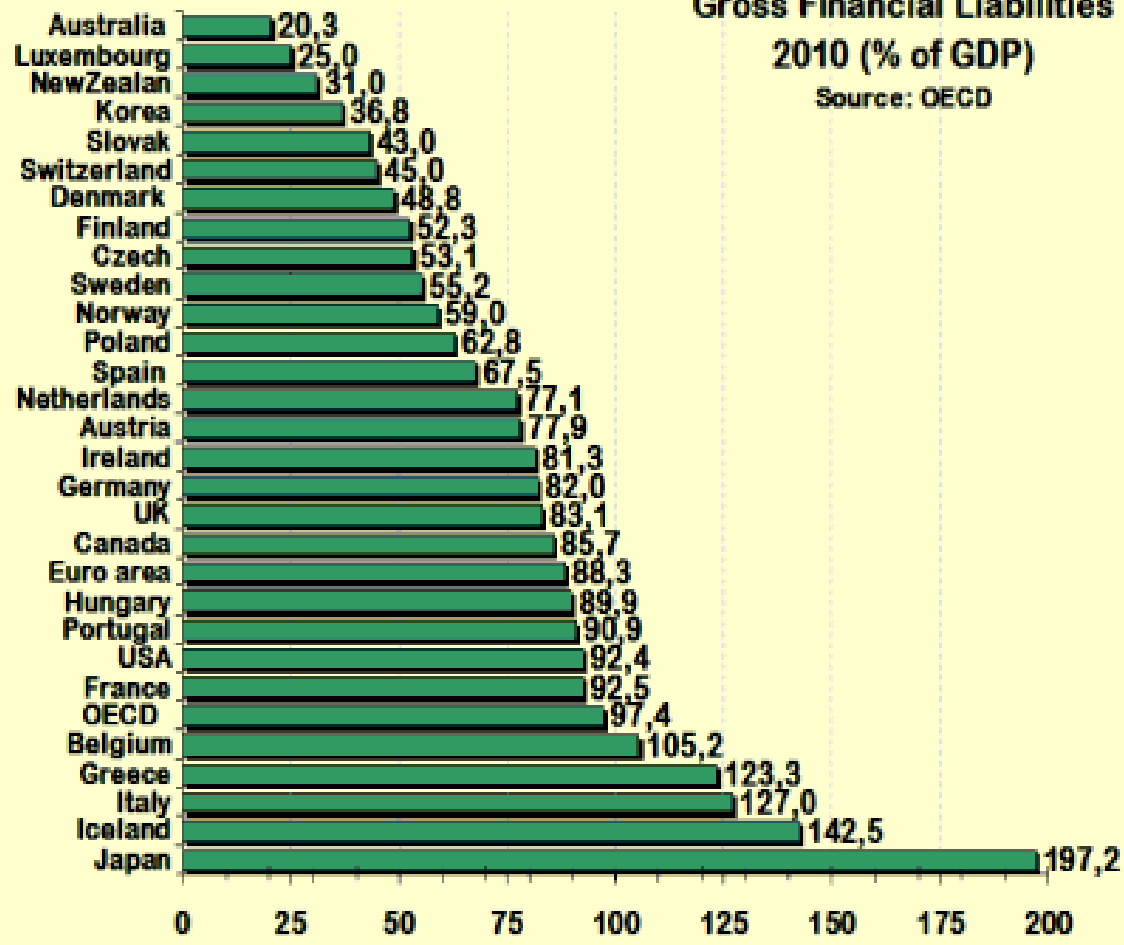
Full reports and analysis, page 4 - 5

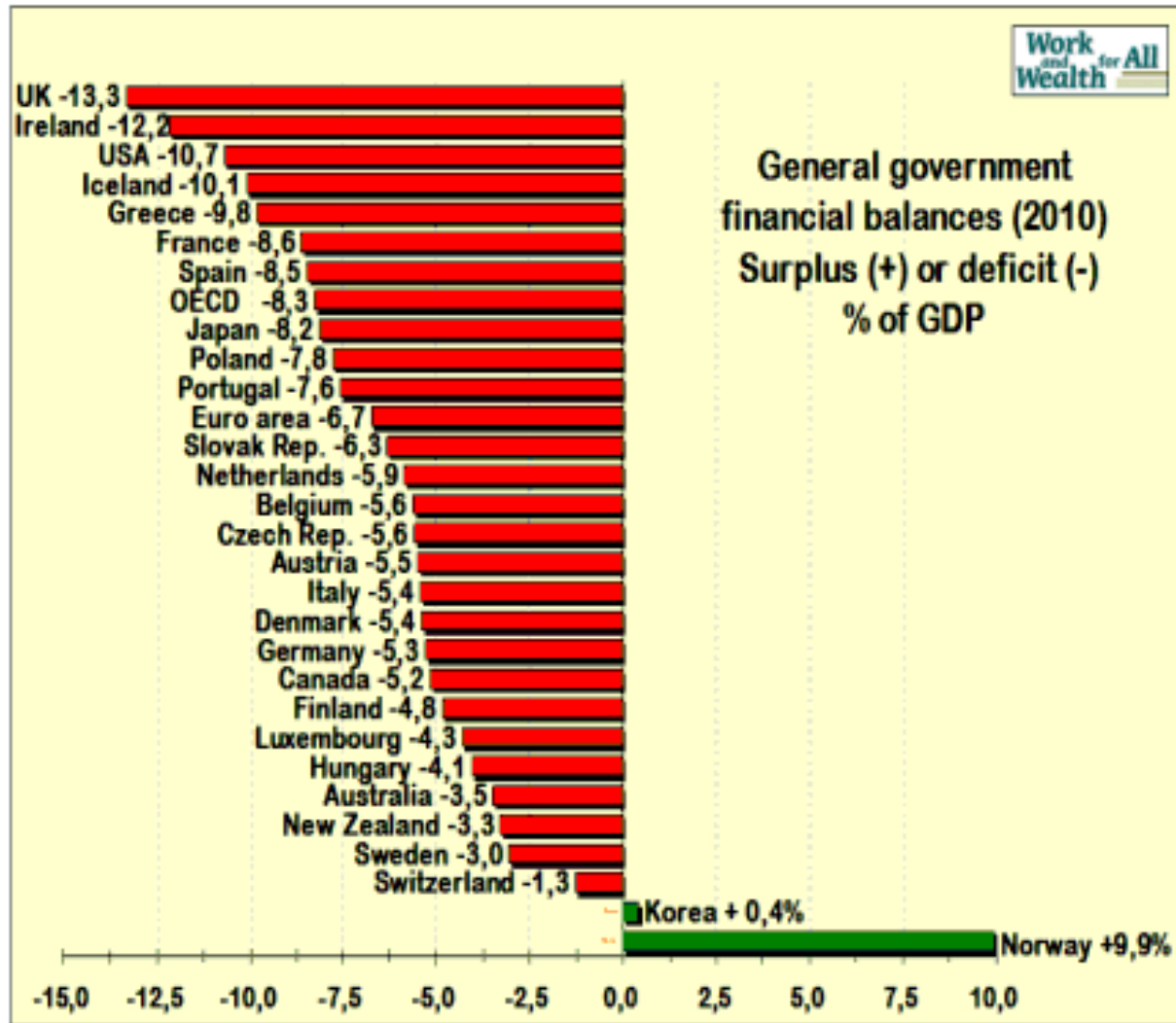


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General government Gross Financial Liabilities 2010 (% of GDP)

Source: OECD

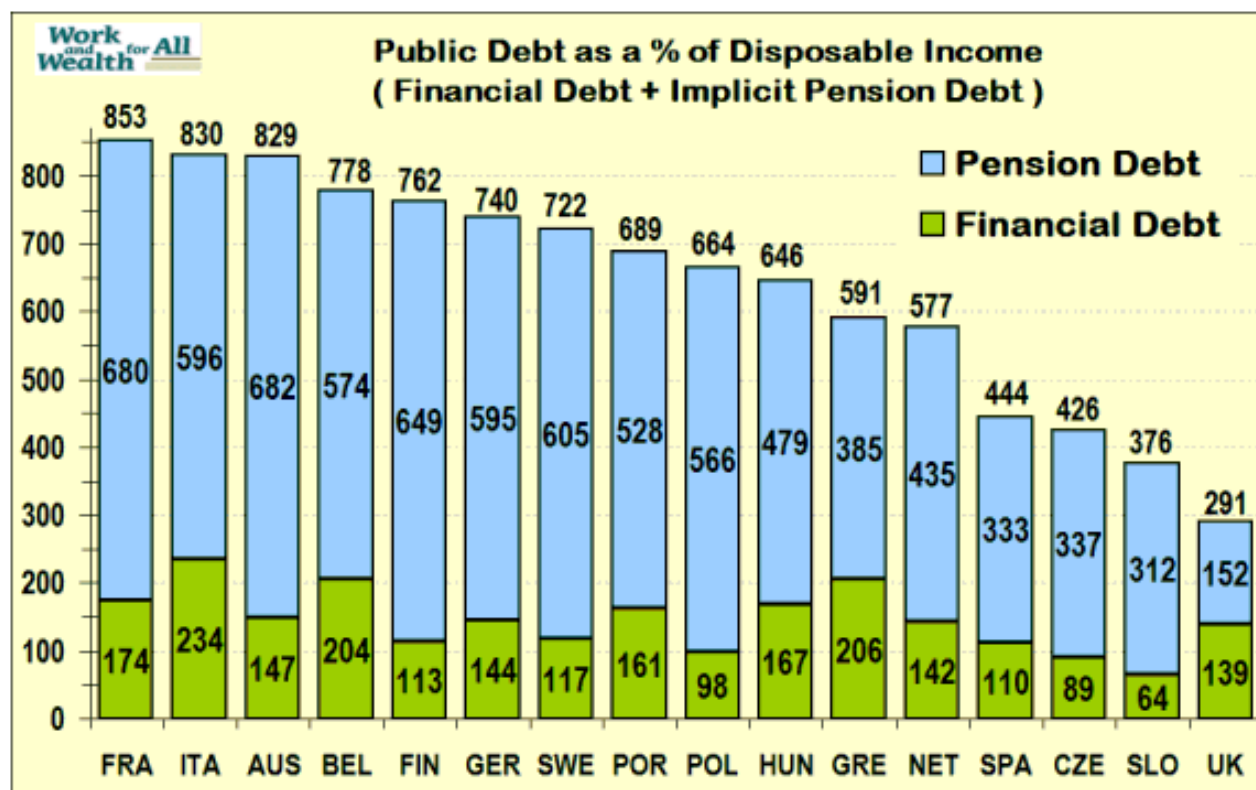






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Debt mountain: pensions





Principles

- Human person: body & soul
- Virtues: perfection of human nature
 - Temperance, thrift
 - Justice, work
 - Charity, solidarity
 - Freedom & responsibility

Family

- Family & procreation
 - Life is a gift
 - Family: first society
 - Oldest form of social and old-age security (and still the commonest!)





Subsidiarity

- Principle of subsidiarity
 - State is not a community of persons marked by mutual affection and self-giving
 - Supportive role only (framework, emergencies)
 - Lack of flexibility, initiative, and personal knowledge

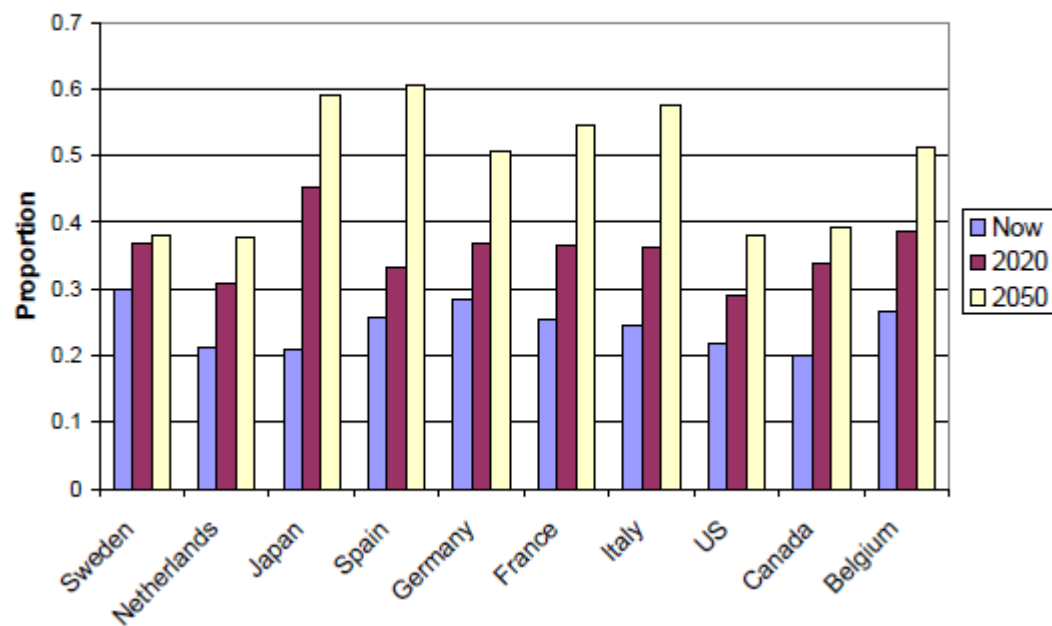


Public pensions: problems

- Pensions and work
 - Falling labor force participation rates
- Pensions, family and children
 - Falling birthrates

Pension burden growing

Figure 1. Population 65+ to population 20 to 64



Labor force participation: down

Figure 27a. LFP trends for men 60 to 64, updated

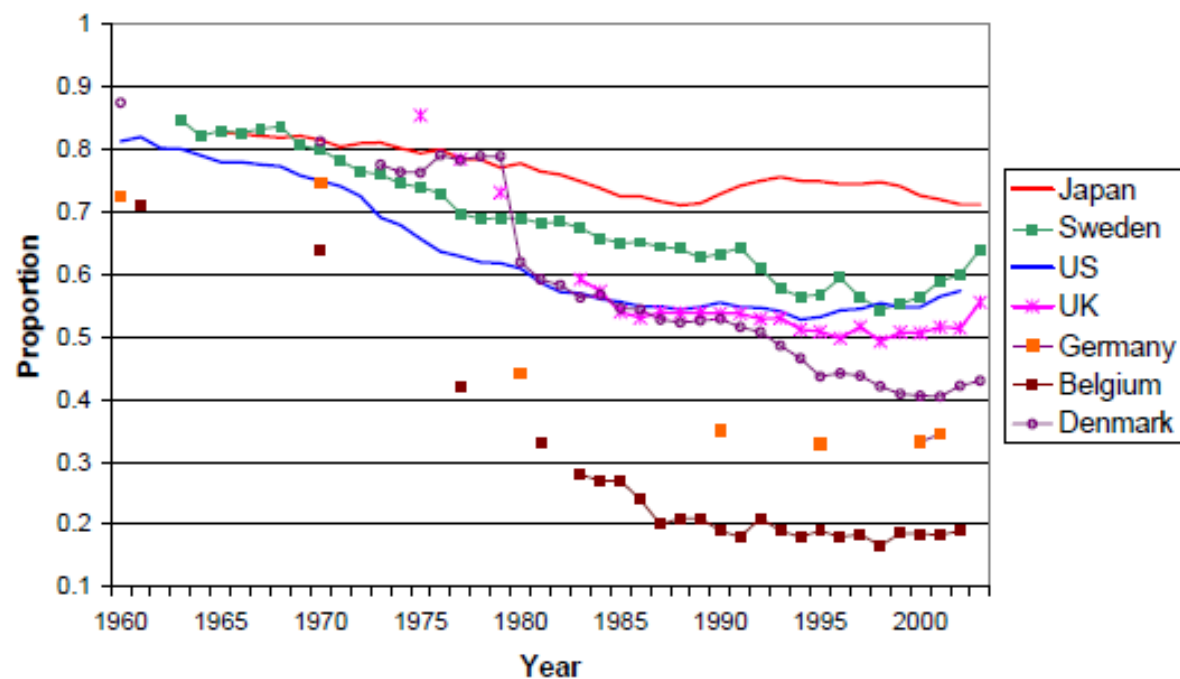
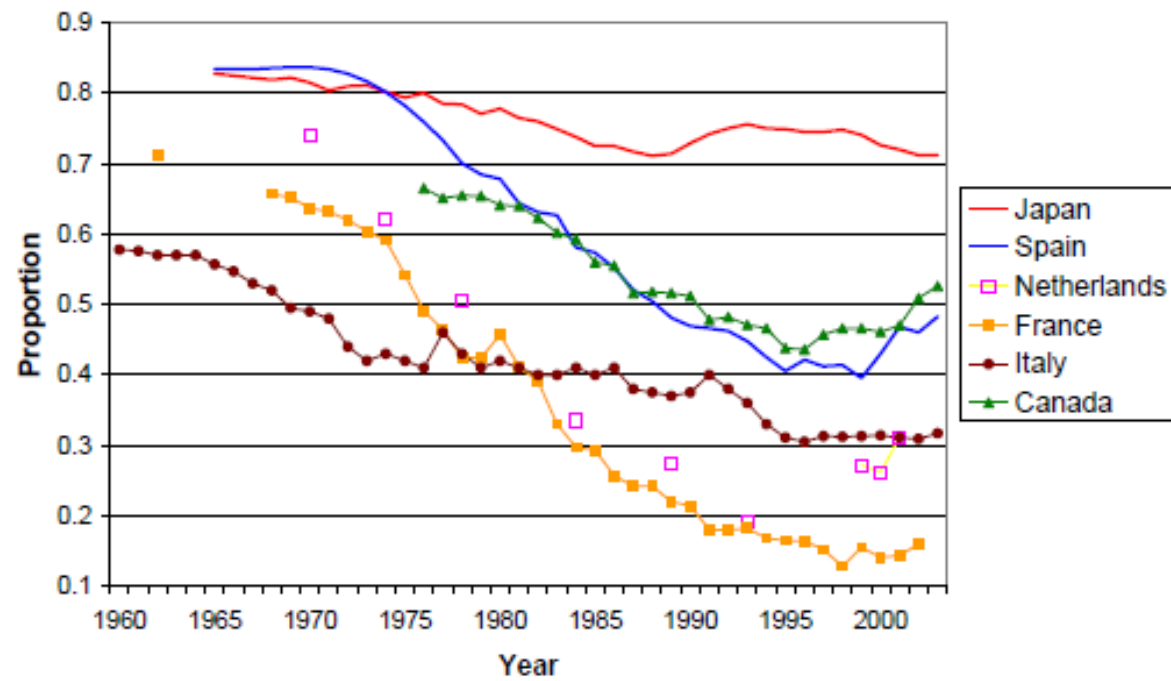
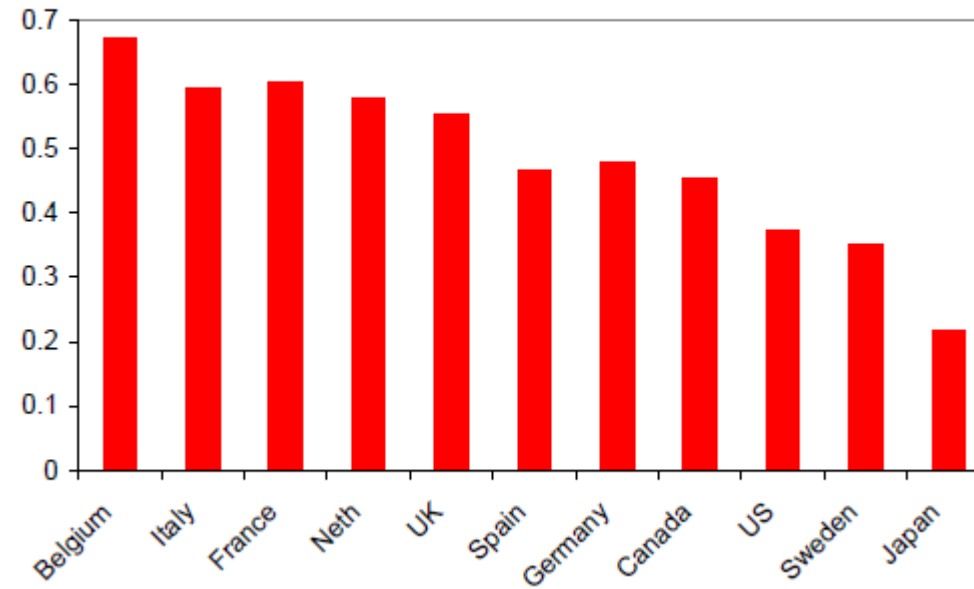


Figure 27b. LFP trends for men 60 to 64, updated



**Figure 3. Unused productive capacity:
men age 55 to 65**

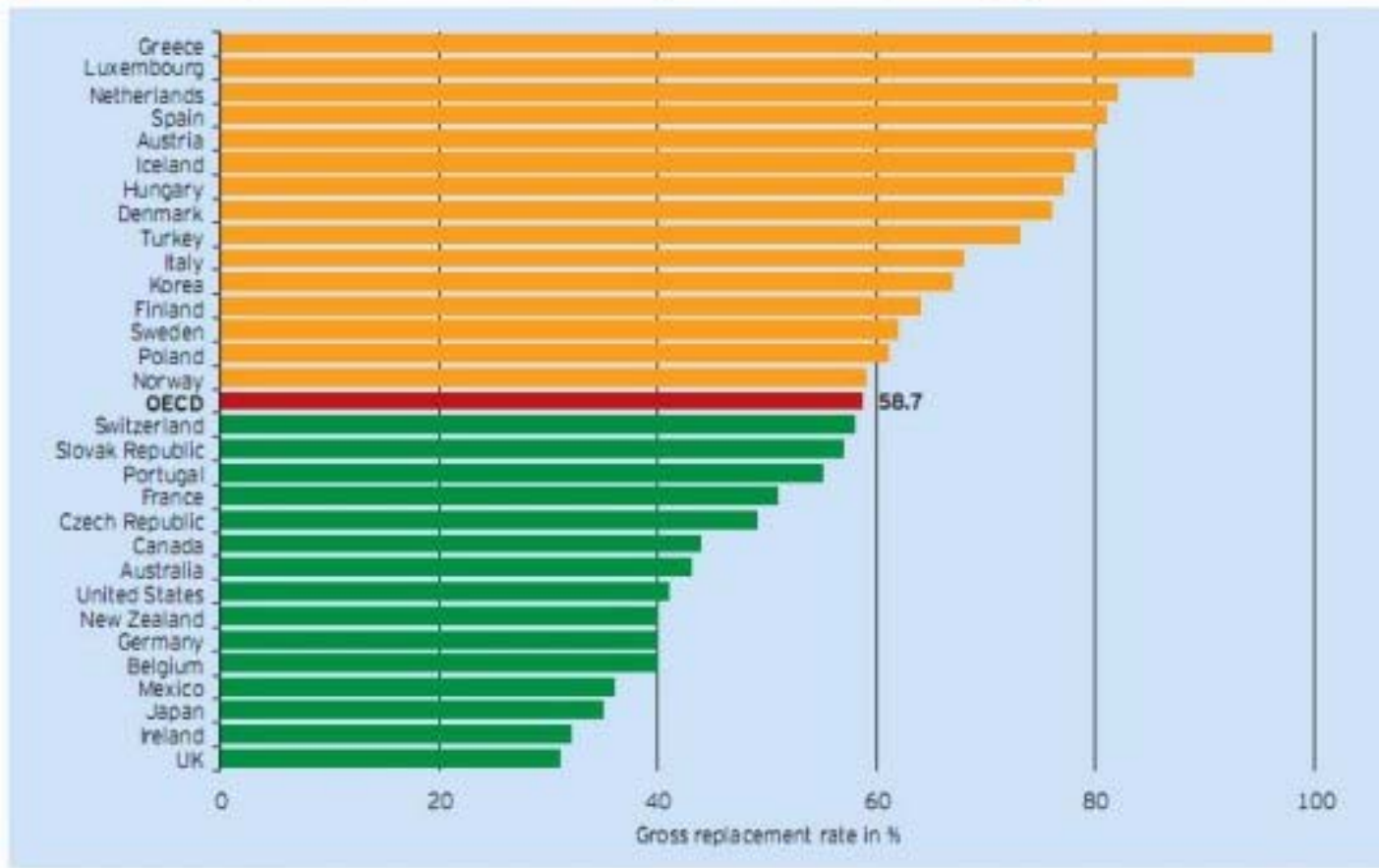




Reasons

- Too generous early retirement; lack of proper compensation for working longer
- Too easy disability benefits
- Exacerbates poverty and health deterioration
- Public choice: difficult to reform!

Chart 4: Gross replacement rate from an average earner from mandatory pension schemes



Source: OECD (2007)

Figure 8. Unused Capacity v Tax Force to Retire

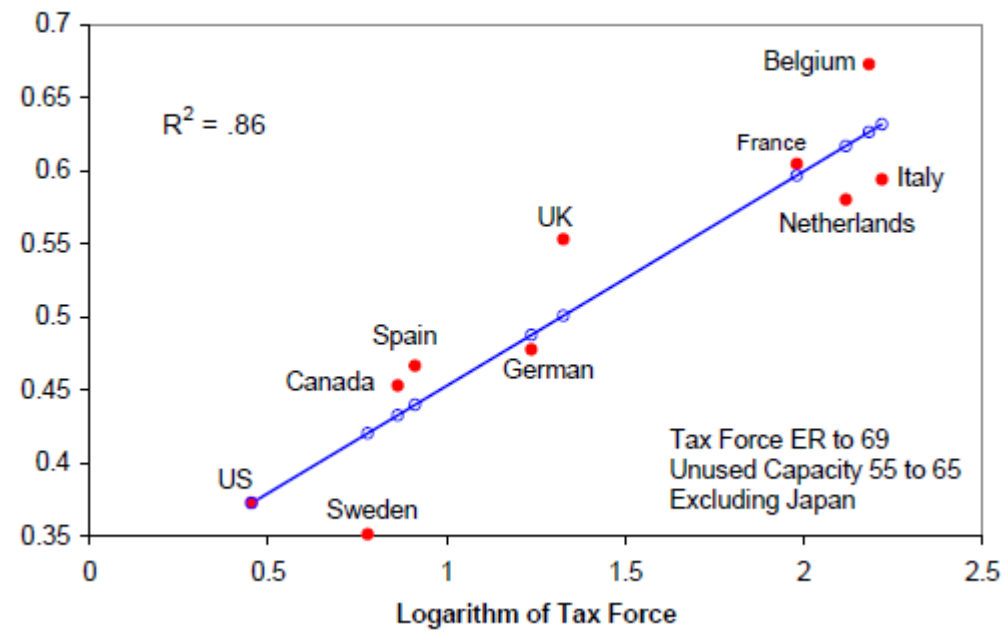


Figure 4. Proportion of men collecting disability benefits, by age

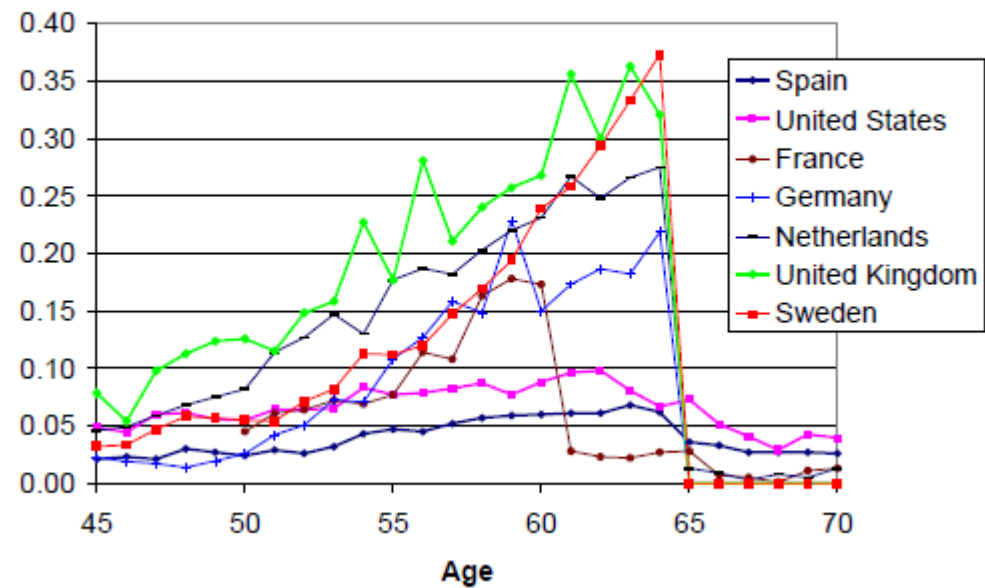
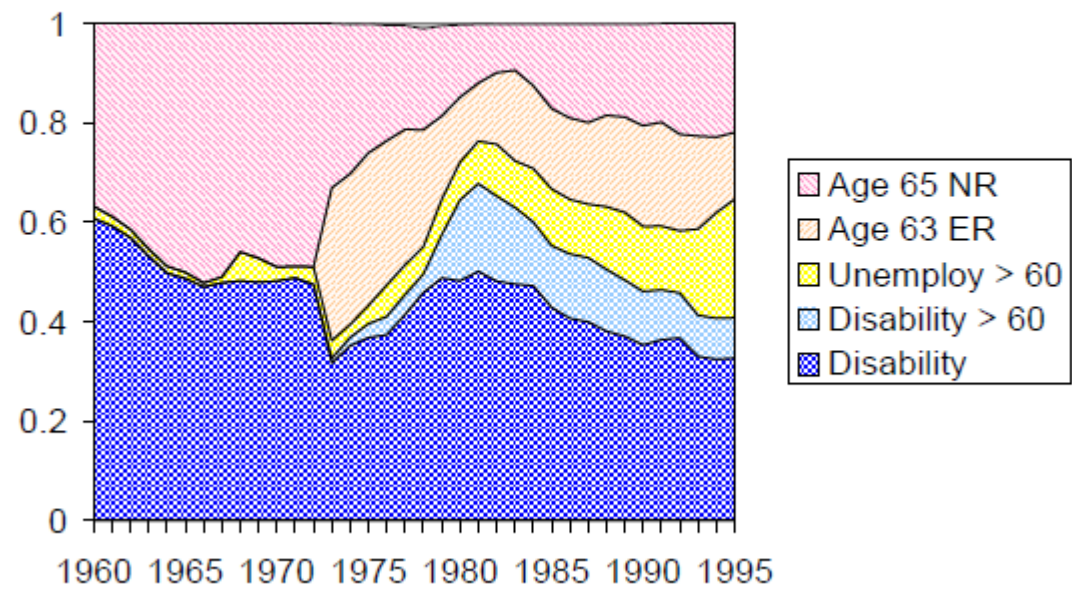


Figure 5. Germany: Pathways to retirement for men, 1960 to 1995



Reforms: riots





Pensions, family and children

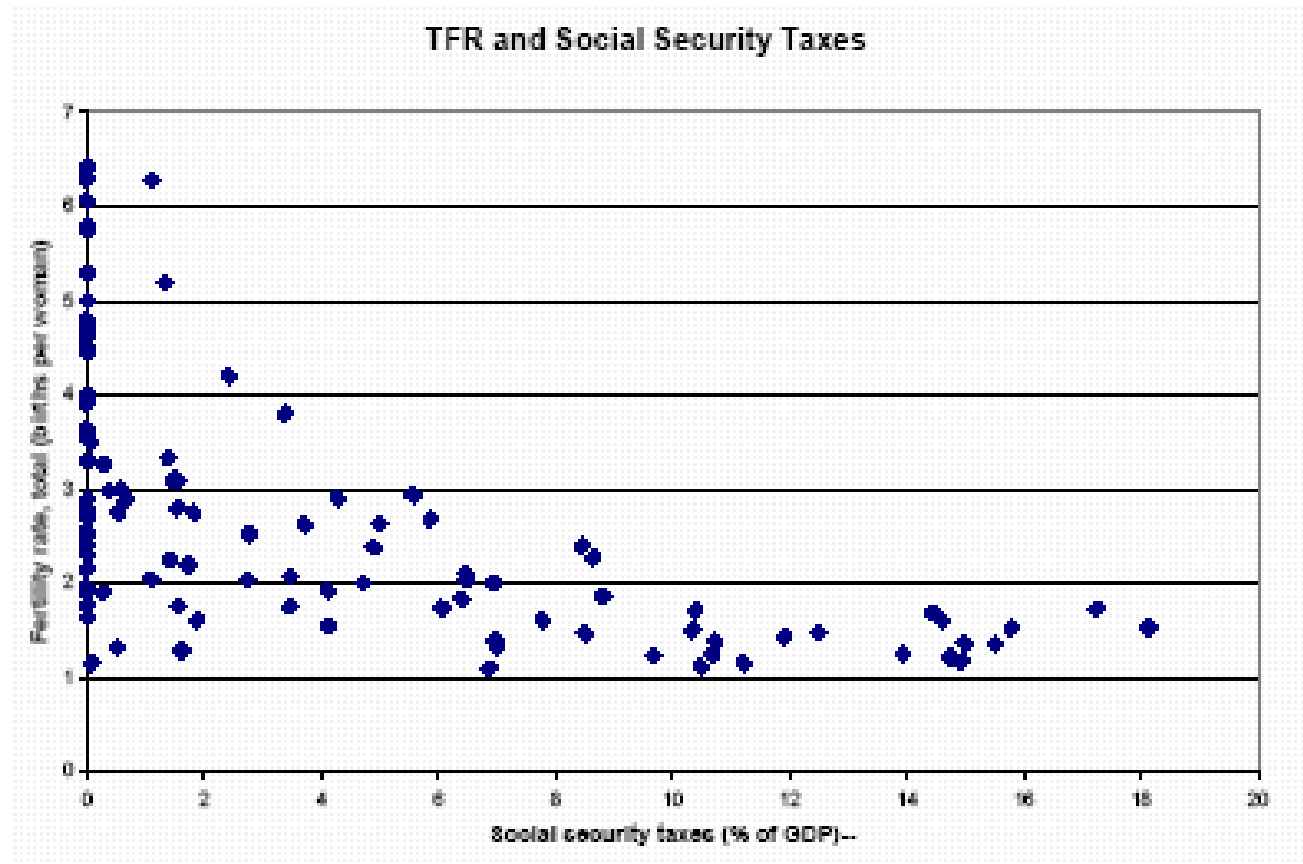
- Forced substitution effect
 - Old-age security motive for fertility
 - Extended family: insurance
- Free-riding effect
 - Higher relative burden of large families



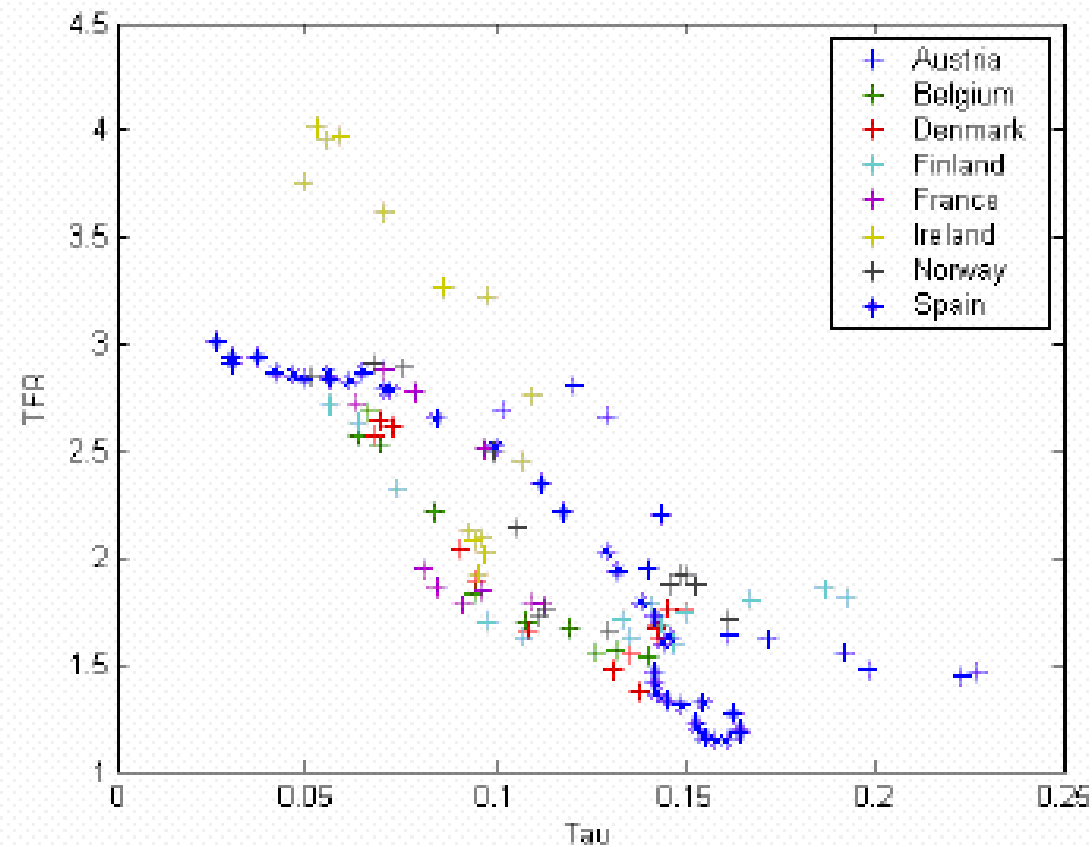
Evidence

- Econometric time-series analysis (across numerous countries)
- Germany: 2 ”natural experiments”
 - Saarland 1957 (down)
 - 1976 family-support policies (up)
- Work Bank plans in LDCs (!)

Cross-section data (100+ countries, 1997)



Time-series data (Europe 1960-2000)





Ideal system

1. Family & children
2. Savings
3. Part-time work
4. Extended family
5. Mutual aid and charity
6. Small basic pension



Reform steps

- Transform public pensions
 - Very basic pension (not income linked)
 - From age 70 or even 75
- Encourage private saving
 - Importance of monetary stability
- Liberalize labor market laws
 - Flexible part-time work opportunities
- Promote and protect large families