

QUAL O FUTURO DAS PENSÕES DE REFORMA EM PORTUGAL? ONDE ESTAMOS? PARA ONDE QUEREMOS IR?

29 NOVEMBRO | CENTRO CULTURAL DE BELÉM



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ASSOCIAÇÃO PORTUGUESA DE FUNDOS
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COM O APOIO DE:

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BACK TO BASICS

FRANCESCO FRANCO – ECONOMICS FOR POLICY - NOVA SBE



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PLAN OF THE TALK

1. BASICS → PAY-AS-YOU-GO AND FULLY FUNDED SYSTEMS
2. SHOCK → DEMOGRAPHY
3. MEASURING PUBLIC FINANCIAL SUSTAINABILITY → GENERATIONAL ACCOUNTING
4. INTERGENERATIONAL FAIRNESS → HOW TO DEFINE IT ?



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PAY-AS-YOU-GO SYSTEM

- **SYSTEM RUN BY THE STATE**
- **AGGREGATE LEVEL : PENSIONS ARE PAID OUT OF CURRENT CONTRIBUTIONS**
- **INDIVIDUAL LEVEL : A WORKER PAYS CONTRIBUTIONS NOW AND LEGISLATION GIVES HIM A CLAIM TO A PENSION IN THE FUTURE THE LEGISLATION IS FAIRLY PRECISE BUT SUBJECT TO CHANGES**
- **REDISTRIBUTION ACROSS GENERATIONS IS COMMON**



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FULLY FUNDED SYSTEM

- **SYSTEMS RUN BY THE STATE OR PRIVATE SECTOR**
- **PENSIONS ARE BASED ON SAVINGS**
- **AGGREGATE AND INDIVIDUAL LEVELS: A WORKER CONTRIBUTIONS ARE INVESTED IN ASSETS THE RETURN OF WHICH WILL PAY THE PENSION**
- **CONTRIBUTIONS CAN BE ADJUSTED TO MATCH LIABILITIES OR LIABILITIES CAN BE DEFINED BY AVAILABLE FUNDS**
- **LESS PRONE TO REDISTRIBUTIONS ACROSS GENERATIONS**



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TRANSITION FROM PAYG TO FF

Period	Generation			
	A	B	C	D
1	€ 1	-€ 1		
2		€ 1	-€ 1	
3			€ 1	-€ 1
4				€ 1

SOURCE: ORSZAG 1999 P.9

TABLE EXPLANATION

EACH GENERATION PAYS 1 WHEN WORKING AND RECEIVES 1 IN PENSION (PAYG)

REMARK

GENERATION A HAS A NET TRANSFER FROM GENERATION B, AN EXAMPLE OF INTERGENERATIONAL REDISTRIBUTION

EXERCISE - TRANSITION FROM PAYG TO FF IN PERIOD 2

1. FINANCED BY PUBLIC DEBT

ASSUME GENERATION B PENSION IS FINANCED BY DEBT AND C SAVES 1 AND THE REAL RETURN IS 10%. HIS PENSION WILL BE 1.1 MINUS THE SERVICING COST OF THE DEBT RAISED TO FINANCE B PENSION

2. FINANCED BY TAXATION

ASSUME GENERATION B PENSION IS FINANCED BY TAXATION AND T IS THE PART OF TAX INCREASE THAT DECREASES SAVINGS BY C WHO SAVES NOW $1-T$. HIS PENSION WILL BE $1.1*(1-T)$

BOTH ALTERNATIVES CAN IMPLY INTERGENERATIONAL REDISTRIBUTION



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PAYG OR FF? – DEMOGRAPHY CONSTRAINT IS BINDING

IS ONE SYSTEM SUPERIOR TO THE OTHER? NOT EASY ANSWER

- **TRANSITION COSTS**
- **DIFFERENCES IN RISK ON RETURNS**
- **ADMINISTRATIVE COSTS**

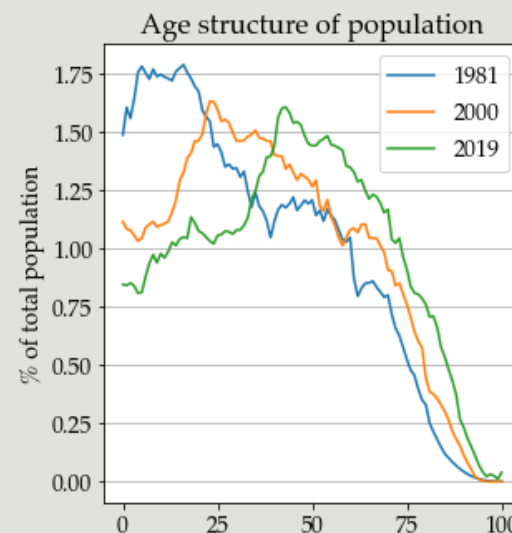
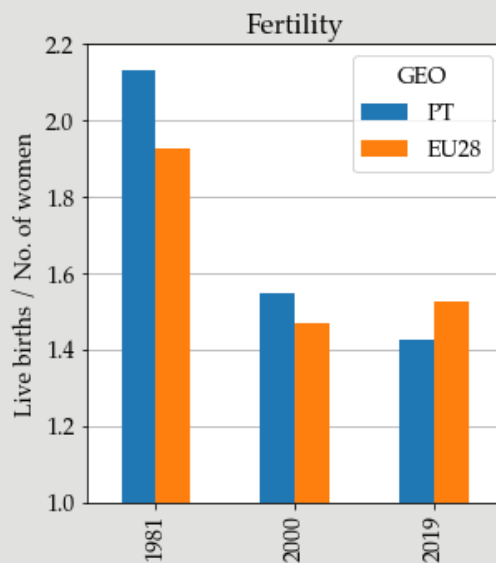
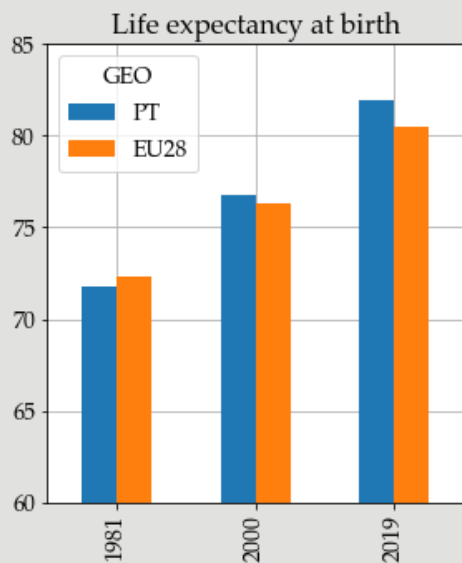
HOWEVER THE ACTUAL PENSION SYSTEM IS INCONSISTENT WITH THE ONGOING DEMOGRAPHIC CHANGE (OLD OBSERVATION)





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DEMOGRAPHY TRENDS

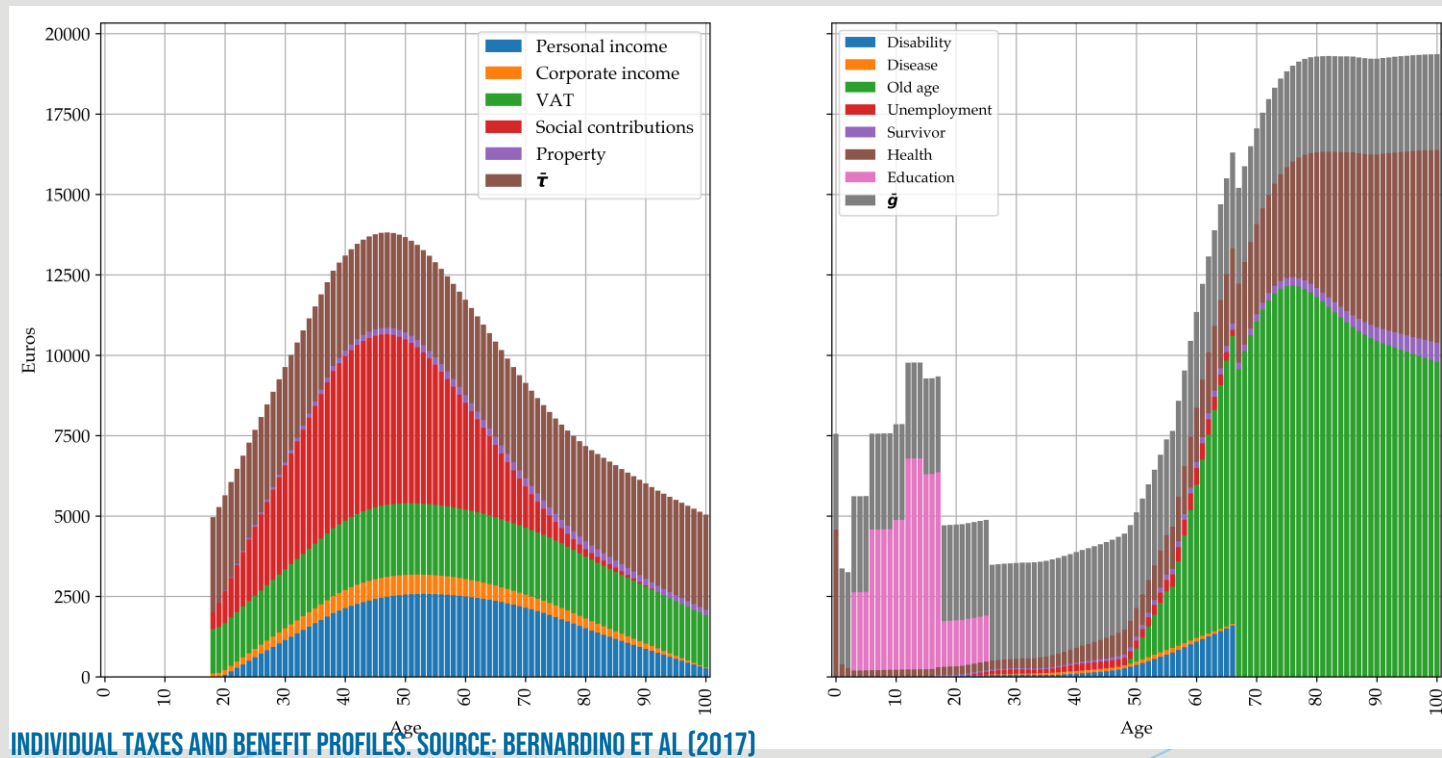


**INCREASING LIFE EXPECTANCY (GOOD NEWS) AND DECLINING FERTILITY (NOT AS GOOD) IMPLY THAT THE AGE STRUCTURE WILL NOT BE COMPATIBLE WITH OUR CURRENT PENSION SYSTEM
DEMOGRAPHIC PROJECTIONS ARE IMPLYING AN EVEN LARGER INCOMPATIBILITY THAN CURRENT NUMBERS**



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SUSTAINABILITY USING GENERATIONAL ACCOUNTING



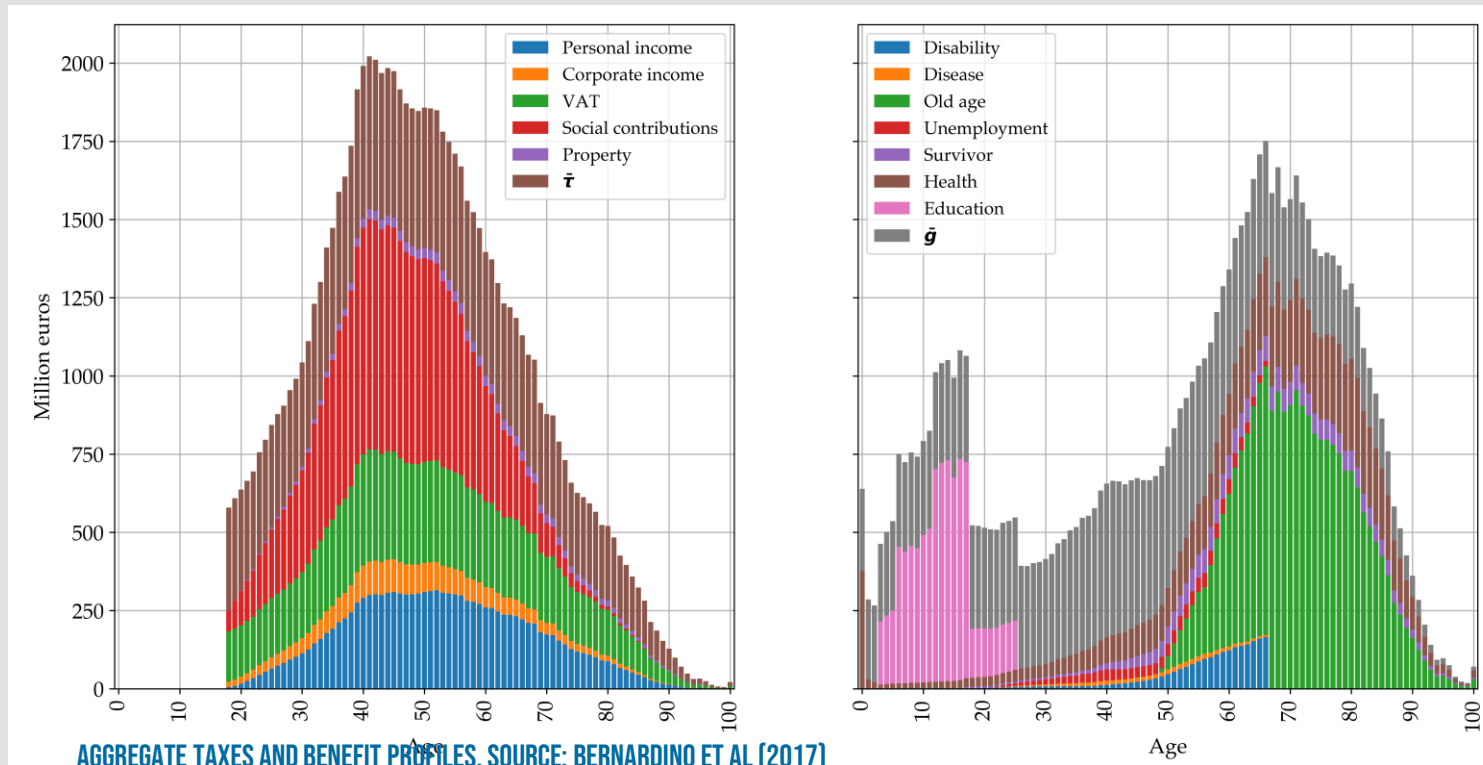
INDIVIDUAL TAXES AND BENEFIT PROFILES. SOURCE: BERNARDINO ET AL (2017)

INDIVIDUAL LEVEL TAXES AND BENEFITS BY AGE (REQUIRE DIFFICULT TO ACCESS MICRO DATA)
TODAY THE SUM OF BENEFITS IS LARGER THAN THE SUM OF TAXES FOR THE “AVERAGE” INDIVIDUAL



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GENERATIONAL ACCOUNTING



AGGREGATE TAX AND BENEFITS AGE PROFILE SUM INDIVIDUALS PROFILES USING POPULATION DATA
TODAY POPULATION AGE STRUCTURE BALANCES TAXES AND BENEFITS



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GENERATIONAL ACCOUNTING LESSONS

- **CURRENT POSITIVE PRIMARY SURPLUS RELIES ON THE PRESENT DEMOGRAPHIC STRUCTURE OF THE POPULATION**
- **ALL ELSE EQUAL, PROJECTED DEMOGRAPHIC TRENDS WILL BRING A NEGATIVE PERMANENT DEFICIT**
- **WITHOUT CHANGES ON THE TAX-BENEFIT AGE PROFILES, TO MAKE THE IBC HOLD: PERMANENT TAX INCREASE OF 18.6% (NEW ESTIMATE WITH IMPROVEMENT IN EDUCATION)**
- **MIGRATION DECREASES THE PROJECTED IMBALANCES, BY INCREASING THE YOUNG POPULATION THAT CONTRIBUTES**
- **MIGRATION IS NOT ENOUGH TO ELIMINATE THE GAP, NOT EVEN WITH EXTREME MIGRATION INCREASES, NOR OPTIMISTIC SCENARIOS ON MIGRANTS' FERTILITY**



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INTERGENERATIONAL FAIRNESS

- **FULL THEORY OF INTERGENERATIONAL JUSTICE IS COMPLEX, DEPENDS ON THE UNDERLYING CONCEPTUAL FRAMEWORK AND REQUIRES A MULTIDISCIPLINARY APPROACH**
 - **FOR EXAMPLE RAWLS VERSUS UTILITARIAN**
 - **FOR EXAMPLE LEGAL AND PHILOSOPHICAL ISSUES**
- **HERE SIMPLE APPROACH BASED ON PUBLIC SPENDING AND TAXES BETWEEN COHORTS**
- **POPULATION AGING MAKES SOBER AND INFORMED ANALYSIS OF THE INTERGENERATIONAL JUSTICE OF PUBLIC POLICIES BOTH URGENT AND TIMELY**



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