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FINNISH CENTRE FOR PENSIONS, REPORTS

EXECUTIVE SUMMARY

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Pension insurance in insecure investment environments

— calculations on the risk-bearing capacity of a decentralised pension system

Finnish earnings-related pensions are managed in a decentralized manner by independent pension providers, each of which invests its funds independently. However, pension providers bear joint and several liability in case of bankruptcy. Due to different investment strategies, it is generally assumed that pension providers are unlikely to go bankrupt at the same time and that the solvent providers are able to cover the liabilities of the insolvent ones without a need to raise the contribution level. This stochastic simulation study quantifies how pension providers' joint responsibility in the event of bankruptcy prevents increased contribution levels, contrary to pension systems without joint responsibility.

Because the applied solvency framework has a considerable impact on the results, the study's calculations were performed both with and without the solvency framework. According to the calculations, a pension system with joint responsibility prevents contribution level increases compared to systems without this feature. The conclusion is the same whether the solvency framework is applied or not. Without the solvency framework, a system without joint responsibility would need 4 to 10 per cent more capital to be as safe as a system with joint responsibility, depending on the risk measure used.

In calculations under a solvency framework, a safety level of 97.5 per cent (derived from the current framework) for a system with joint responsibility and of 99.5 per cent (from Solvency II) for a system without joint responsibility was considered. According to the calculations, the current lower safety level in a system with joint responsibility is safer than a higher safety level without joint responsibility.

The Publication is available only in Finnish:

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