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SUMMARY

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Risks of pension systems and how they are distributed across participants

A comparison of earnings-related pension systems in five countries

The type of pension system and how it is financed conclusively affect how external or macro-level risks are distributed between the parties of the system, that is, between employees, pension recipients and employers. Macro-level risks include a weak economic or financial market development and an ageing population. The parties to the pension system are also exposed to micro-level risks that relate mainly to pension system features. Such risks include, among other things, how an employer's bankruptcy affects pensions as well as what choices employees can make within the scope of the system. What type of regulations determine the benefits of each system may also contribute to what risks the members of the system are exposed to. The realisation of the risks may be reflected in rising pension contributions, cuts in pension benefits or a combination of the two. Different systems distribute the risks in different ways among the parties involved. In this report, we examine the risk distribution and risk levels of the parties of pension systems in five different countries: Austria, Finland, Germany, the Netherlands and Sweden. The report is primarily based on the country fiches of the European Commission's The 2018 Ageing Report and the OECD's report Pensions at a Glance 2019. Other sources include publications by the social security institutions and ministries of the countries of comparison.

We have analysed the reactions of pension systems to risks mainly with Turner's (2014) risk index model. In Turner's model, pension systems are assigned risk scores depending on their features and reactions to various risks. Each risk category

generates one risk point. The risks can be divided between the parties, in which case the risk points are also divided between them. The higher the risk score, the riskier the system is for the party in question. In Turner's model, there are only two parties to a pension system: employees and employers. In this report, we have adjusted Turner's model to include a third party: the pension recipients. Turner's model has been further adjusted by including the wage sum risk of pay-as-you-go systems and by removing risks covered mainly by the State (unemployment and unpaid periods).

The results show that the risk levels are lower in European pension systems when compared with typical systems in the US. In our comparison, the risk score is the highest in the Netherlands and the lowest in Finland. The risks are divided in different ways in the systems of the countries of comparison. In the Netherlands and Germany, employees, employers and pension recipients carry the risks. In Austria and Finland, the risks are divided between employers and employees. In Sweden, employers carry no risks at all.

This report is based on the author's development work for TOPSOS at the University of Turku.

The Publication is available only in Finnish:
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