

Pension: A Special Report

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Gertrude Janeway

- Gertrude Janeway died in 2003
- Before she died, she was getting a monthly check for \$70 from Veterans Administration earned by her late husband John
- They got married in 1927, when he was 81 and she was 18
- The entitlement spanned three centuries

A pension promise

- A pension promise can be easy to make but expensive to keep
- pension
 - pensions provided by the private sector
 - pensions provided by the state

- It is sometimes claimed that pension system is a social-insurance scheme
- Despite the insurance label, these are essentially pay-as-you-go (PAYG) systems in which benefits are paid out of current taxes

The four challenges #1 and #2

- #1: People are living longer
- #2: The large generation of baby-boomers (born between 1946 and 1964) is now retiring; but the following generations are smaller

The four challenges #3

- Defined-benefit (DB) scheme: promised pensions are linked to salaries
- In the 1980s and 1990s the true cost of these promises was hidden by a long bull market in equities
- The past dismal decade for stockmarkets depleted those funds and left employers on the hook for the shortfall

The four challenges #4

- Defined-contribution (DC) scheme: pension payouts are linked to the investment performance of the funds concerned, thus transfer nearly all the risk to the employees
- But the amount is inadequate

Sharing the burden

- A longer working life
- higher taxes
- lower benefits
- saving more