

Nonfinancial Defined Contribution Schemes in a Changing Pension World: An Overview

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Road Map

- What is NDC?
- Book overview
- Key Policy Lessons
- Policy Research Agenda

What is NDC?

The Beauty of Simplicity ...

- **Fixed contribution rate** for all generations.
- Individual contributions (by employee, employer, and government) noted on **personal accounts**
- **Rate of return** paid consistent with PAYG scheme (using proxies such as nominal covered per capita wage & covered labor force growth)
- **Life annuity** based on individual's account balance and cohort (unisex) **life expectancy at retirement** + rate of return
- **Minimum pension age** – but can work & contribute after this age – part or full time.

Distinguishing and promising *micro* features of NDC

- **Individual accounts give transparency**
 - They state clearly the individual's claim on future consumption
- **Intra-generational fairness**
 - Present value of a unit of contributions gives the same pension increment for all – i.e., no tax wedge
- **Intergenerational fairness**
 - All generations pay the same % of GDP into pensions
- **Transparent social policy through non-contributory rights** - e.g., for early years of childcare, periods with sickness, disability, unemployment (financed with general revenues)
- **Accounts can be shared between spouses/legal partners** – e.g. acquiring the accumulation period and/or joint annuities can be created at retirement
- **Accounts can be combined with other insurance accounts** (e.g. severance pay, unemployment)

Distinguishing and promising *macro* features of NDC

■ **Financial sustainability**

- achieved through the internal rate of return, and
- integration of longevity changes into the pension formula

■ **Labor supply incentives**

- Direct link between contributions and benefits
- no tax wedge → neutral for labor supply decisions
- encourages labor force formality
- annuity construction provides an incentive to postpone retirement with improving longevity

Book overview

- 2 volumes

Volume 1: Progress, Lessons, and Implementation

Volume 2: Gender, Politics, and Financial Stability

- 5 Parts
- 24 Chapters
- 58 authors/commentators
- 900 pages

Volume 1: Progress, Lessons, and Implementation

I. Taking Stock of Lessons and Issues

1 NDC in the Teens: Lessons and Issues

Robert Holzmann and Edward Palmer

2 The First Wave of NDC Reforms: The Experiences of Italy, Latvia, Poland, and Sweden

Agnieszka Chłoń-Domińczak Daniele Franco, Edward Palmer,

3 Parallel Lines: NDC Pensions and the Direction of Pension Reform in Developed Countries

Edward Whitehouse

COMMENTS

Marek Gora

Krzyztof Hagemeyer

Bernd Marin

Fritz von Nordheim

II. Reforms under Implementation, Consideration, Contemplation

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Arne-Magnus Christensen, Dennis Fredriksen, Ole Christian Lien, and Nils Martin Stölen,

COMMENT: *Tarmo Valkonen*

5 Egypt's New Social Insurance System: An NDC Reform in an Emerging Economy

Mohamed Maait and Gustavo Demarco

COMMENT: *Jorge Miguel Bravo*

6 China: An Innovative Hybrid NDC Design Proposal

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COMMENT: *Noriyuki Takayama*

9 Assessing Fiscal Costs and Pension Distribution in Transitions to Defined Contribution Systems: A Retrospective Analysis for Chile

Eduardo Fajnzylber and David A. Robalino

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Volume 2: Gender, Politics, and Financial Stability

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20 The Economics of Reserve Funds in NDC Schemes: Role, Means, and Size to Manage Shocks

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NDC Reserve Funds: The Swedish Reserve Funds after 10 Years

Harry Flam

Reflections on Introducing NDC in the Arab Republic of Egypt and Other Emerging Economies

Mohamed Ahmed Maait

Key Policy Lessons

- NDC schemes work well, as shown by the experiences of Italy, Latvia, Poland, and Sweden, but there is room to make them work even better
- Go for an immediate transition, to avoid future problems
- Identify and finance the transition costs in an explicit manner as they emerge—you will have to face them sooner or later
- Adopt an explicit stabilizing mechanism to guarantee solvency
- Establish a reserve fund to guarantee liquidity
- Develop an explicit mechanism for sharing systemic longevity risk
- Identify, analyze, and address the gender implications of NDC schemes

Policy Research Agenda

- Assessing the outcomes of NDC schemes in view of the primary goals of pension systems and in comparison with alternative scheme designs
- Developing better measurement(s) of pension assets and liabilities to guide the introduction, adjustment, and sustainability of NDC schemes
- Clarifying the interaction of NDC (as a central consumption-smoothing pillar) with other pillars and benefits
- Addressing the design and implementation issues of NDC schemes in low- and middle-income countries