INTRODUCTION

The reform of pension systems is in the centre of interest throughout the world. It seems that due to different factors in most countries of the world it is difficult (impossible) to sustain in its present form the most common and most significant “component” of pension systems, the pay-as-you-go scheme. This causes presently widespread disputes on the reform of pension systems in a lot of countries and international organisations (even in the streets!)

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THE DEVELOPMENT OF PENSION SYSTEMS AND THEIR PLACE IN THE INDIVIDUALS’ LIFE-PATH

The most important reason of the appearance of pension systems is the breaking up of traditional communities (joint family, village community, etc.), and the disappearance of the security-net that these communities represented. Parallel to this process was the development of impersonal institutions and institutional solutions. One made it necessary, the other possible to develop the impersonal and formalised safeguard systems, including the pension systems of our days. The internal problems of former systems also lead to the impersonal solutions we know today. The development of formalised systems doesn’t happen without government constraint, since the fundament of pension systems is the savings constraint stipulated by law. This is necessary because the individuals – especially in the state of relative poverty – tend to prefer present consumption to future consumption, which causes voluntary savings to be insufficient for retirement. The state can foresee that the mass of retirees unprovided for, who have not accumulated enough voluntary savings will lead to political tension, and it is expedient to prevent this. Prevention (i.e. compulsory savings) is a more effective solution than currently supporting those unprovided for also because the latter solution puts a great load on the current budget, which – resulting increased taxes – may again lead to political discontent.

For us this primarily resulted the following:

1. It is the relatively poor, that is those who reach retirement without significant wealth that have to be obliged to save, because only in their case is poverty at old age, consequently the need for support a threat.
2. The compulsory (= approx. „public, state controlled”) pension system has to be general and cover the population, or most part of it to the same extent as the poverty of the greater part of the population is general.

The first pension systems were (explicitly) funded, but the second world war destroyed the capital behind most of these systems. Politics solved the resulting crisis by

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raising long term loans. But this was communicated differently, this way the loan remained hidden, and we can call the debt of the state behind the pension system and caused by the pension system the implicit state debt. Those systems that roll this implicit state debt in front of them are called pay-as-you-go systems. The trouble with these systems is that under unfavourable demographic circumstances – to which all European countries (including Hungary) are heading – the debt has to be repaid, and it will be repaid by a generation that did not benefit from the indebtedness. Since this generation can even deny paying off the debt – saying it is unfair –, the pay-as-you-go schemes are not safe enough for the retirees and even less safe for those who stand before retirement if the demographic tendencies are unfavourable.

A BRIEF DESCRIPTION OF CURRENTLY USED RETIREMENT PENSION SYSTEMS

According to professional literature pension systems can be categorised according to several aspects. In view of later discussion the most important of these aspects are the distinction between:

- defined benefit (=DB) versus defined contribution (=DC)
- funded versus pay-as-you-go
- actuarially fair versus actuarially incorrect systems.

Summarizing:

- While the main feature of DB systems is the pension promise, from which necessary contributions, reserves, etc. are derived, in DC systems it is the contribution, premium recorded on the individual’s own account accumulated with interest from which the annuity of the insured is calculated at retirement using actuarial methods.
- In funded systems the fund necessary for the discounted present value of all existing pension promises is separately available at all times. On the other hand in pay-as-you-go systems the fund is only implicitly present in the form of untraced state debt. (this is why in the end we say that there is no real not funded system, only explicitly and implicitly funded!)
- In actuarially fair systems the stochastic equivalence (depending on the remaining life expectancy as a random variable) of the contributions paid by and expected pensions as benefits paid for every single individual holds, while actuarially incorrect systems do not take this aspect into account. In pay-as-you-go systems – with the exception of the NDC system – the incorrectness is “built-in”.

THE CHALLENGES THAT PENSION SYSTEMS CURRENTLY HAVE TO FACE

We focus four of the most important challenges:

1. demographic
2. labour market
3. state debt and
4. globalisation

Driven challenges.

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The demographic challenge basically means the following: the radical and still ongoing increase of the remaining life expectancy together with the strong decrease in birth rates. This has already significantly rearranged the age structure and this rearrangement will continue. The number of elderly in the society is increasing more and more, and the number of actives is gradually decreasing. This way the social security system has to prepare for increasing need of provisions while the contribution income is decreasing.

The wide-spread use of part-time work also reduces contribution income. Because of these tendencies the increasing repayment of the implicit state debt is at issue, which in the first step increases the explicit state debt. On top of all this, because of globalisation it is uncertain to tell who belongs to which pension system, the need for portable pensions is also increasing, that the traditional pension systems cannot or can very hardly satisfy, because in reality they were constructed for closed economies.

The most complex answer to the above challenges so far is given by the Notional Defined Contribution (NDC) system, or as we call it, the “fund account” system. In the last years several countries, as Sweden and Poland have reformed the operation of Pillar I., the traditional, public pay-as-you-go pillar of their pension systems in this manner. This system basically means that the contributions of every individual made into the pension system are recorded on their own account (the “fund account”) and increased by an interest rate. At retirement the actuarially correct annuity level of the retired is calculated according to the true remaining life expectancy of the retired and the amount accumulated on his account.

CONCEPTUAL PROBLEMS RELATED TO PENSION SYSTEMS

On of the most important misunderstanding (on part of large mass of the population), and misinterpretation (on part of politics), is that public pension system means that the government provides for the retirees. As we’ve already seen before, the fundament of the pension system is compulsory savings ordered and controlled by the government, pensioners in reality provide for themselves, but the state “thinks for them”.

A concept that cannot be set aside when speaking of pension systems is solidarity. Many think this is the fundament of pension systems. If we think of this concept in economical terms, we can say that solidarity means redistribution based on needs, that is taking income from those who have plentiful and giving it to those who are in need of it.

We think it is the unjust extension of the term solidarity to apply it to risk based redistribution, when annuities reallocate funds from those who die early to those who live long, so we will not use the term solidarity for this phenomenon.

The opposite of solidarity, redistribution based on needs is the principle of the stochastic equivalence of contributions and benefits. The schemes that satisfy this principle are called actuarially correct, or just correct in short form. From our part we recognise the importance of solidarity, which has its own place in the pension system, but we think that pension systems have to be based on the principle of correctness.

Solidarity is necessary, but it must not result that the pension system is confused regarding correctness. The system has to be constructed in a way that the degree of solidarity type redistribution can be seen clearly, which we have solved in our proposed system by placing the solidarity type reallocations in a separate sub-system.

One of the big problems of the discussion on pension systems has been and still is that it is very often one-sidedly macroeconomic oriented, as it works with large

\footnote{Chlon (2002), Disney (1999)}
aggregates. The individual and individual motivations are left out of perspective. The result is that the systems planned one-sidedly macro-oriented give wide range for “seeking a free ride”, because they simply forget about the fact that individuals have to be individually stimulated to provide for their retirement. We think that the system we outline does not have this defect.

We think that the pay-as-you-go system is fundamentally problematic, since it really is an unsolved debt crisis. There is government liability behind the pension promises of the system, which means state debt, but it is not acknowledged for debt explicitly. This way we call this – after the World Bank – implicit state debt.

The concept of implicit state debt shows that in reality the pay-as-you-go system is also funded, the dividing line is not between funded and non-funded systems, but explicitly and implicitly funded systems.

We’ve found one important positive feature of the pay-as-you-go system, namely that it can function (in very long term) as a security backup system for funded systems if in a world history cataclysm (as World War II, that will hopefully not be repeated!) the capital behind funded systems (or significant part of it) should be destroyed.

Behind every pension system there are – often hidden – assumptions regarding the society in which the system operates. The danger of these hidden assumptions is that the system outlives the society in which it was adequate and can cause disturbances in the new environment.

The huge extent of the social security system is the result and the reflected image of a special social-economic situation that has already passed. The most important characteristics of this bygone situation are:

1. Mass production – mass insurance. Simple and cheap, inflexible standard solutions.
2. Typically one job throughout the whole life in the same profession. Employers are large organisations.
3. The individual typically stays in the same country in his whole life.
4. Most people are poor, without any significant properties.
5. People are not used to providing for themselves – the state thinks (but doesn’t “provide”!) for them, forces them to provide for themselves and organises the institutions necessary for this.

On the contrary today:
1. Production has shifted to satisfy individual needs – also in the field of providing/self-providing
2. People change their job and their type of work many times in their life – this way they need flexible providing/self-providing systems.
3. Temporary international employment is becoming more and more common, this also increases the need for flexible solutions. It is more and more difficult to define national economy
4. The number of middle class with properties is growing (although not so much the “producing” properties as stock, but the “non-producing” properties as apartment, holiday home, ...)
5. The financial education and foresight horizon of people is expanding and so is the need to control their own fate.
6. The sense of needing solidarity and the willingness of “giving” solidarity is decreasing (if there ever was any!?), especially on the part of the wealthier.

The subject of the social security system is becoming more and more the individual, and the individual is increasingly providing for his/her retirement
himself/herself. In case of those classes where it is “certified” that they will not need the support of the community, the state will gradually withdraw and “let them out” of the risk group. This class is constantly growing. The role of the state is gradually changing. From provider it is shifting to organizer and compeller of providing, and then shifting on to an informative institution that only provides the frames for self-provision. The most important goal of the state as an informative and frame-provider institution will be to gradually eliminate the necessity of its own intervention. This will decrease parallel to the growing wealth and future planning consciousness of the citizens. The role of the social security system will be taken over by private insurers and by accumulation of wealth.

While a social security system exists, different risks will be handled by separate sub-systems. That means that disability, orphan and retirement pension risks are separated from each other.

The social security retirement pension system will gradually become totally funded, where government securities are missing from investments because the state has no debt. Investments are not limited to one country, but internationally wide-spread because of risk spreading considerations. Regarding investments the state only has a role in one area: the government also maintains a fund managing trustee that invests in market instruments. To the extent of the fund handled by this organisation the state releases special government bonds (i.e. the net debt of the state is zero!), that have the feature of steady yield that is fixed for a long term. The social security system uses this to cover the accounts of the poorest, this way making their pension calculable. The higher the expected pension, the more liberty the insured has to decide how to invest his/her pension fund, benefits from the achieved excess yield and bears the possible losses.

The state operates – from income and property proportional taxes – a solidarity subsystem for the poorest. But the most important task of the state in regard of solidarity is not providing the benefits, but to make the needy capable of providing for themselves – with education, providing information, organizing – that is to gradually eliminate the need for income redistribution.

Pensions are internationally portable, they follow the employees who will build their career in several countries in increasing proportion. Contributions will be based less on wages, since income will consist less and less of wages (more on capital income, entrepreneurial profit). The state will make possible random payments into the system and also that if a certain fund value is accumulated, the insured suspends further payments. Not only the insured, but the employer, spouse, etc. can also make – voluntary – payments to the account and the accounts can be inherited (according to specified rules). In this case the account balance of the testator is written to the account of the inheritor.

Because of all these pension will cease to be a general caesura in the life of the individual. Within certain boundaries – that primarily depend on the minimum annuity his fund can currently provide – the individual can choose freely when to start his/her “pension”, but this has nothing to do with whether he/she is working or not, or how much he/she is working.

A DESIRABLE PENSION SYSTEM

It is clear from the above train of thoughts that a desirable pension system is explicitly funded. On the other hand we have to take into account that the main pillar of the pension system of the most part of the transition countries, Pillar I. operates as a pay-as-you-go scheme, moreover as a defined benefit scheme, this way it is difficult even theoretically to make the system explicitly funded. So in the first step Pillar I. has to be transformed into a defined contribution scheme keeping the pay-as-you-go operation.
Systems of this kind, that already operate in several countries are called NDC (notional defined contribution) schemes, but we simply use the term fund account system in the following. Since the functioning of Pillar I. will in principle be very similar to the funded Pillar II., we can transport the most important positive features of Pillar II. into Pillar I., moreover the two pillars will be traversable, making it easier to shift the centre of gravity of the system from Pillar I. to Pillar II., which means the gradual funding of the system.

As a preliminary we summarised the features of a desirable pension system, which serves as a guideline to later discussion of the main message. The desirable pension system has to satisfy the following criteria:

- Transparent
- Correct
- Complete
- Flexible
- Harmonized
- Clear
- Funded
- Encourages long term economic development.

A system is transparent, if there is tight relation between contributions and benefits, and this is always precisely communicated to all involved. The criterion of transparency almost in itself requires that the system should be defined contribution instead of defined benefit. Correctness, which means that the expected present value of contributions and benefits should be equal in case of every insured is partly prerequisite and partly consequence of the transparency criterion. An important property of correct systems is that they are dividable, because the system is in an equilibrium from a cross-sectional as well as a vertical sectional point of view. We have to mark, that correctness cannot be satisfied in all subsystems of the pension system, “only” in the main subsystems, and the individual subsystems have to be clear in this respect. The major limit of correctness is the criterion of completeness. This requires that on a basic level the system has to provide for those who cannot provide for themselves, i.e. the system has to fulfil a certain solidarity function. In order to avoid the confusion this should cause, the solidarity subsystem has to be organised separately from the correct subsystems and this also has to be transparent. We call this subsystem Pillar 0. The system has to be able to adapt flexibly to changing needs on the individual level as well as the system level. One of the main arguments in this respect is to ensure “portability” between jobs and countries, and immunity to the type of employment of the insured (self-employed or employed, whole time or part time, etc.). We don’t think it is justified that the different pillars should function according to a different logic (Pillar 0. is somewhat exceptional in this respect!), so we vote for a harmonised system. The criterion of clearness means that disability and relatives’ benefits are not part of the retirement pension system (marking that among relatives’ benefits the independent widow’s benefit becomes meaningless in our construction of the retirement pension system). The criterion of being funded insures inter-generation correctness and at the same time makes long term economic development possible, since it accumulates huge amounts of funds to be invested in the capital deficient countries.

Our proposed pension system would consist of the following elements:

1. Support scheme for the aged („Pillar 0”)
2. The pay-as-you-go scheme based on individual accounts (Pillar I.) that in the long term gradually becomes funded.
3. The funded scheme based on individual accounts (Pillar II.)
4. Other voluntary retirement savings (Pillar III.)

Most of elements 3. and 4. of the above system are already functioning with only minor corrections necessary, but element 0. has to be set up and the existing Pillar I. has to be radically transformed. The state doesn’t really have to deal with Pillar III., it is enough if the government supports it’s operation and expansion in general.

Pillar 0. in many respects fulfils a supplementary role, it’s logic is very different from the functioning of the other pillars. In general the other pillars operate as fund account schemes.

It would be useful to get the rules of the two pillars closer to each other. For example a rule could be introduced, that the fund of a deceased not single could only be inherited by the spouse and only by crediting it to the spouse’s account (if the spouse doesn’t have an account, one should be opened for him/her!). The rules that apply to the annuity phase have not yet been worked out even in Pillar II., this way they should be set similar to Pillar I. in the first place!

It is important, that unemployment benefit and child-care fee are considered as wages in the sense that pension contribution has to be paid after them – that is, the state credits pension entitlements on the account of the insured according to the general principles also during unemployment and child-care (both in Pillar I. and Pillar II.).

We think it is useful if the pillars are not fractured to subsystems, but are parts of one general system. This way we don’t think it’s good if special rules apply to certain professions (military, miners, etc.) But when calculating the annuity, the time spent in certain professions could be taken into account if it is proved that practicing that profession decreases the remaining life expectancy. In this case the annuity could be calculated based on a more favourable annuity table.

A question is: what should happen to those, who even at a relatively high age haven’t saved up a fund enough to by the above marked minimum level annuity? For these insureds the annuity starts latest if they reach the age (we recommend 70-75 years!) when the support system (Pillar 0) is activated. Then the annuity purchased from their fund is complemented in Pillar 0 to the minimum level.

We recommend that the logic of Pillar I. and Pillar II. be as close to each other as possible. If this is realised, there is no theoretical obstacle in the way of free movement between the two pillars. At the same time we do not recommend to allow this. The pension system has to be funded in the long term, this way we only recommend allowing movement from Pillar I. to Pillar II. Even this only in centrally commanded one time steps (e.g. a few years from now we let the existing insureds choose to divide their contribution between the two pillars by a 50-50% ratio, but for new employees this will be compulsory. At a later time the ratio could switch to 67-33%, and so on!).

A very favourable property of defined contribution systems is that portability is relatively easily realised in them. This is an important issue regarding the pension systems of different countries

The transfer to the above described system has to be started with a deep and wide range discussion, followed by legislation. Legislation has to provide an adequate transitional timeframe, which means that changes should only concern those who are able to prepare for the effects of changing. For all other classes and age groups the current system has to remain unchanged. Of course it is not permissible for several systems with different logic to exist beside each other for a long period of time, so for new entrants of the labour market the new system should be compulsory, moreover we think that a wide range of currently actives could also be switched to the new system without a shock.
It is important that entitlements already acquired during the transition should not be harmed. Theoretically there are two possible ways to handle entitlements acquired before the introduction of the new pension system:

1. These entitlements are built in the new pension system and old entitlements will serve as a starting point of the new system.

2. The old and the new system handle the entitlements acquired in the two systems differently.

The first approach is based on some kind of opening balance of the new fund account, in other words we calculate an initial value according to past contribution payments. There are several solutions of calculating the initial value, either we calculate a concrete fund value, or we calculate an initial pension segment that will be rolled forward later on. The second solution is based on the independent operation of the two systems, one closes, but regarding the pensions it still operates independent from the new system. We can look at it as pension entitlements from different countries of the EU are calculated, where at retirement the pension annuity is calculated from two separate pension systems. (We have to be clear with the fact that the pension system of transition countries have no complete contribution information). Because of this, converting the acquired pension entitlements to fund value or initial pension level and closing the current system this way is perilous in several respects. On one hand it is problematic to correctly determine the actually paid total contribution amount in case of those who have paid contributions before the date of the information collection, on the other hand the value of initial pension segment cannot be simply calculated because of the non-linear calculation. This way closing the old system according to the first alternative either raises constitutional misgivings, or is much too large-scaled, so the second alternative should be considered, counting together the entitlements from the two systems.

We suggest that the government should put some very general guarantees behind the system. One of the most important such elements of guarantee is that the government should give repayment guarantee on the amount accumulated on the funds (by repayment naturally meaning only repayment methods set by law!), i.e. it should be recognised basically as state debt. Another such guarantee element is that the government ensures that pensions cannot decrease nominally because of the compensation of annuities due to regular mortality changes.

The picture of a system in which retirement doesn’t mean an absolute caesura in life as it does today, since the pension can be suspended and restarted, and generally: the parameters of retirement can be chosen by the insured himself in a wide range.

We have already referred to the possible improvement of the system several times. We think that the most important is the gradual funding of Pillar I. (most likely accomplished through several decades), that is turning the implicit state debt behind Pillar I. first gradually into explicit debt, then gradually making it disappear as a state debt. There are basically two possible ways for this:

1. Gradually decreasing the weight of Pillar I. compared to Pillar II.
2. Funding within Pillar I.

The big advantage of funding is that it takes the load of currently having to provide for older generations off the active age-groups, and makes the level of pension more certain, in case it will not depend on possible unfavourable demographic tendencies. Funding also makes possible that the benefits of the pension system flow to the beneficiaries on a channel other than the government budget, this way decreasing its loads.

Basically there is always the same reason against funding, and we seriously have to consider this. This reason is that the level of pensions is exposed to the sometimes greatly
volatile capital markets, and an uncertainty of a degree this high is not permissible in such a fundamental institution of social security. From our part we admit that the calculability of pensions is a very important factor, but we would modify this to the extent that the significance of calculability decreases with the increase in the average level of pensions. This means that low pensions cannot bear volatility, but the higher the pension, the greater the oscillations of the actual level can be. This train of thought is important regarding that it can give a kind of principle base to the measure of shifting the load from Pillar I. to Pillar II., that is, in what measure can the fund accounts be transferred to Pillar II.?

On the other hand Pillar II. isn’t exposed to capital market volatility, either. These can mostly be evaded by derivative products. Since these are not necessarily available, possibly the government will have to release them – of course in return of adequate (market based!) fee. This system is much more correct and more fitted to market logic than the current private fund guarantee system.

Being non-funded is not the only case when Pillar I. is not exposed to capital market volatility. This could also happen if the system is funded, but the insureds do not receive the pension directly from the fund. It is possible that the state establishes fund managing trustees, whose managed fund gradually reaches the mass of implicit state debt on the fund accounts, but these trustees do not invest in the government’s own papers. In this case the debt of the state behind pensions is totally covered, but it is questionable whether the yield of the fund managed by the trustees is as much as the government’s pension expenditures. In a sense this is not important. Important is, that in this kind of construction the fund handled by the state trustees almost totally relieves the government budget from current pension expenditures. This former is reduced to having to compensate the yield of trustees in bad years, which will be returned in good years of the capital market.

THE ENVIRONMENT, EFFECT AND ALTERNATIVE OF THE PENSION SYSTEM

It is fairly common to characterise the economy of a country by the size of the GDP per capita. From this point of view the transition countries belong to the file-closer of developed countries. In many respects the size of capital accumulated, especially as working and fixed capital of enterprises is a more important indicator. In this respect the transition countries is much more behind the developed countries, which has the evident result of our economy being strongly dependent on capital import, and we are exposed to the momentary interests of the capital imported from other countries. It is evident that a greater volume of “domestic” capital automatically attached to the country would put the economy in a less exposed situation, moreover – depending on the size of capital – we could even change from an exposed to a dictating country. This requires an economic policy that incites domestic capital accumulation. The most obvious way to do this is to make the pension system funded.

As a matter of fact, we could carry over the thought of funding as a requirement from the pension system to almost all long term liabilities of the state. We could say that a well-functioning state has no debts, and all its liabilities are covered. Of course this could only be set as a target, since from time to time the state may find an important all-society target (e.g. building freeways) that could be viewed basically as an all-society investment worth of indebtedness. But effort should be made to keep these events rare and truly justified, that is, the investment characteristic of the liability has to be verifiable, and that it is effectively solved by all-society expenditure.
A funded system doesn’t necessarily function well. To achieve this it is not only necessary to construct the system itself carefully, but it also has to have an adequate environment. Luckily the environment needed is not specific for the pension system, but is needed generally for a well functioning economy. Let’s consider these one after the other! First we look at the conditions provided by the state.

Regulating, relativizing the retirement age is an integral part of the above discussed concept. Relativizing the retirement age is also important regarding the prevention of the threatening labour force deficiency, because it gives a basis for widely inciting old age employment. The improving health of the population enables this, but a lot of obstacles of attitude, legislation and education have to be cleared from the way. One is the concept of retirement as an absolute caesura. Clearing the other obstacles is also the duty of the state. For example re-training, part-time work, etc. should be made possible more widely.

In state controlled pension systems it is a self-evident triviality, not worth of discussion, that men and women, supposing the same fund and the same age receive the same initial annuity. If we go deeper into the problem, we see that this question cannot be quickly and easily answered, since the use of a uniform, unisex annuity table compensates a lot of hidden social inequalities. This way repealing the unisex annuity table in the long term has to be considered, but could only be carried out parallel to systematically uncovering and stopping the inequalities in the position of women. Without striving for completeness: Women are still not equal on the labour market, they do not always get the same wage for the same job. They typically are generally concentrated in branches not paying well (e.g. education, public health), where wages are unfairly low. Through marriage they typically live in economic communities with men where formal income is mostly attributed to men, when looking at the internal division of labour between them (e.g. child care) it could be viewed as property acquired in common, after which the spouse would also have to pay pension contribution, etc.

The funded pension system cannot function without a properly functioning capital market. This way the state has to incite with all its power the development and adequate function of the capital market. This refers to the supervision, economic legislation, accounting regulation and an economic policy preferring the development of officially quoted national enterprises as well. Of course the convertibility of the local currency and the adequate openness of the economy are fundamental requirements.

The state has to encourage the development of a clear and supervised market for all properties of great value. Accordingly up to date and secure real estate and apartment registers have to be formed. The mobility of real estate property, apartment house construction and the increase of apartment renting has to be incited, this way also encouraging the mobility of labour force. It must be made possible for elderly to sell their large apartments that are not necessary any more and move into “elderly parks”. This field has to be legislated and the movement of annuity for apartment has to be turned into business.

Also in a totally funded pension system there is need for government intervention, but its character (and degree) changes greatly compared to the current situation. Instead of formally organising the payment of pensions the state can entrust this to independently managed institutions. The state must organise the supervision of these institutions.

Naturally there may be smaller or larger fluctuations of the economy when the value of pension funds significantly decreases, and so does the level of annuities payable. After some degree of such a decrease (temporary and strict) government intervention may be necessary, when in such extraordinary situations pensions are compensated by public expenses. But interventions like this have to be rare, and the system has to pay back the money that the government has pumped into the system. So the role of the state here is to
give a kind of final guarantee and to equalise large fluctuations. It is wise to prevent the necessity of such government intervention. This could be done institutionally by the release of government derivatives, as we have already mentioned.

Of course the state is necessary as the operator if the support system (mostly on a pay-as-you-go basis), since in every compulsory system there will be some whose saving are not even enough to purchase the pension of the subsistence level. But this pay-as-you-go system has to be smaller than the current system by several orders of magnitude, and government social policy has to aim at much smaller classes needing this support at all (especially by supporting education and retraining).

In case of the international environment expectations have two directions. Not only the funded pension system “can feel better” in a certain international environment than in another, but the international environment can also have expectations regarding the pension system.

The most important condition – latent as yet, but already perceptible – the international environment expects is creating the portability of pensions. Portability means that if an employee works in different countries during his/her career – which is becoming a more and more customary with the formation of the EU – he/she can collect the pension entitlements acquired in different countries without difficulty and in the end it doesn’t matter in which country he/she will retire. On the system level we can say that portability requires the pension systems the employee comes into contact with during his/her career to be open and able to communicate with each other.

Funded pension systems are fundamentally open systems, and can communicate with each other without any difficulty. Communication between funded systems is simple: the same way an employee can switch to a different pension fund within the country by taking the fund accumulated on his/her account with him/her, the same can be done with the pension funds of different countries (moreover he/she may not even have to do this, since pension funds can most naturally be international!). Transfer between pay-as-you-go systems on the other hand has to be regulated by complex bilateral international agreements, that are not always correct. It is clear, that in a correct settling of accounts the individual would take the implicit state debt with him. That is, in these cases the state from which the individual is moving releases explicit debt bonds, and hands it over to the pension system of the other country. It is not by chance that there are no such agreements:

1. Generally the pension reserve is not recorded on the level of the individual.
2. No pay-as-you-go pension system is prepared to be able to handle the state debt bond of another country.

As we have mentioned earlier, it will become objectively more and more uncertain which citizen belongs to which country within the European Union. One of the most important suppositions behind the pay-as-you-go system has only been revealed nowadays, when the disproval of this supposition has objectively begun. This is namely that the population of a country is stable, it doesn’t “ramble” back and forth during its career, so the closed pension system can be based on this secure base.

One can easily see that the mottled, mostly closed pay-as-you-go type European pension systems that are not compatible with each other will soon cause great trouble and will strongly hinder European integration. Because of this their overall reform should be put on the agenda. Naturally the reform of systems of this size and importance can only happen very slowly and with great caution. As a first step the most important is to clarify the situation. The introduction of the fund account system could greatly contribute to this. This way – in our view – the expedient way of pension system reform for the EU is:

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6 Or pays this part of the reserve in cash!
1. Step: make the fund account system everywhere compulsory, this way make hidden redistribution and state debt open.

2. Step: the state debt behind the fund account system should be written to other state debt and treated together.

3. Step: Generally prescribe a low minimal level of state debt, which means that the funding of the system has to be started (i.e.: the reserve has to be transferred from government bonds to other instruments)

It is serviceable to internationally diversify the reserve behind funded systems. This point of view may be surprising to some, since it seems straightforward that pension funds are ordered to keep a certain portion of their investments in government bonds, and the rest in national stock or national bonds to strengthen the national economy also this way. We’ve already discussed government bonds. It is not effective to have too much of this in circulation, because it means state indebtedness, which is not a natural, favourable situation. And if the state is not indebted, pension funds cannot invest in government bonds, even if they are regulated to do so. Of course the repayment of existing state debt can only be accomplished during a long period of time, this way a – temporary – regulation of investing part of the reserves in government bonds is conceivable. But this consciously has to be only temporary!

The pension system all together protects against poverty caused by the decreasing capability of work. But it is not the pension system, nor the state that protects us most from poverty, but wealth. A wealthy man doesn’t need a pension. This way if the state wants to fight poverty, than it is not the pension system that primarily has to be developed (although this will also be inevitable for a considerable period of time!), but has to promote with all its power the enrichment, the accumulation of wealth of its citizens. One could even say that people wealthy enough could be let out of the mandatory pension system (of course they cannot be relieved of the solidaristic contribution of the support system!).

In a funded system it is government task to equalise the possible large fluctuations in the level of pensions. But this is only necessary if pensioners do not have significant property proportional income. If significant part of the population has significant property, then this kind of “guarantor” function of the state can also be decreased. In order to achieve this the economic policy has to aim at it.

References:


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