

“The optimal strategy for pensions is diversity”

Interview with Axel Börsch-Supan, director, Max Planck Institute for Social Law and Social Policy (Germany)

By Sophie Petitjean

The European Union is increasingly headed in the direction of pushing back retirement age and relying on private savings to cope with economic and demographic developments. This tendency (...) was confirmed at a conference (...) on implementation of the 2012 white paper on the future of pensions.

(...) Employment and Social Affairs Commissioner László Andor particularly applauded the agreement between Parliament and the Council on the directive on pension portability, which establishes minimum requirements for the acquisition and preservation of supplementary pension rights. Single Market Commissioner Michel Barnier pointed out that he would present the following day his proposal (...) to facilitate occupational retirement savings. (...) the proposal will not tackle the solvency of pension funds.

Sophie Petitjean: How would you describe the implementation of the Commission’s white paper on pensions?

Axel Börsch-Supan: (...) the white paper points in the right direction. The real task is to actually implement these proposals. Beyond the white paper, we have seen a lot of progress over the last years, in spite of the economic crisis. (...) This varies from country to country, and depends partially on the crisis, partially on the demographic situations. (...)

SP: Then what is your main recommendation to the Commission?

ABS: (...) First, for those people who are poor and exposed to bad health (...) there is a need for a basic pension and a basic income in potential early retirement routes. For the remaining 80-90% of the population, demography is the big issue (...). First, the proportions between working life and retiring life have to stay constant (...).

Second, we have to address the baby boom-baby bust transition (...): the baby boom generation retires, there are suddenly many more pensioners. (...) we need to prefund pensions, so that baby-boomers pay parts of their pensions themselves.

Third, we need to tackle the decline in fertility: if we have fewer kids, we need to educate them better (...).

SP: This means a greater role to the supplementary private scheme. Is the climate secure enough at the European level?

ABS: (...): if you want to relieve your children and grandchildren from paying your pension, then you have to save yourself by using capital market instruments. The point is, however, not to get rich on the capital market: there are sufficient safe instruments where you get a low but reasonably safe return (...). (...) As always, when talking about funding something in the future, you have to diversify, not only within the capital markets across countries and industries, but also between systems: between the 'pay as you go' system and the funded system. This mixture is the optimal strategy.

SP: The Commission will present its proposal on pension funds (...). For you, what would be the right direction?

ABS: (...) we have so many different pension funds or private occupational pension systems across Europe that having a common regulation for all this variety is problematic. (...) I think it is doing harm to some of the German pension funds, because the regulation, being so general, cannot really go into the details of German occupational pension funds. In other countries, it provides a legal basis for occupational pensions to start in the first place. (...)

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