

Contents

List	of figures	page vii
List	of tables	X
List	of boxes	xi
List	of contributors	xii
1	Introduction ED WESTERHOUT	1
	Part I The multi-pillar pension scheme	
2	Population aging and financial and social sustainability challenges of pension systems in Europe: a cross-national perspective ASGHAR ZAIDI	17
3	The World Bank's pension policy framework and the Dutch pension system: a paradigm for the multi-pillar design? RICHARD HINZ	46
4	Credit crisis and pensions: international scope NICHOLAS BARR	90
5	Designing the pension system: conceptual framework LANS BOVENBERG AND CASPER VAN EWIJK	142
	Part II Intergenerational risk sharing and distribution	l
6	Private versus public risk sharing: should governments provide reinsurance? HENNING BOHN	187

v



vi	C	Contents
7	The redistribution of macroeconomic risks by Dutch institutions LEON BETTENDORF AND THIJS KNAAP	224
8	The consequences of indexed debt for welfare and funding ratios in the Dutch pension system ROEL BEETSMA AND ALESSANDRO BUCCIOL	259
	Part III Pensions and financial planning over the life cyc	cle
9	Rational pensions for irrational people: behavioral science lessons for the Netherlands ZVI BODIE AND HENRIËTTE PRAST	299
10	Opportunities for improving pension wealth decumulation in the Netherlands JEFFREY R. BROWN AND THEO NIJMAN	330
	Part IV The future of multi-pillar pension systems	
11	The future of multi-pillar pension systems LANS BOVENBERG AND CASPER VAN EWIJK	373
Ind	lex	419



Figures

2.1	The demographic old-age dependency ratio	
	(Number of 65+/Number of 15-64) across	
	27 EU countries, 1960, 2010 and 2060	page 23
2.2	Projected changes in the age-related public	
	expenditures (on pensions, health care,	
	long-term care, education and unemployment),	
	as percentage of GDP, during 2010-2060	25
2.3	Unemployment rate in percent, during	
	2006, 2009 and 2011	27
2.4	Government deficit (-) / surplus (+) in EU countries,	
	in terms of percentage of GDP, 2006, 2009 and 2010	28
2.5	Sustainability gap (S2 indicator) across EU	
	countries and the contribution of the IBP and	
	the LTC, 2009	31
2.6	Changes in the benefit ratio percent (average public	
	pensions/average economy-wide wage) across	
	27 EU countries, for the period 2007–2060	33
2.7	Changes in the benefit ratio percent (average public	
	pensions/average economy-wide wage) across	
	27 EU countries, for the period 2007–2046	35
2.8	Changes in the theoretical replacement rate (net),	
	for the period 2006–2046, for a stylized full career	
	male worker on average wages retiring at 65	38
5.1	Expected exposure to financial and wage	
	risks over the life cycle (initial wealth = 100)	153
7.1	Discounted, expected, lifetime net benefit	
	(thousands of euros)	233
7.2	Two shocks in the rate of productivity, relative to the	
	base path, administered in the year 2016	236

vii



viii List of figures

7.3	Discounted, expected, lifetime net benefit	
	change from a temporary shock on productivity,	
	expressed as a percentage of consumption on	
	the base path	238
7.4	Discounted, expected, lifetime net benefit	
	change from an enduring shock on productivity,	
	expressed in percentage change in consumption	239
7.5	Discounted, expected, lifetime net benefit change	
	from a one-time decrease in asset values of 8.75 percent,	
	expressed in percentage consumption change	241
7.6	Two shocks in the (real) interest rate,	
	administered in the year 2016	243
7.7	A spike in the interest rate in 2016	
	results in these discounted,	
	expected, net benefits changes	244
7.8	A general increase in interest rates starting in 2016	
	results in these discounted,	
	expected, net benefits changes	246
7.9	Discounted, expected, lifetime net benefit	
	change from a shock in mortality	248
7.10	Discounted, expected, lifetime net benefit	
	change from a rare disaster that has permanent	
	effects on productivity	251
7.11	Discounted, expected, lifetime consumption	
	change after a rare disaster that has permanent	
	effects on productivity	253
7.12	Government debt as a percentage of GDP, on the	
	base path and in three scenarios with shocks:	
	the wealth shock from Subsection 7.3.2,	
	interest shock 1 from Figure 7.6 and the	
	rare disaster of Subsection 7.4.1	254
7.13	Discounted, expected, lifetime net benefit	
	change from a mixed shock in mortality	256
8.1	Fund properties: price shocks only	281
8.2	Welfare comparison: price-indexed bonds	
	versus benchmark	283



List of figures	ix
8.3 Household consumption	285
8.4 Fund properties: full set of shocks	289
8.5 Welfare comparison versus benchmark	292
9.1 Pension plan decision tree	321
11.1 Typology of pension systems	396



Tables

2.A.1	Impact of pension reforms on net replacement	
	rates by earnings level, stylized estimates	
	from OECD for full career workers, 2009	page 43
3.1	The pillars of old-age income security	54
3.2	Summary of the updated policy framework	69
6.1	Pension systems and the role of government	209
7.1	Key parameters of the Gamma OLG model	232
7.2	The parameters of the rare disaster	250
8.1	Benchmark calibration of the parameters	275
8.2	Policy comparison: price shocks only (%)	282
8.3	Average remaining life expectancy	287
8.4	Policy comparison: full set of shocks	290
11.1	Trade-offs, trends, responses and challenges	376
11.2	Optimal risk sharing and the size of pillars in	
	alternative pension models during the	
	decumulation stage	405
11.3	Multi-pillar pension systems	415

Х



Boxes

4.1	Multiple risks and uncertainties facing individuals	page 92
4.2	Mechanisms for adjusting pensions	97
4.3	How much discretion is optimal in the design of a	
	pension system?	99
4.4	Analytical errors in the advocacy of mandatory	
	individual funded accounts	105
4.5	Principles for adjusting pensionable age	113
4.6	The balance mechanism and brake in	
	the Swedish NDC system	115
4.7	The National Employment Savings Trust in the UK	132

хi