

Comments on

Jukka Lassila and Tarmo Valkonen (LV)

# Putting a Swedish Brake on Pension Benefits

by

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Netspar and CPB

# Summary

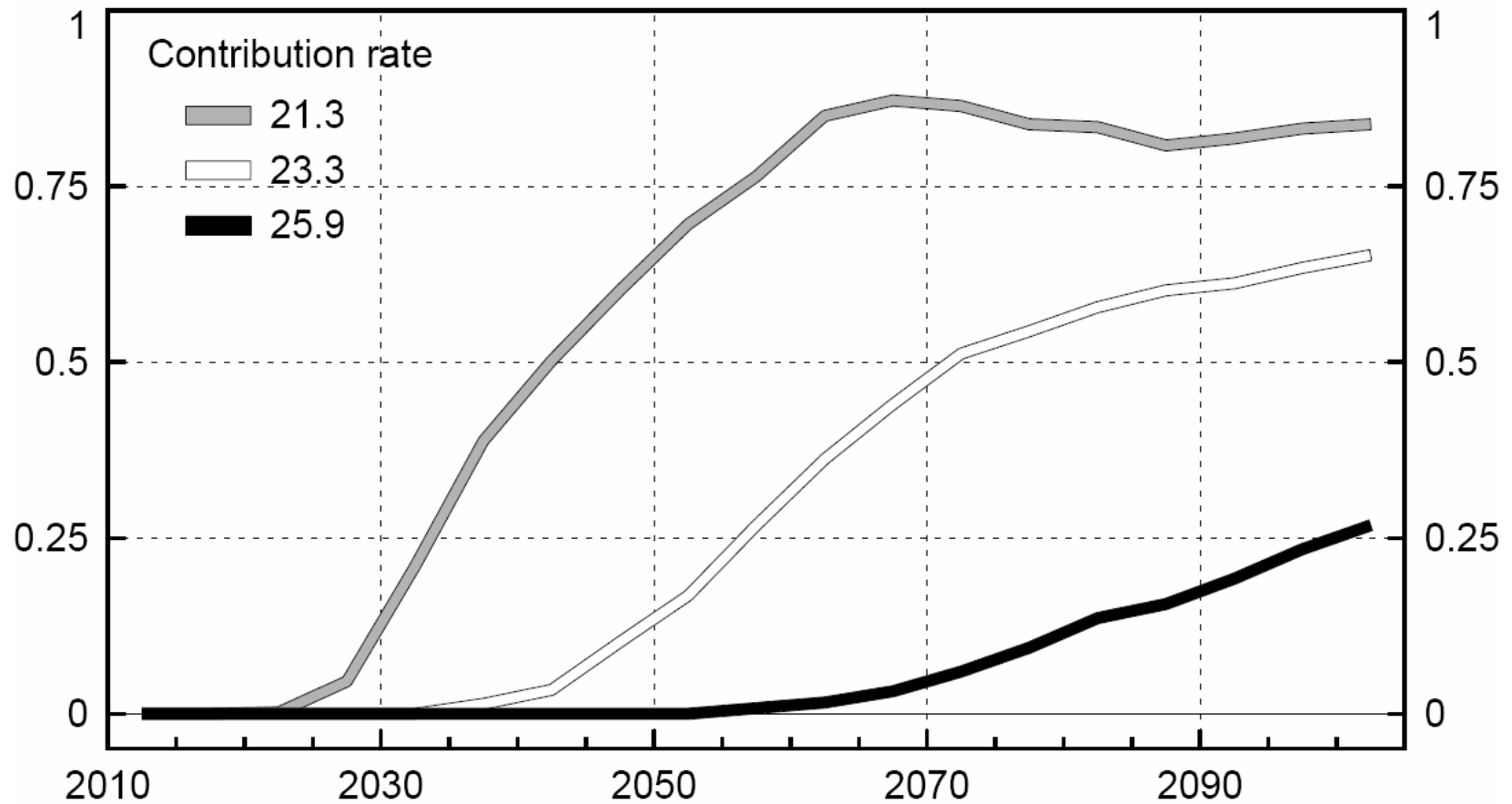
- LV evaluate the Swedish NDC social security system in relation to the current Finnish system
- LV focus on the 'balance system,' i.e. the adjustment rule for pension indexation in relation to the funding ratio
- The goal of the balance system can be paraphrased as 'replacement rate smoothing'
- The main message of LV is that the Swedish system nevertheless puts a lot of risk on pensioners
- My comments relate to
  - The implementation of the comparison
  - The evaluation criteria used

# Implementation

- Turnover Duration:  
How is turnover duration related to the demographics and the pension system?
- Use of forecasts:
  - The turnover duration must be a forecast (!?)
  - Any forecast is a function of *current* state variables:  
forecasts may be “hidden” in the adjustment rules
- How does this study deal with the linkage aspect of the Notional Accounting system?
  - Is the Finnish pension system compatible with Notional Accounts?
  - If not:
    - \* how is the transition dealt with?
    - \* Does a different linkage system provide a fair assessment of the Swedish NDC system?
- The analysis compares the effects of different contribution rates (Fig. 1)  
Why does the brake probability rise after 2070 in the high-contribution rate scenario?

# Indexation adjustment probabilities

Probability of the brake being on  
in the Finnish TEL system



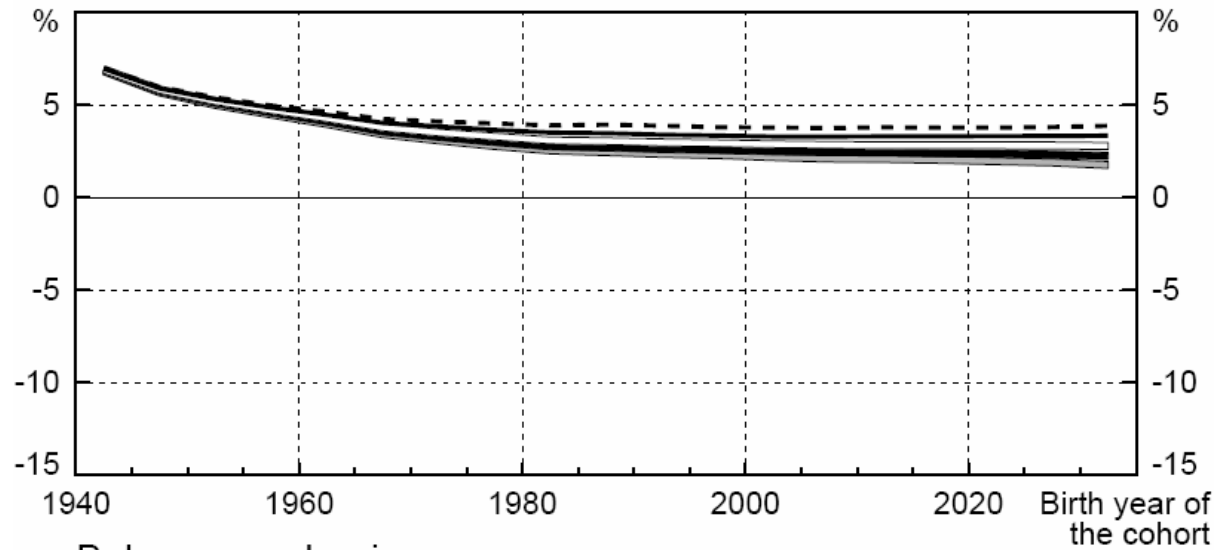
# Assessment

The assessment is in terms of Replacement Rates and Internal Rates of Return  
Are these the relevant comparison measures?

- The role of social security is to provide intergenerational risk sharing.
- A low rate of return on social security is OK if it coincides with favourable economic conditions for the relevant generation (Fig. 4)
- Same point wrt. replacement rates
- The general problem with DC systems is that they tend to generate relatively high returns for small cohorts, who also enjoy high wages
- A relevant measure of the size of the insurance offered would be the contemporaneous correlation of the consumption of different generations.  
(with perfect insurance, the correlation would be equal to one)

# Internal Rates of Return

Current rules, contribution rates vary



Balance mechanism

