

# The advantages of the solidarity reserve unraveled

“Ex post controls through solidarity reserve have no added value”

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The solidarity reserve is a new element in the Dutch pension agreement. This reserve may be used towards intergenerational risk sharing. We have drawn on the academic literature to identify how the solidarity reserve can contribute to risk-sharing between generations and what the implications are for the solidarity reserve’s setup. The Explanatory Memorandum of the Ministry of Social Affairs and Employment lists four advantages and we have used this study to unravel these claimed advantages.

The four advantages set out by the Ministry of Social Affairs and Employment:

1. The investment risk will be shared between current and future generations
2. The differences between “lucky” and “unlucky” generations will be cushioned
3. The macro-longevity risk will be shared between generations
4. The risk of inflation will be shared between generations

## Principal Findings

If the age-dependent investment policy is chosen optimally, the following then applies to the added value of the solidarity reserve:

- A solidarity reserve has added value in terms of risk sharing of the investment risk between current and future generations.
- Sharing the risk with future participants does not reduce the chances of having “lucky and unlucky generations”.
- “Ex post controls” through the solidarity reserve have no added value. Ultimately, all risk must be allocated across generations, and allocation rules between generations can be established beforehand.
- In principle, a solidarity reserve is not required for sharing the macro-longevity risk and the inflation risk.
- Examine a separate return protection for inflation risk.



Figure: Unraveling the advantages of the solvability reserve by taking stock of the academic literature.

## Key Takeaway for the Industry

Contrary to popular belief, risk sharing under optimal policies with future generations does not reduce the risk for each generation – and therefore does not reduce the number of “lucky and unlucky” generations. Instead, it leads to more investment risk and a higher expected pension for future participants.



**Want to know more?** Read the paper

**‘De voordelen van de solidariteitsreserve ontrafeld’** (in Dutch)