DISCUSSION OF:

'The Impact of Introduction of Funded Pension Scheme on Intragenerational Inequality in Estonia: a Cohort Based Analysis'

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January 28-30 2015

This paper:

- Studies the impact of pension reforms in Estonia on income distribution of the future retirees
- Uses a Markov switching model based on the administrative micro data
- Projects pension benefits in 2045 (for the old and the new pension systems)

Main findings:

- As expected, pension reforms lead to more inequality (earnings-related)
- Gini coefficient increases from 0.10 (before the reform) to 0.22 (current pension system)

Discussion (1): Contribution to the literature

- First paper that projects pension benefits from a microsimulation model for Estonia
- Uses administrative data from the Estonian National Social Insurance Board:
  - high degree of acuracy
  - high level of representativeness (both rich and poor)
  - low attrition rate (the same individuals across time)
- Results compared to EC-Ageing Working Group projections (European Commission, 2012):

Average individual gross replacement rate for men	- 51.3 in 2045 (this paper) - 50.1 in 2050 (EC, for a hypothethical worker)

Discussion (2): Sensitivity of results

Projection of individual wages depends on –>

- (estimated) transition probabilities between wage groups
- on economy-wide average wage (forecast of the Estonia Ministry of Finance)

–> Are the results sensitive to the lower growth rates in the economy?

–> e.g. *secular stagnation* (Summers, 2014)?

Discussion (3): Representative sample

- Results are for one age cohort (born in 1980)

– > To what extent are they representative for other cohorts?

  - income differences between cohorts
  - younger cohorts work longer
  - changes in female labour force participation

- Does not take into account demographic changes (mortality, divorces, children)

–> re-weight microunits' characteristics to future aggregate data - *static aging* (see e.g. Merz, 1994)

–> updating each year - *dynamic aging*

(See e.g. Knoef, Alessie and Kalwij, 2013)

Discussion (4): Labour market status

- In the paper a person is *unemployed* if previous wages equal to zero.

– > How many ‘unemployed’ do you have in your dataset and is it consistent with the country unemployment rate?

– > An alternative: model the transitions between the labour market states (based on age, cohort, marital status, children)

– > requires a richer dataset

Discussion (5):

- *Model's assumption:* work until retirement at the statutory age

–> What about early retirement (quite common in Estonia) and late retirement?

Compare Gini coefficients for retirement in 2043 and 2047 with 2045

- Focus on men

–> add women: some first results are already in the paper!

THANK YOU!