

# The pay-as-you-go element of the solidarity reserve

“The solidarity reserve clearly shows characteristics of pay-as-you-go financing”

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## What is the focus of the paper?

This paper examines whether the solidarity reserve within the new pension system has characteristics of pay-as-you-go financing, and what its effects are.

## What are the key findings?

The solidarity reserve indeed shows clear characteristics of pay-as-you-go financing. A participant experiences a financial disadvantage in the early part of their life course, which turns into a financial advantage later in life. The tipping point is at the retirement date, where the implicit ‘credit’ can amount to three to seven months’ salary.

Over the course of an individual’s life, the solidarity reserve results in a small negative financial effect of one to two months’ salary. However, this outcome is slightly positive if the reserve is significantly funded when a young participant joins.

If the solidarity reserve is abolished after its introduction, there will be no structural implicit debt through the solidarity reserve (the amount needed to compensate age cohorts for financial disadvantages). Upon abolition of the reserve, compensations will be required for age groups 40 years and older, but the magnitude of these compensations aligns with the existing assets in the solidarity reserve in the median scenario.

## What are the implications?

- The size of the solidarity reserve determines whether there is an implicit debt or an implicit asset.
  - The solidarity reserve may hinder pension mobility, as transferring accrued pension rights during job changes can be financially disadvantageous. This issue primarily affects participants approaching the end of their careers.
  - The design of the ‘filling and distribution rules’ for the solidarity reserve influences the extent of the pay-as-you-go element and its financial effects.
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Want to know more? Read the paper (Dutch):

**Kwantificering van het omslaglement van de solidariteitsreserve in het nieuwe pensioenstelsel**