

Inflation uncertainty and the pension transition

“Limited inflation shocks can cause large redistribution effects during the pension transition”

Ward Romp (UvA, Tinbergen Institute), Casper van Ewijk (UvA), Damiaan Chen (UvA, DNB) and Sebastiaan Bye (DNB)

What is the focus of the paper?

This paper examines how inflation uncertainty affects the transition to the new pension system, based on four key milestones: the transition plan, the implementation plan, the conversion of accrued rights (“inva-ren”), and the actual transition, including the first Uniform Pension Overview (UPO) under the new regime. The paper analyzes the extent to which inflation shocks affect the feasibility of the transition objectives and to what degree risks immediately after the transition may undermine support for the new pension system.

What are the key findings?

The study shows that inflation uncertainty – particularly against the backdrop of geopolitical tensions, rising protectionism, and limited monetary policy room for maneuver – poses a significant risk to confidence in the pension transition.

Relatively small shocks to initial or expected inflation can have a substantial impact on the degree of redistribution in terms of net benefits. Inflation shocks threaten the feasibility of transition objectives and may therefore weaken support for the pension transition.

What are the implications?

- Inflation shocks can disrupt the transition process due to their major impact on the degree of redistribution during the pension transition.
- Pension funds and social partners should pay greater attention to the robustness of transition objectives under alternative inflation assumptions.
- Pension funds should establish an explicit adjustment strategy in advance for situations in which transition indicators fall outside predefined ranges.
- Building in prudence margins and using clear communication are necessary to maintain participants’ confidence.

Want to know more? Read the paper (in Dutch):

Inflatieonzekerheid, rente en stagflatie tijdens de pensioentransitie