# Pension Expenditure Projections, Pension Liabilities and European Union Fiscal Rules

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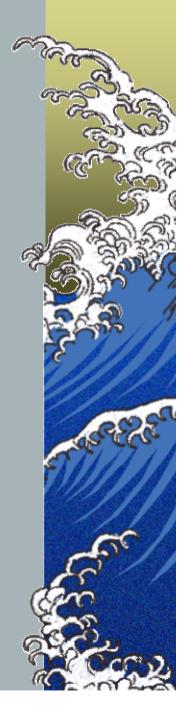
# Three Definitions of Pension Liabilities

- Accrued-to-date liabilities

  present value of pensions to be paid in the future on the basis of accrued rights.
- ▲ Current workers and pensioners' net liabilities

  present value of future contributions of existing

  members and their new rights under current rules.
- → Open-system net liabilities present value of contributions and pensions of new workers under current rules.



### Judging in terms of Legal Rights

- ▲ Accrued liabilities are legal rights
- ▲ Can we take into account of unborn workers under current rules?
- ▲ What is the legal basis of this projection?



#### Accrued Liabilities and Public Debt

- ▲ The author distinguishes public debt and pension liabilities in terms of certainty. This is concerned with aggregate uncertainty, not with individual uncertainty?
- ▲ Pension rights are compulsory yet not tradable.
- ▲ Pension liabilities do not affect financial markets. But pension fund management affects financial markets.



### Pension Liability Calculations

- ▲ A Highly Simplified Methodology

  Hagemann and Nicoletti (1989) was a source of idea in Generational Accounting by Auerbach and Kotlikoff.
- ▲ Scheme may not be mature. When does it mature?

How to corporate with sequences of pension reform?



# Projections in expenditure and pension liabilities

- ▲ Expenditure projections are intuitive indications and less sensitive to underlying assumptions.
- Accrued rights can measure the cost of closing down a PAYG scheme. Pension liabilities are more effective to evaluate the impact on consumption and saving (Feldstein substitution effects).



## Improving Projections and Liabilities

Informational share among EU and convergence of methodology and system itself.

To what extent individual governments can maintain the autonomy of pension scheme and management?

