

Pension Expenditure Projections, Pension Liabilities and European Union Fiscal Rules

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2 November 2004



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 incorporate 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?

