

NATIONAL RETIREMENT PLANS

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OVERVIEW

Concepts of Retirement Plans

Coverage of labor force

Conundrums



CONCEPTS

Plan Types

Funding

Retirement Age



Plan Types

Defined Benefit

Benefit Formula

Indexing Benefits

Defined Contribution



Funding

Pay as you go

DB funding

Notional DC benefits

Fully funded

DB Funding

DC Funding

Collectively

Individually



Retirement Age

Too low in many countries

Difficulty in raising retirement age

Linked to mandatory retirement and other employment practices



COVERAGE

Development of pensions

Problems in expanding coverage

Worker/Retiree ratio



Development of Pensions

Coverage typically begins with military

Expanded to government employees

Then urban elite



Expanding Coverage

How to reach the informal and rural sectors?

Pensions of military and government employees often quite generous.

Leads to redistribution to wealthy workers

Makes it difficult to incorporate others

Hard to reduce these benefits



Worker/Retiree Ratio

Population aging increases cost of any level of retirement benefit

Importance of retirement age

Importance of coverage

Relationship to other social needs



CONUNDRUMS

Rising cost of retirement plans

Rising cost of health care for elderly

How to measure pension liabilities



Rising Cost of Retirement Plans

Defined Benefit Plans in a pay as you go world:

Higher taxes or lower benefits

Many options to do either



Higher Taxes

Raise payroll taxes

Use funds from general revenues



Lower Benefits

Reduce generosity of current benefit formula

Change indexing

- Index to prices not wages

- Index to wage bill not per capita wage

- Index to demographic factors

Raise retirement age



Rising Cost of Health Care

National health insurance for elderly

Rapidly rising cost

Cost increases may be much larger than
pension increases



Change Plan Types

Move from DB to DC plan

Political issues

Transition costs



Measuring Liabilities

Liabilities of on going DB plan

Actuarial balance

percent of payroll tax

present value of assets plus revenues
minus future expenditures



Measuring Liabilities

Liabilities of terminating DB plan

Plan ends today, no further coverage
accrued liabilities to date

Plan closed to new workers, current
workers and retirees remain in plan



Measuring Liabilities

Length of forecasting period

Details of assumptions



Measuring Liabilities

Liabilities in DC plans

Notional accounts and funding

Collective management of assets

Individual management of assets

