Pensions: Savings or Insurance

Global Pensions and Savings Conference
Solange Berstein J.
World Bank, April 2004
Pensions: Savings or Insurance

- Large number of workers
  - Low probability of getting to retirement
  - Expensive event that would have to be afforded

- Large? number of workers
  - High probability of getting to retirement
  - Very expensive event that would have to be afforded

Saving or insurance?
What do people want?
- Probably insurance…. No risk?

What can be afforded?
- Providing insurance can be very expensive, there is not much that can be gained from risk pooling
Is there space for insurance today?
- May be there is.....at 85 or 90
- Risk pooling can generate efficiency that could mean a low cost product
- Pensions are to give benefit for retirees, not to generate bequest
- Without tail risk it could be that the saving effort be translated into a higher pension
Is there space for insurance today?
- For low income people which are less prepared to assume risks
- There is an example in the case of Chile, where the insurance is provided by the government

Pensions: Savings or Insurance

- On the saving financing how can risks be mitigated?
  - Role of the government, managers, individuals and employers in risk sharing
  - Regulation of investment and products offered
  - Fiduciary responsibility of managers
  - Well designed default strategies
  - Effective supervision
  - Financial literacy and appropriate tools
Pensions: Savings or Insurance

• How much risk should be bared by the individual, by the government, by employers?

Funds Return versus Active switchers Return
(Real annual rate of return, April 2012–March 2013)

<table>
<thead>
<tr>
<th>Funds Ranking</th>
<th>Fund</th>
<th>Real Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>E</td>
<td>4,0%</td>
</tr>
<tr>
<td>2</td>
<td>D</td>
<td>3,6%</td>
</tr>
<tr>
<td>3</td>
<td>C</td>
<td>3,4%</td>
</tr>
<tr>
<td>4</td>
<td>A</td>
<td>2,8%</td>
</tr>
<tr>
<td>5</td>
<td>B</td>
<td>2,6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Return Range</th>
<th>% Switching Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper Range</td>
<td>13,50%</td>
</tr>
<tr>
<td>Funds Range</td>
<td>21,60%</td>
</tr>
<tr>
<td>Lower Range</td>
<td>64,90%</td>
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</tbody>
</table>
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- Longevity imposes a big challenge for today's societies:

  How do we make a longer life a better life?
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