

Pensions: Savings or Insurance

Global Pensions and Savings Conference
Solange Bernstein 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 afford



Large?
number of
workers

- High probability of getting to retirement
- Very expensive event that would have to afford



Saving or insurance?

Pensions: Savings or Insurance

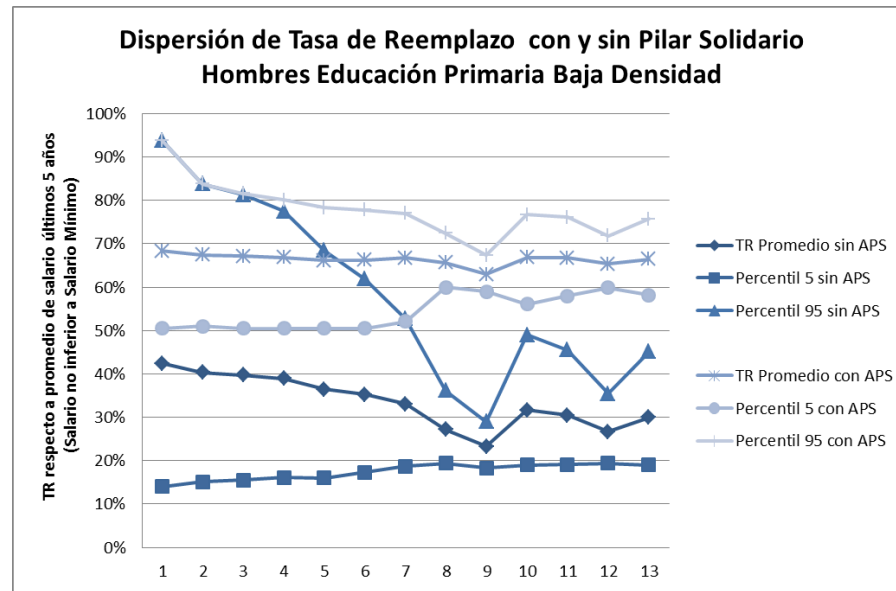
- ▶ What do people want?
 - Probably insurance.... No risk?
- ▶ What can be afforded?
 - Providing insurance can be very expensive, there is not much that can be gained from risk pooling

Pensions: Savings or Insurance

- ▶ 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

Pensions: Savings or Insurance

- ▶ 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



Fuente: Berstein, Fuentes y Villatoro. Journal of Pension and Finance, Junio 2013

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)

Funds Ranking	Fund	Real Return
1	E	4,0%
2	D	3,6%
3	C	3,4%
4	A	2,8%
5	B	2,6%



Return Range	% Switching Members
Upper Range	13,50%
Funds Range	21,60%
Lower Range	64,90%

Pensions: Savings or Insurance

- ▶ Longevity imposes a big challenge for today's societies:

How do we make a longer
life a better life?

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