Pension system characterictis in a changing labour market: an appraisal

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Outline

A. Research questions and novelties of the MOSPI project

B. Labour market tendencies, earnings inequality and pension systems: main links and implications

Research questions and novelties

- Why studying links between labour market trends and innovations, on the one hand, and features of the pension system, on the other hand?
- => consequences for pension system financing and for pension benefit adequacy => effects on efficieny and equity
- Advantages of a long panel for assessing labour market trends
- Advantages of a dynamic micro-simulation model for inquiring trends and possible future criticalities

Inequality of what? Distributive effects of pension systems

- Many dimensions affected by pension systems features: i) monetary dimensions – benefit amount and life pension wealth -; ii) retirement age; iii) other wellbeing dimensions
- Is comparing market and disposable income distribution enough for assessing the redistributive effect of pensions? Are pensions mere vertical redistribution or do they mostly represent an horizontal redistribution among individuals’ life phases? Is it enough to focus on average pension and retirment age?
- Long panel and dynamic micro-simulation model allow researchers to properly investigate these issues => observing main criticalities and simulating future scenarios

The link between pension system features and benefit adequacy

Differences in adequacy due to:

- Different coverage – e.g. guarantees, contributions, benefits – for the various workers categories (e.g. parasubordinates, platform workers)
- Working career dynamics => labour market outcomes over the whole career linked to many dimensions, as: contractual arrangements, job interruptions, wages and involutary part-time arrangements
- Job quality (affecting health and chances to postpone retirement) and its degree of routinization (affecting the «tecnological unemployment» risk exposition)

Risks and inequality in NDC

- No issues of financial intertemporal sustainability but no risk sharing among individuals
- NDC mirror of LM outcomes => P depends on C over the whole working life=> job duration, contribution rates, wages (reduced for part-timers).
- Lessa advantaged workers suffer from all three dimensions and might at most receive a means tested benefit when old
- Apart from macro trends, adequacy in the NDC depends on an adequate LM
- No risks of low pensions with long working career
- What are the consequences of LM changes on workers risks?

Fairness in the Italian NDC

- Each euro of contribution has the same return, taking into account retirement age
- Actuarial fairness «on average». Is it enough for social justice?
- Large unfair inequalities might be related to:
  - A. Mechanisms behind contribution payment: what are the sources of working careers differences among individuals?
  - B. Socio-economic gradient of health
- Main questions:
  - ✓ How many workers will be able to pay adequate contribution for a long career?
  - ✓ How many workers (and who) will be able to work until age 70?
  - ✓ “What are the sources of limited contributions in the LM?

Future scenarios and pension systems

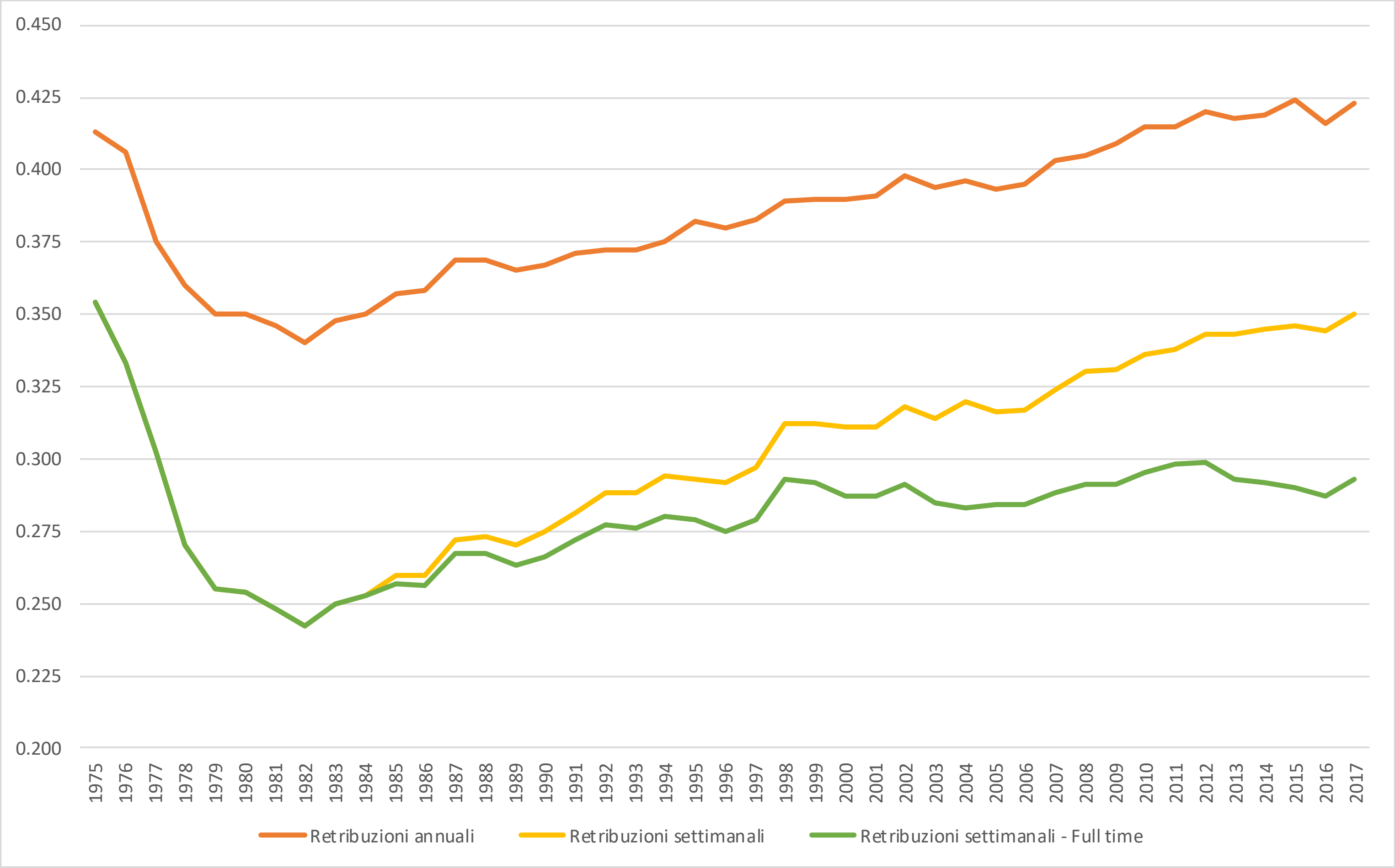
- What effects on pensions of three possible (not alternative) negative scenarios?

1. Secular stagnation
2. Drop in the labour share
3. Increasing inequality and polarization in the LM

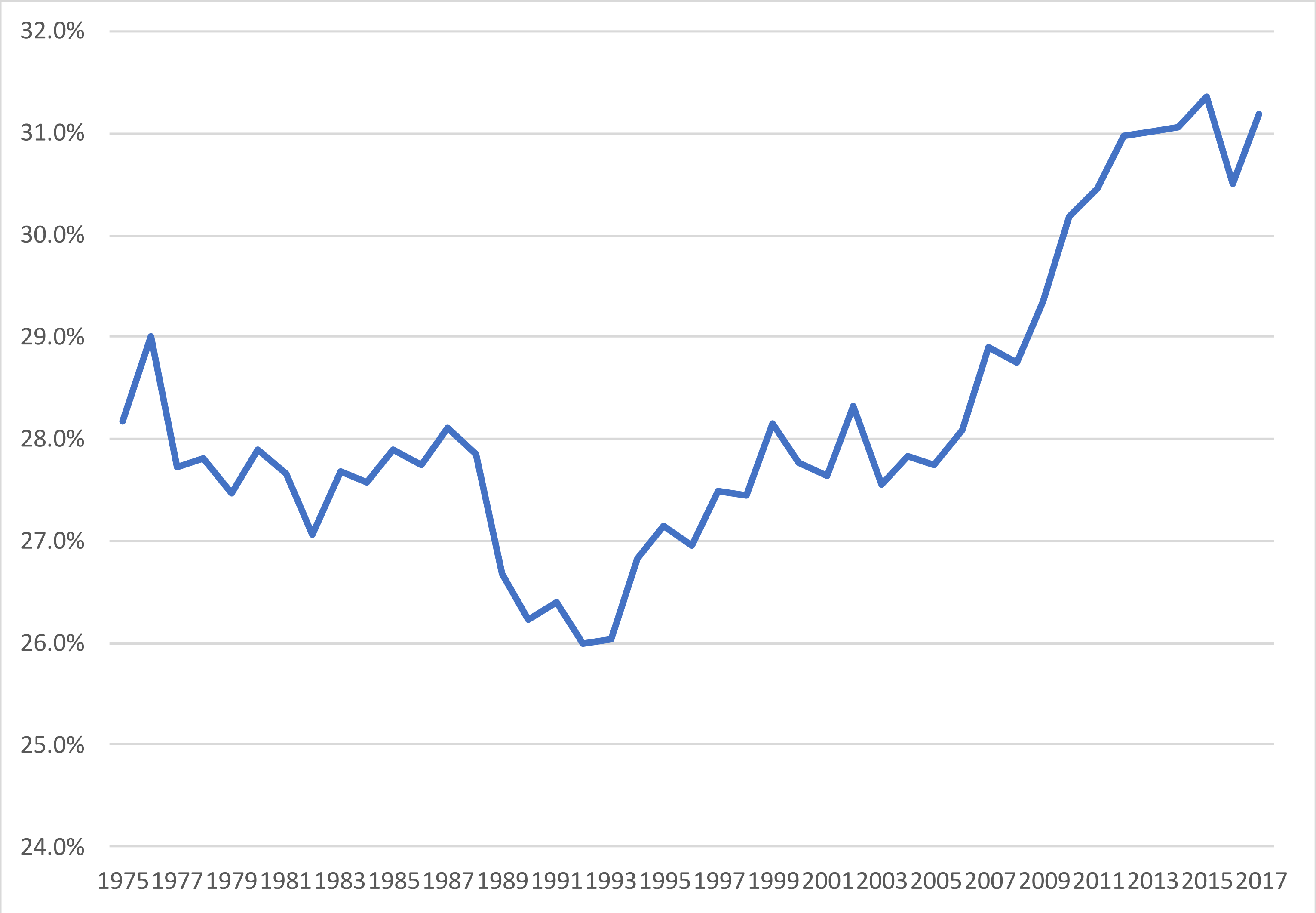
- What are the implications of technological progress for these scenarios?

We show some past evidence from INPS microdata

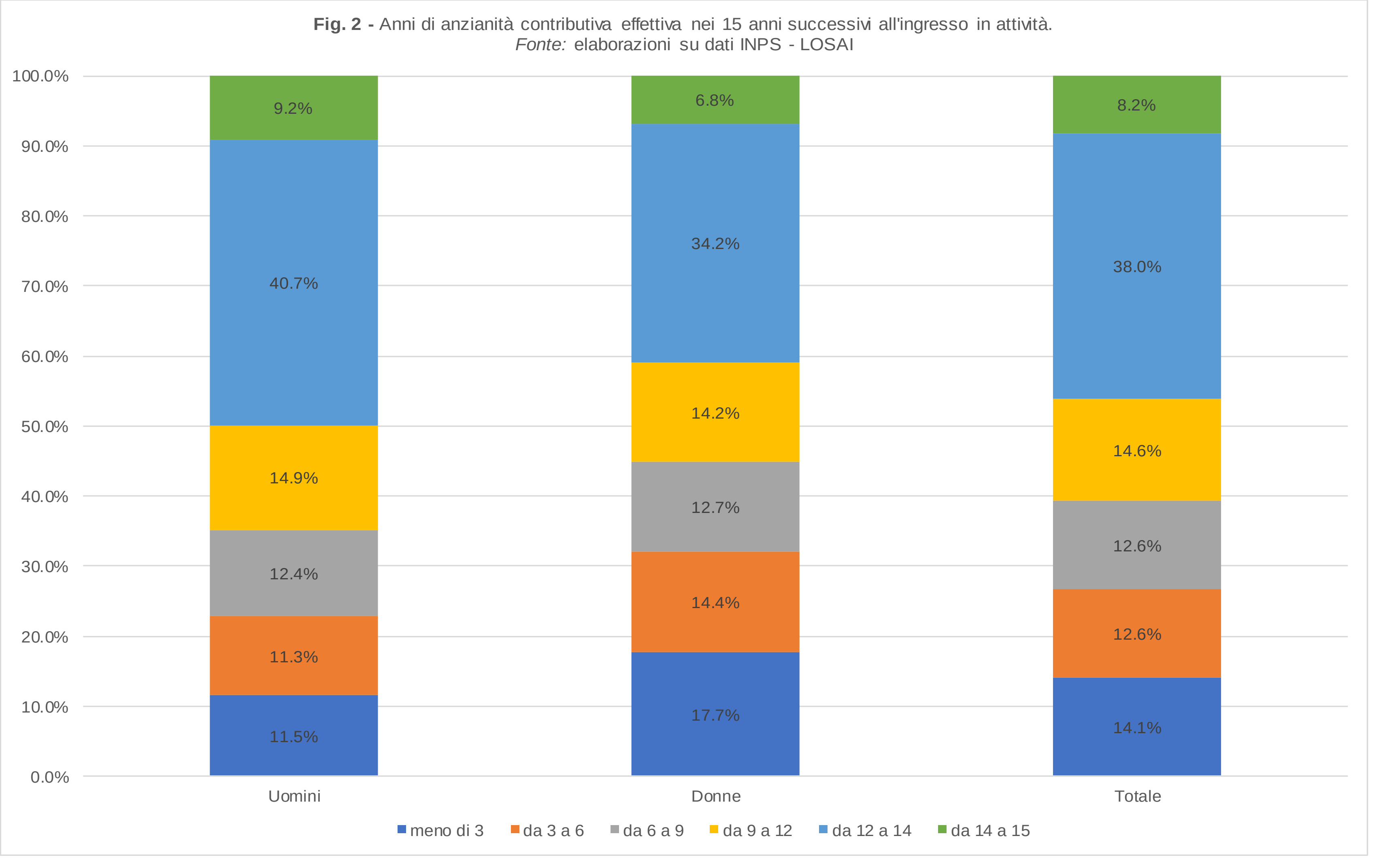
Trend of earnings inequality among private employees in Italy



Trend of working poor among private employees in Italy

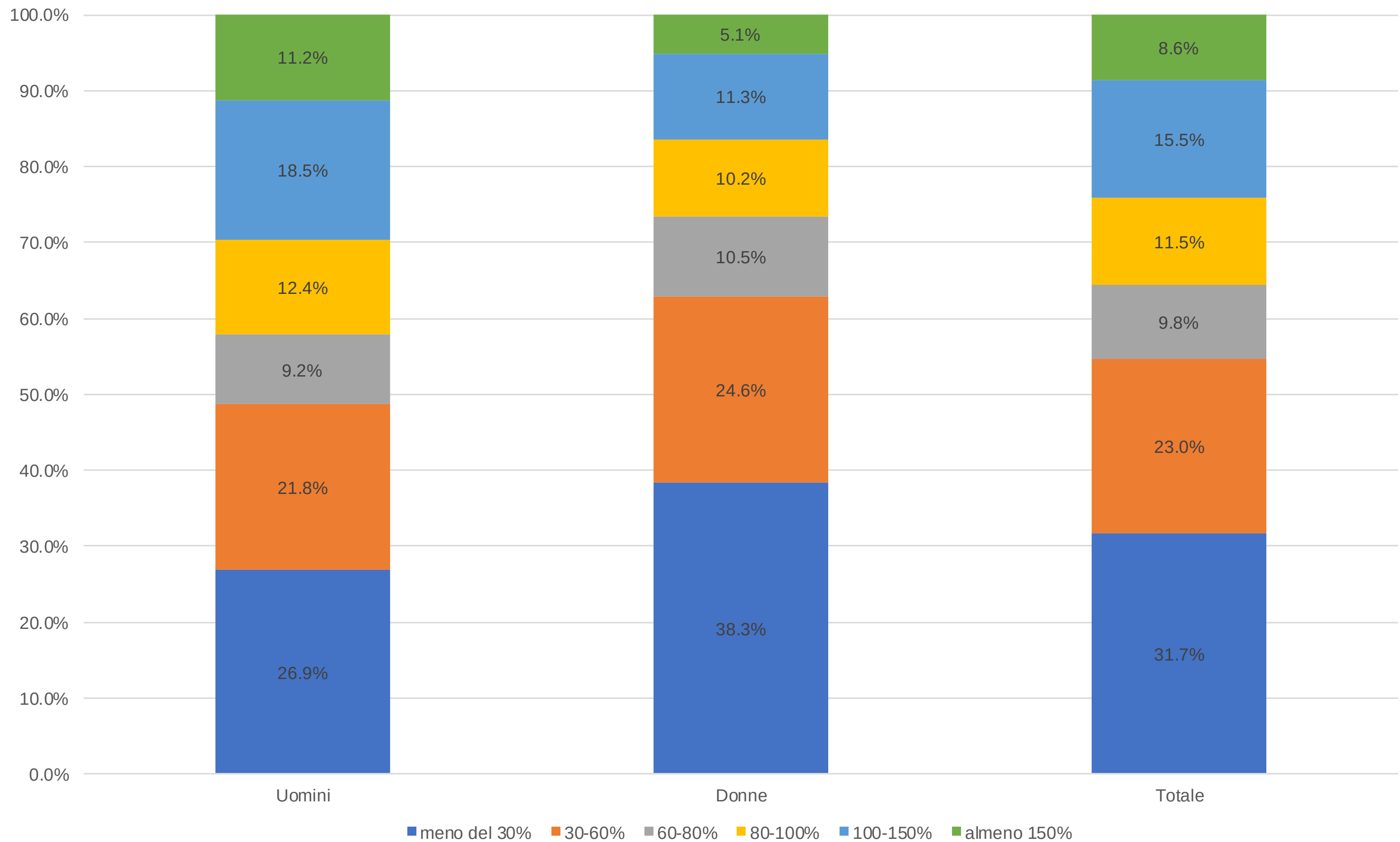


Gap of working weeks in the first 15 years of the career



Contribution accumulation in the first 15 years of the career (with respect to the median employee)

Fig. 6 - Distribuzione del rapporto fra il montante contributivo accumulato nei 15 anni successivi all'ingresso in attività e quello che avrebbe accumulato nel periodo il "dipendente mediano". *Fonte:* elaborazioni su dati INPS - LOSAI



A negative scenario: the secular stagnation

- When the output reduces (and permanently) resources for financing pensions are lower, independently of the financing method
- If stagnation is temporary, redistribution between generations is possible (it is not always an evil)
- In general, negative scenarios (e.g., ageing, a technological progress jobs displacing) should be assessed distinguishing if there is or not a stagnation (or even a reduction) in total product.
- In case it is not, these scenarios ask for (new) distributive choices among the various groups (e.g., workers and employers, active and inactive, low and high-paid workers, wealth and non-wealth owners).
- A mere change in the demographic composition does not necessarily create a reduction in total output.
- Likewise, worsening workers' conditions due to the globalization and tech. progress might be dealt with different distributive choices.

The drop in the labour share: policy answers

- Reduction in the labour share due to several determinants, also policy driven (e.g. unions bargaining power)
- Tendencies towards a weakening of the labour share reduce, by definition, the resources for financing welfare when it is financed by social contributions (and partially by income taxes)
- Should we reform pension schemes when the labour share reduces? Is it the signal of an unsustainable social protection system?
- Again, the issue is between production or (re)distribution
- If the drop in the labour share does not match with an output decrease, resources for welfare still exist, but «new» financing sources have to be introduced (not only a mere financing through the general taxation)

A negative scenario: increasing inequality and polarization (a)

- Increasing gaps between workers due to lower employability and increasing wage gaps within workers, due to several drivers (not only globalization and technological progress)
- Skill bias and routinization might strengthen these trends exposing at serious risks also middle workers performing routinary jobs
- Various sources of workers' (often permanent) disadvantages: contractual arrangements (differently covered by social protection schemes); unemployment spells (with low coverage of notional contributions); low wages, especially for involuntarily part-timers.
- All these dimensions usually disadvantage women, with serious effects on the pension gender gap, especially when redistributive tools are missing

A negative scenario: increasing inequality and polarization (b)

- If this trend moves together with drops in the labour share => need of re-thinking how to finance spending.
- If this trend moves together without drops in the labour share => a redistribution within workers might be enough, but also “pre-distributive measures” affecting the market distribution would be welcome.
- Is increasing the link between contributions and benefits over the whole working life (at the extreme, introducing an NDC) enough for guaranteeing adequate pensions for all workers, despite its clear pros for financial sustainability and for “making work pay”?
- Is a strict link between contribution and benefits fair besides being actuarially neutral? Where do inequalities come from?
- Different answers if inequalities are temporary or permanent

Policy implications for Italy

- NDC as a mirror of LM outcomes => deal with risks intervening where they emerge, i.e. in the LM
- Is it enough reforming the unemployment benefit system? Are we implementing an actual «make contribution pay»?
- Do we need compensation policies on pension benefits?
- Enrolment rules and liquidity constraints strongly reduce the chances of less advantaged workers to enrol to private schemes
- Ex ante compensations (notional contributions) or ex post (e.g. flat-rate pensions or a guaranteed minimum benefit consistent with the NDC logic) => T-DYMM crucial to assess alternative scenarios and their effectiveness with respect to the possible future changes of the labour market

THANKS FOR YOUR ATTENTION!