

21st Century Risks & Rewards for Actuaries

IACA, PBSS and IAAust Colloquium

31 October – 5 November 2004

Shangri-La Hotel, Sydney, Australia

SYNOPSIS

AN INQUIRY INTO THE BASICS OF PENSION FINANCE

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The present paper deals with some basic characteristics of both pension finance systems pay-as-you-go and capital reserve. The merits and demerits of both finance systems are discussed at length. The major question mostly asked is whether funding does matter and if so, which conditions have to be fulfilled. Funding generally does not transfer the pension burden over time, opposed to frequent usual thinking. Apart from stimulating national savings and investments the major advantage of funding is that it provides the best way of securing pension liabilities and an adequate mechanism for solving the distributional problem of national product between the retired and non-retired by the ownership of (part of) the capital stock. After many years of debate of pay-as-you-go versus funding it can be concluded that the debate has lost much of its heat. The issues are better understood and there is convergence on some basic points.