

# The Role of *Financial Literacy* in Public Pension Policies and Individual Retirement Decisions

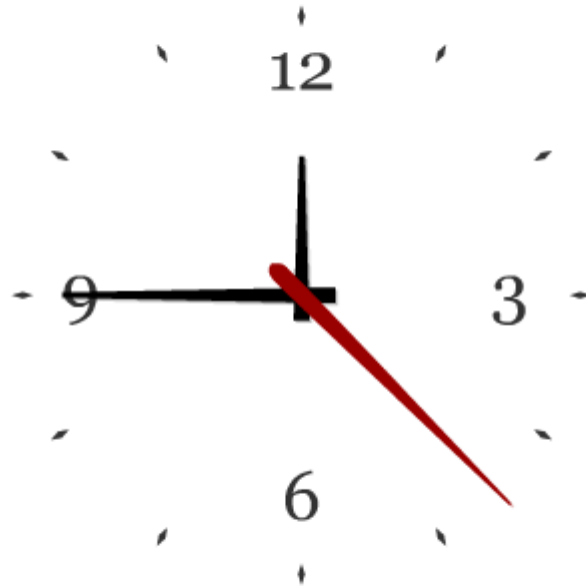
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## Time inconsistencies:

- *Short termism of politics;*
- *Mid termism of the economy;*
- *(Very) Long termism of Demography*



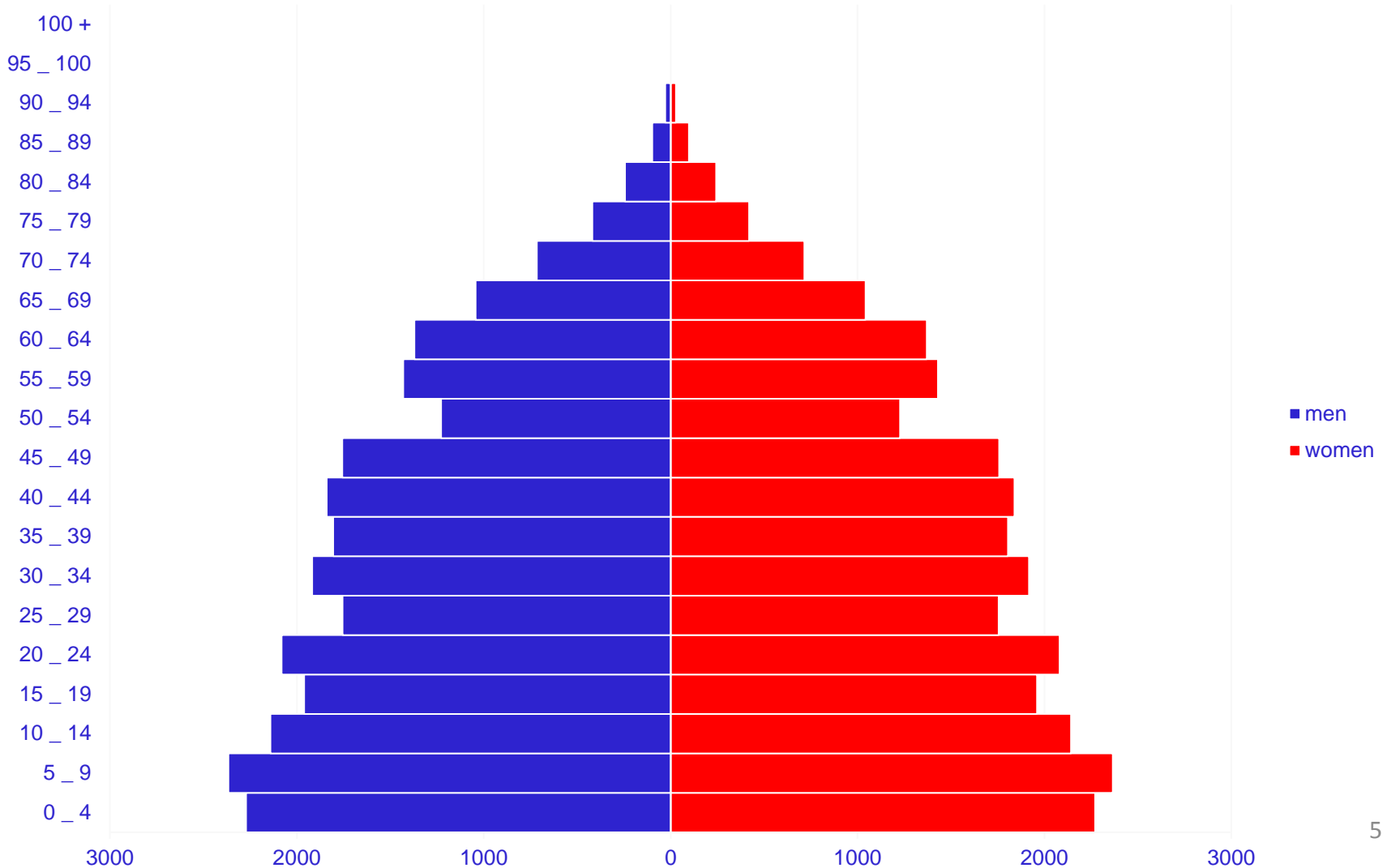
The demographic transition in two pictures.....



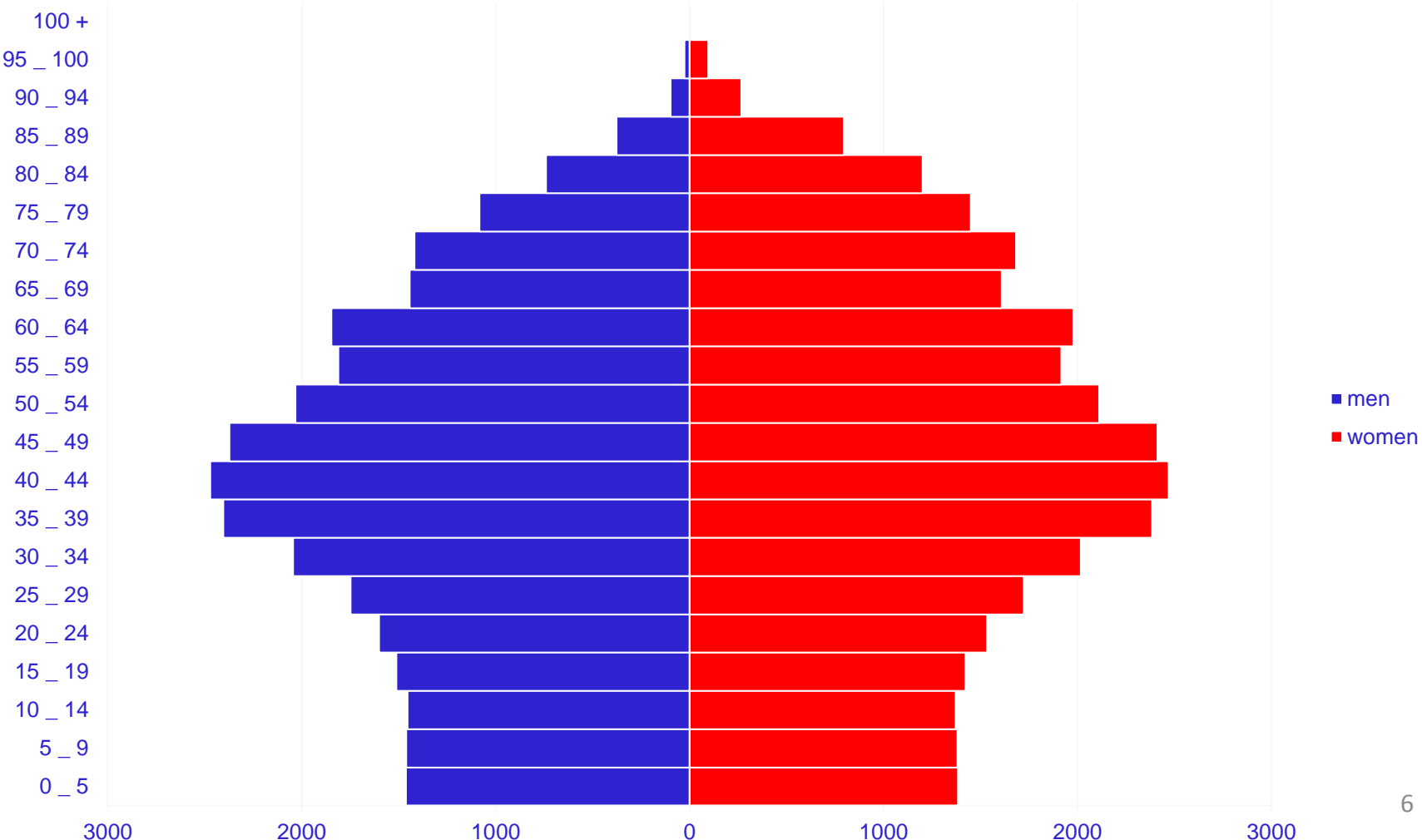


# A demographic threat...

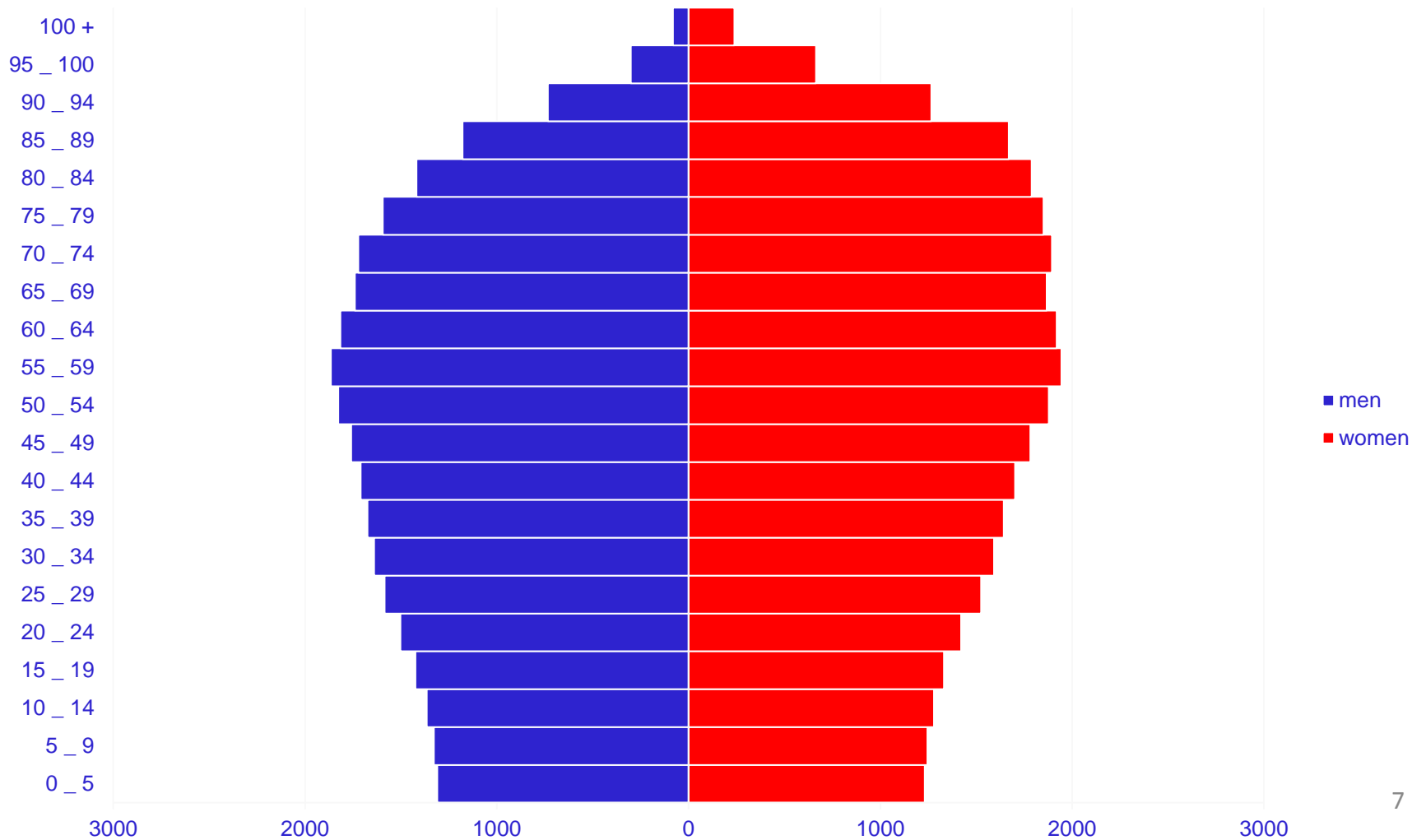
Italian population pyramid, 1971

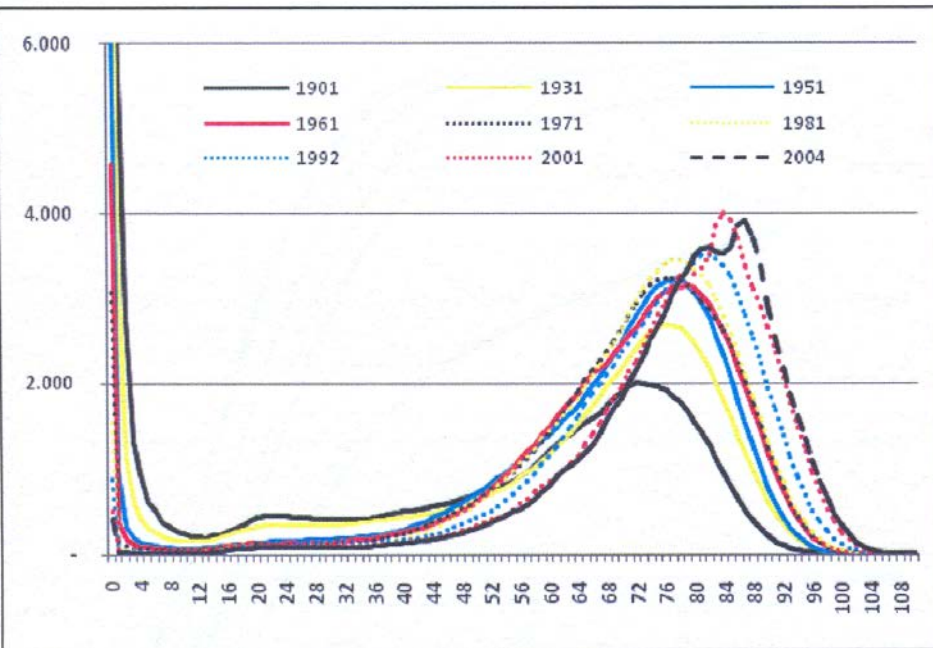


# 2011



# 2061

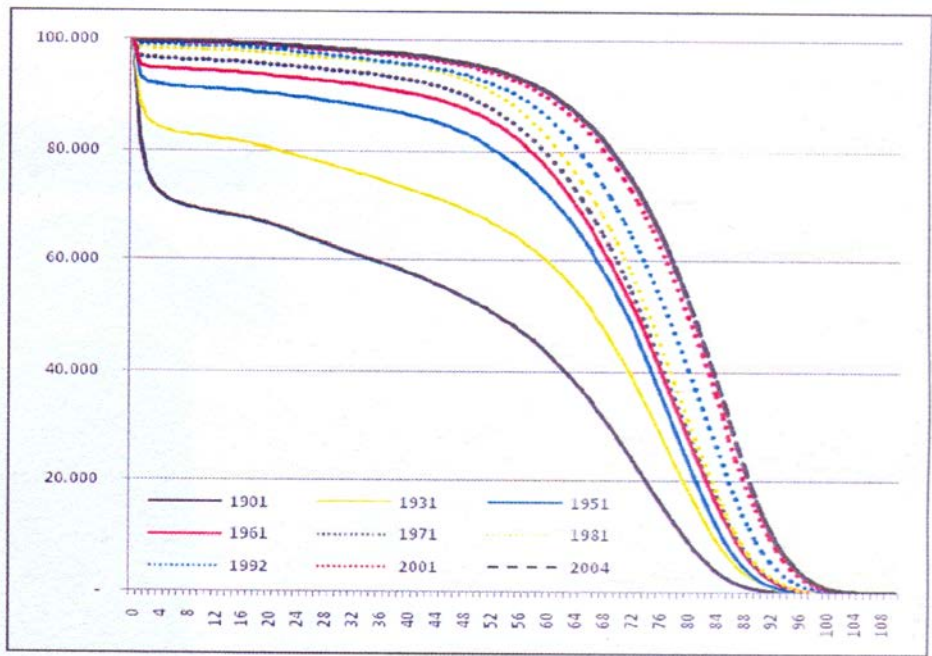




## ... or a demographic dividend?

Figure 1 – Deaths curve (number of deaths per age of the cohort) – Italy, various years

Figure 2 – Survival function (survivors at various ages) – Italy, various years



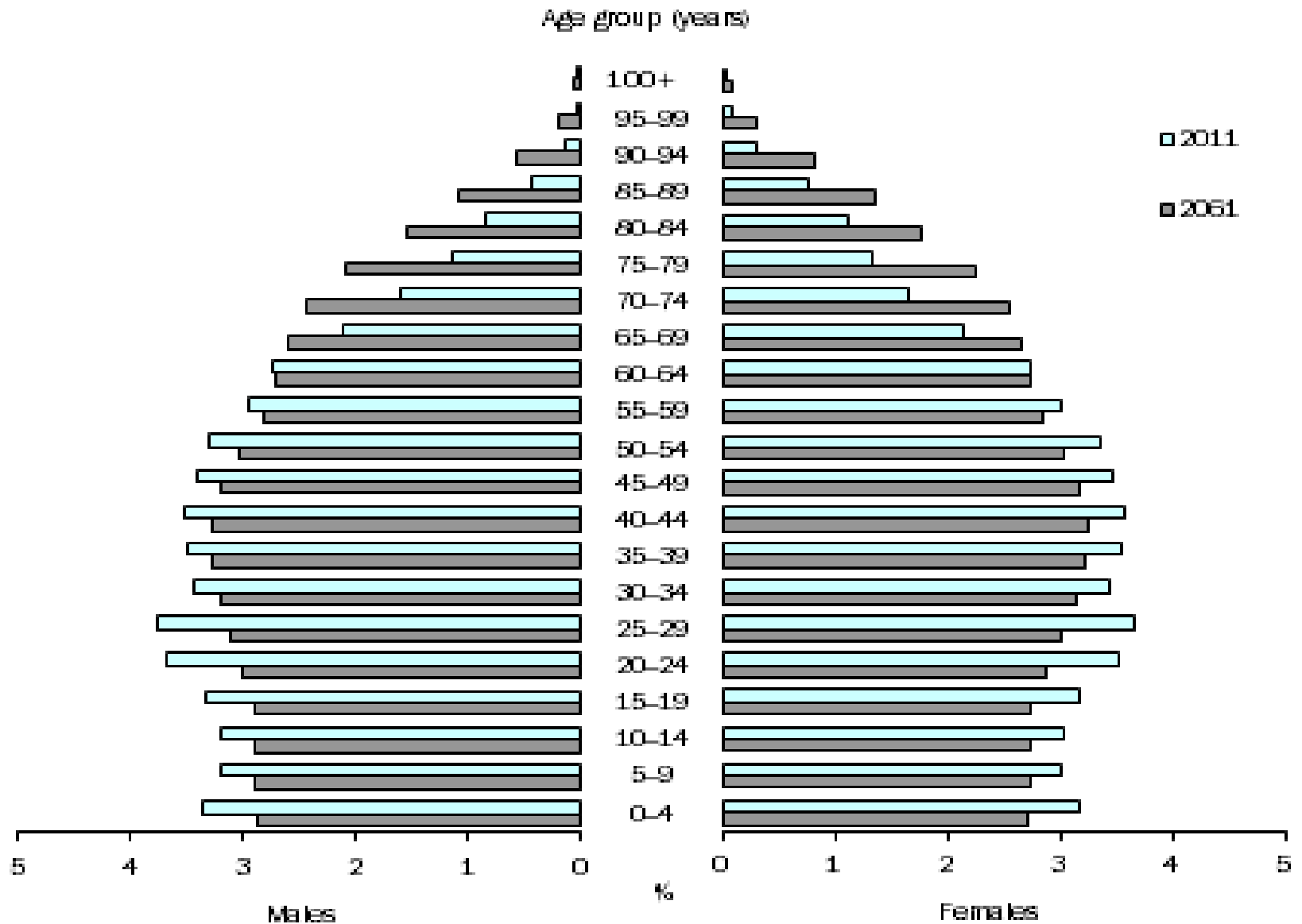
### Demographic changes (3)

#### Fertility rates – Italy various years

<b>1960</b>	<b>2.37</b>
<b>1970</b>	<b>2.38</b>
<b>1980</b>	<b>1.64</b>
<b>1990</b>	<b>1.33</b>
<b>2000</b>	<b>1.26</b>
<b>2010</b>	<b>1.46</b>



# .....and Australia?



# The political response: reforms

## Why reforms?

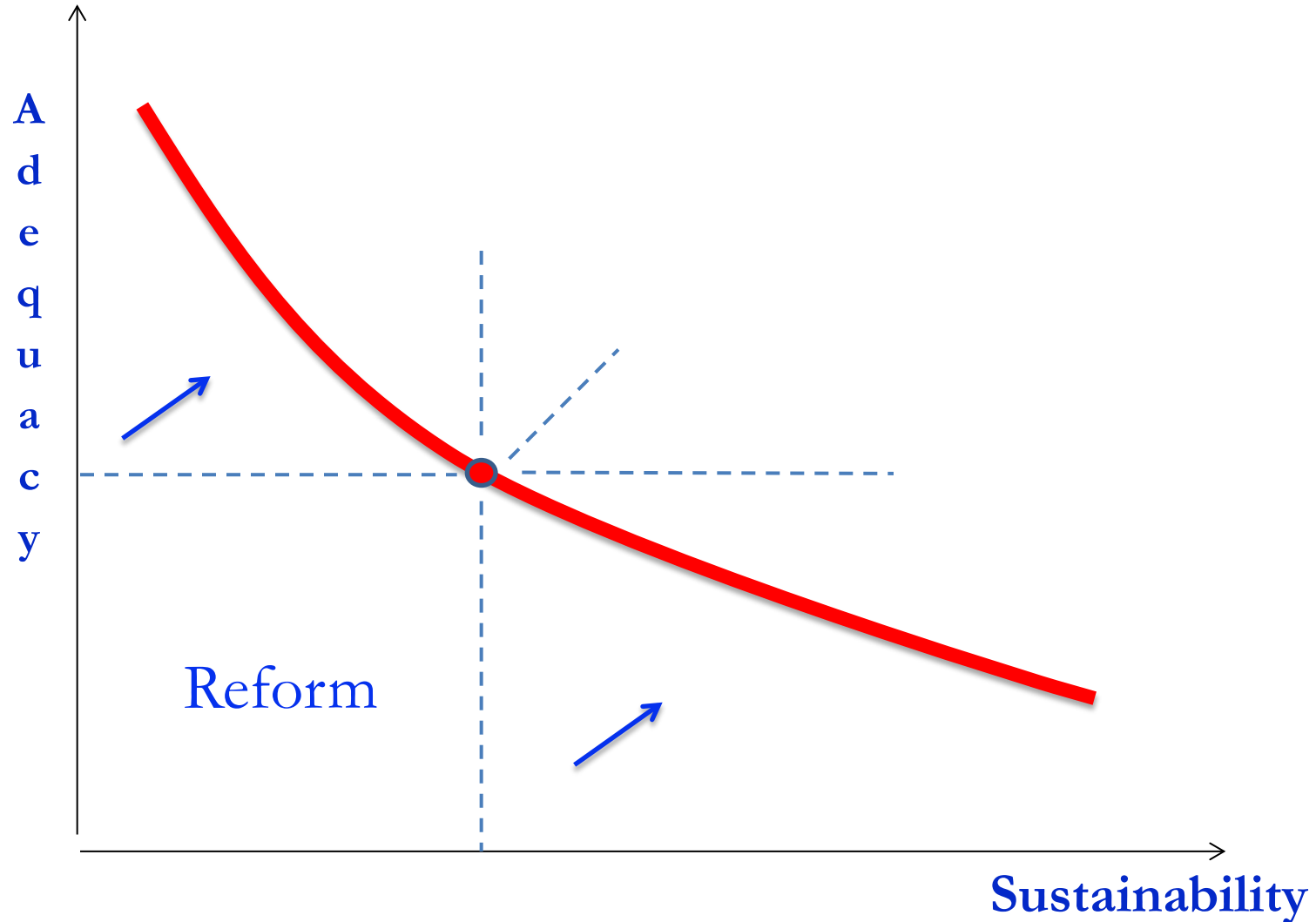
- *«To improve an existing institution, law, practice, etc. by alteration or correction of abuses»*
- *«Make changes in (something, especially an institution or practice) in order to improve it »*
- *«To give up or cause to give up a reprehensible habit or immoral way of life»*

(From: Wordreference.com and Oxford Dictionary)

➤ **All definitions refer to changes not only in rules and institutions but, more importantly, in behavior**

# How to interpret reforms:

*Austerity* vs a better tradeoff between *sustainability* and *adequacy*



# The new paradigm

**Reform**

**Information**

**Education**

# 1. Reform

- A clearer separation between *social insurance* and discretionary *redistribution*
- *Uniform* and *transparent* rules (to avoid segmentation and privileges)
- *Inclusive* and *efficient* labor market (the best premises for a sustainable pension system is a well performing labor market)
- State/market complementarity (for a better diversification of demographic, economic and financial risks)

# The golden rules of pensions

- *Responsibility*: pension financed through saving (contributions/payroll taxes)
- *Flexibility*: benefits linked to the age of exit; possibility of choice btw. constant and increasing pension; partial retirement
- *Sustainability*: age linked to life expectancy
- *Adequacy*: integration with supplementary pensions and LTC services
- *Solidarity* instead of privileges

## 2. Information



The example of the orange envelope

Simple but accurate information to ensure:

- good planning of retirement savings over the life cycle
- a proper assessment of the possible choices (eg. pension fund, retirement age)

# 3. Education

- Greater responsibility requires a basic knowledge of pension economics and finance
- Economic and financial education is essential for:
  - A prudent accumulation/management of savings (women more at risk)
  - A greater effectiveness of reforms (citizenship)



**“It's easy, impossible, tough going, worth a shot”**

(Wisława Szymborska, "Poems, New and Collected, 1957-1997", Houghton Mifflin Harcourt, Boston, 2000)