

Period and cohort life expectancy and how to address longevity heterogeneity in pension system design

Esperanzas de vida cohorte y periodo y como abordar la heterogeneidad en la longevidad en el diseño de sistema de pensiones

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In many policy areas it is essential to use the best estimates of life expectancy, but such estimates are vital to most areas of pension policy – from indexed access age and the calculation of initial benefits to the financial sustainability of pension schemes and the operation of their balancing mechanism. The objective of the conference is to present the conceptual differences between static period and dynamic cohort mortality tables, estimates the differences in life expectancy between both tables using data from Portugal and Spain, and compares official estimates of both life expectancy estimates for Australia, the United Kingdom, and the United States for 1981, 2010 and 2060. This comparison reveals major differences between period and cohort life expectancy in and between countries and across years. Using measures of period instead of cohort life expectancy creates an implicit subsidy for individuals of 30 percent or more, with potentially stark consequences on the financial sustainability of pension schemes. Besides, in the conference we demonstrates that the link between heterogeneity in longevity and lifetime income across countries is mostly high and often increasing; that it translates into an implicit tax/subsidy, with rates reaching 20 percent and higher in some countries; that such rates risk perverting redistributive objectives of pension schemes and distorting individual lifecycle labor supply and savings decisions. We propose a number of interventions in the accumulation, benefit determination, and disbursement stages to address longevity' heterogeneity.