Pension reforms and intergenerational conflicts: what is the role of knowledge?

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Motivation

- Many developed countries underwent radical reforms of their pension system in the last decades.
- Although these reforms have been generally successful in recovering the systems' financial sustainability, they have usually met the strong opposition of large groups of the population.
- The drivers of social opposition to these reforms are still under-investigated.

This paper

- We explore factors associated with individuals' support to pension reforms, hence support to rebalance the intergenerational economic relationship in favor of the young.
- We analyze whether and how the consensus towards the fundamentals of pension reforms is shaped by general financial knowledge, pension knowledge, and beliefs that individuals have about population ageing and the public expenditure for pensions.
- We focus on older individuals in order to concentrate on the age group that more strongly opposed to the pension reform.
- We focus on Italy.

Data

- We use data drawn from the Survey of Health, Ageing, and Retirement in Europe (SHARE), representative of people aged 50+.
- For the survey conducted in Italy, we designed an experimental module.
- The module was answered by 1,928 SHARE participants between November 2019 and March 2020 (1,923 observations with non missing values).
- The questionnaire captured individuals' support to a policy aimed at improving the financial sustainability of the pension system, i.e., reducing the cost imposed to the young and future generations by the demographic transition.

Experimental module

On a scale from 1 to 5, where 1 means "I strongly disagree" and 5 means "I strongly agree," how strongly do you agree or disagree with the following statements?

- To keep the public pension system sustainable, it is necessary to increase the retirement age;
- If life expectancy increases, retirement age needs to be increased accordingly;
- Low economic growth and lower contributions paid by the young (due to their precarious working conditions and lower incomes) threaten the sustainability of the public pension system;

Experimental module

On a scale from 1 to 5, where 1 means "I strongly disagree" and 5 means "I strongly agree," how strongly do you agree or disagree with the following statements?

- Population ageing (increasing number of people at old ages and less births) makes the public pension system unsustainable. That is, the expenses of the pension system are systematically higher than the revenues;
- A flexible retirement age should be allowed, but those who decide to retire at a younger age should get a lower pension;
- The government should allocate fewer resources to pensions and more resources to help the unemployed and young jobseekers.

Experimental module

We collected information on:

- Financial literacy
- Specific pension knowledge
- Views about population ageing and the public expenditure for pensions:
  - Share of people aged 65+ on the overall population
  - Risk of being poor is higher or lower among the elderly (65+) than among working-age individuals
  - Share of public pension expenditure over the total public expenditure
- Having been affected by the 2011 pension reform

Descriptive statistics

	Mean	*Std. Dev.*
Age 60-65	0.19	0.40
Age 66-70	0.17	0.37
Age 70+	0.50	0.50
Female	0.57	0.50
Retired	0.54	0.50
Affected by the reform	0.10	0.30
Financial literacy	0.46	0.50
Pension literacy	0.52	0.50
Elderlies are less poor	0.32	0.47
Share elderly 21-30% (correct answer)	0.14	0.35
Share elderly +30%	0.70	0.46
Pension expenditure 21-30%	0.11	0.32
Pension expenditure +30% (correct answer)	0.05	0.22

Methodology

- We investigate the factors leading to individual acceptance of pension reforms.
- We conduct a multivariate analysis for each of the six outcomes of interest.
- Dependent variables: dummies taking value 1 if, on a scale from 1 to 5, the respondent answered 4 or 5 to the question: "How strongly do you agree or disagree with the following statement?"
- We estimate the regressions using linear probability models.

Estimation results (1/6)

	To keep the public pension system sustainable, it is necessary to increase the retirement age
Financial literacy	0.049***
Pension literacy	-0.001
Elderlies are less poor	0.020
Share elderly 21-30%	0.043
Share elderly +30%	0.031
Pension expenditure 21-30%	0.060*
Pension expenditure +30%	-0.058

Controls: age, gender, employment status, being affected by the reform.

- Individuals who have a basic level of financial knowledge are more likely to agree with an increase in retirement age to guarantee the sustainability of pension systems.
- To a lower significance level, people reporting that 21-30% of public spending go into pension payments, are more likely to agree with retirement age postponement than those who think the percentage is lower.

Estimation results (2/6)

	If life expectancy increases, retirement age needs to be increased accordingly
Financial literacy	0.077***
Pension literacy	0.004
Elderlies are less poor	0.027
Share elderly 21-30%	0.086***
Share elderly +30%	0.092***
Pension expenditure 21-30%	-0.008
Pension expenditure +30%	0.045

Controls: age, gender, employment status, being affected by the reform.

- Individuals with a basic level of financial knowledge are more likely to accept the link between retirement age and life expectancy.
- Those who know the percentage of the elderly with respect to the overall population (or overestimate it) agree with this statement.
- Those who already retired are more likely to approve such a linkage.

Estimation results (3/6)

	Low economic growth and lower contributions threaten the sustainability of the public pension system
Financial literacy	0.054**
Pension literacy	0.173***
Elderlies are less poor	-0.027
Share elderly 21-30%	0.131***
Share elderly +30%	0.172***
Pension expenditure 21-30%	-0.048
Pension expenditure +30%	0.072

Controls: age, gender, employment status, being affected by the reform.

- Both financial literacy and specific pension knowledge explain why some people agree with this statement.
- Those who are aware that the elderly represent a sizeable share of the population, recognize that low economic growth and low contributions are a problem for the sustainability of the pension system.

Estimation results (4/6)

	Population ageing makes the public pension system unsustainable
Financial literacy	0.018
Pension literacy	0.214***
Elderlies are less poor	0.008
Share elderly 21-30%	0.121***
Share elderly +30%	0.119***
Pension expenditure 21-30%	0.046
Pension expenditure +30%	0.010

Controls: age, gender, employment status, being affected by the reform.

- Individuals with some knowledge on pensions are more likely to agree that population ageing makes the public pension system hardly sustainable.
- People knowing that the share of the elderly in the population is sizeable are more likely to agree with this statement.

Estimation results (5/6)

	Those who decide to retire at a younger age should get a lower pension
Financial literacy	0.034
Pension literacy	0.113***
Elderlies are less poor	0.008
Share elderly 21-30%	0.074*
Share elderly +30%	0.042
Pension expenditure 21-30%	0.019
Pension expenditure +30%	0.070

Controls: age, gender, employment status, being affected by the reform.

- Pension knowledge affects the perception that a flexible retirement age should be allowed if those who decide to retire at a younger age get a lower pension.
- Those who know the percentage of the elderly with respect to the overall population are more likely to agree with this aim of pension reforms.

Estimation results (6/6)

	The government should allocate fewer resources to pensions and more resources to the unemployed and young jobseekers.
Financial literacy	-0.002
Pension literacy	0.043**
Elderlies are less poor	-0.011
Share elderly 21-30%	-0.007
Share elderly +30%	0.082***
Pension expenditure 21-30%	-0.048
Pension expenditure +30%	-0.033

Controls: age, gender, employment status, being affected by the reform.

- When asked whether the government should allocate fewer resources to pensions and more resources to help the unemployed and young jobseekers, retirees and those who have been affected by the last pension reform are less likely to agree.
- In this case too, pension literacy plays a key role in the acceptance of pension reforms.

Final remarks

- Basic financial and pension knowledge make individuals more willing to accept pension reforms.
- Individuals knowing the functioning of a Paygo system recognize that population ageing, low economic growth and low contributions by the young make the public pension system hardly sustainable, generating a potential conflict between generations.
- Those who know that the elderly represent a sizeable share of the population are more likely to express their consensus towards the fundamentals of pension reforms.

Final remarks

- Pension knowledge is the only factor affecting the perception that a general flexible retirement age should be allowed as long as it entails a corresponding (actuarial) reduction in the pension benefit.
- Basic financial literacy and knowledge of social security systems can induce less opposition towards pension reforms (particularly among the elderly) and this confirms the crucial role played by both financial education programs and transparent institutional information by the public pension institute.

Appendix 1 - Questionnaire

Does buying a single company's stock usually provide a safer return than a stock mutual fund?

- Yes
- No
- I don't know

What is the main funding source for paying public pensions in Italy?

- Contributions of people who are currently working
- Contributions accumulated by each person over his/her working life
- General taxation
- I don't know

Appendix 2 - Questionnaire

What percentage of the population is over 65?

- 0-10%; 11-20%; 21-30%; 31-40%; 41-50%; 51-60%; 61-70%; I don't know

In Italy, the risk of being poor is:

- Higher among the elderly (65+) than among working-age individuals
- Lower among the elderly (65+) than among working-age individuals
- Equal among the elderly (65+) and working-age individuals
- I don't know

What percentage of the government spending goes into pension payments?

- 0-10%; 11-20%; 21-30%; 31-40%; 41-50%; 51-60%; 61-70%; I don't know

Did you have to postpone (if retired) or will you have to postpone (if not retired) your retirement as a consequence of the Monti–Fornero pension reform?

- Yes; No