Policy Brief 4/2011

PENSION FUND CONTRIBUTIONS: COMMENTARY

May 6, 2011

ONDŘEJ SCHNEIDER AND LIBOR DUŠEK

Abstract

The political debate over pension reform has finally addressed the issue of pension fund contributions which directly considers the wealth of future pensioners, hence not only on re-distribution. It was about time – the administrative costs of the funds have a potentially significant impact on pensions received from the savings. The initially proposed maximum payment was obviously overvalued, and it was realistic to expect that after employing "best practices" from abroad, it could be reduced by almost half. The political agreement on 0.3 percent of assets of government bond funds still stays above the level of "best practices", but as compared to the previous proposition, the difference is not that significant. Yet then the question of the sense of the whole regulation arises. We recommend the implementation of anonymous accounts in private funds, i.e. the funds do not know their clients' identities, and a strong emphasis on minimizing the costs of a potential reformed pension system. It is also possible to consider establishing a "life cycle" state fund. Such a fund could be administrated with very low operating costs, it could be established almost immediately and if it is administered for example by the Czech National Bank, it could represent a transparent benchmark for private pension funds.

Download the complete study (in Czech only).