The financial well-being of the future elderly

SCENARIOS UNTIL 2050

Summary of the research

FORESIGHT CENTRE

2019

Contents

Lk

Acknowledgements

Panel of experts: Erik Terk (Tallinn University), Lauri Leppik (Tallinn University), Magnus Piirits (Praxis Centre for Policy Studies), Leonore Riitsalu (MTÜ Rahatarkus), Katre Pall (Expert of Social Protection), Liisi Uder (Office of the Chancellor of Justice)

Lead committee of the research: Maris Lauri (Riigikogu), Sven Sester (Riigikogu), Aivar Kokk (Riigikogu), Dmitri Dmitrijev (Riigikogu), Egon Veermäe (Social Insurance Board), Heido Vitsur (Office of the President of the Republic), Siiri Tõniste (Ministry of Finance), Tõnu Lillelaid (Ministry of Finance), Sten Andreas Ehrlich (Ministry of Social Affairs), Kristiina Selgis (Ministry of Social Affairs), Kaspar Oja (Eesti Pank), Enn Listra (Eesti Pank), Fabio Filipozzi (Eesti Pank), Heleri Reinsalu (Government Office), Mikk Tarros (Estonian National Youth Council)

Read also other reports published within the framework of the research:

- Foresight Centre: "Financial Well-Being Scenarios of the Future Elderly"
- Leonore Riitsalu: "The Financial Well-Being of the Future Me. How to Nudge People towards Greater Financial Well-being?"
- Centre for Applied Social Sciences of the University of Tartu: "Income and Property Profiles of the People of Estonia"
- Lauri Leppik and the Foresight Centre: "Our Future Financial Well-Being. The Choices of the Estonian Pension System"

Lead expert: Johanna Vallistu

Website of the research: www.riigikogu.ee/arenguseire/tuleviku-eakate-rahaline-heaolu/

Foreword

The greatest fear of the Estonian people is not being able to make ends meet in old age. 82% of the population are worried about their financial security in old age. This was shown by the OECD survey “Risks that Matter”. With that result, Estonia ranked the highest among 21 countries where the survey was conducted – this is the top concern in our state.

The Foresight Centre has examined getting by in retirement age. We focus not only on today’s situation, but also on the situation in thirty years, until the year 2050. Therefore we had to identify and take into account various relating factors and development trends. Those about which we can already say something definite, and also those where we are at the crossroads and it is not clear which direction the development will take. In the case of the latter, we utilised drafting of scenarios. Between these covers, you will find three different ways of spending one’s old age in 2050 here in Estonia.

National pension system is one variable among others. It may be built up in different ways, reacting to the expectations and positions of society. In each of our scenarios, the pension system is different, because the social and economic circumstances are different. We will see what impact differently organised pension systems have on the people who earn the average of a little higher or lower than average salary during their lives, and live under these scenarios.

It is not possible to say anything definite about the future, because it is yet to come. However, it is reasonable and necessary to make presumptions and think about what would take place then. National pension systems as we know them are under the pressure of several factors, and Estonia is not an exception. Should it happen that the government “umbrella” above us is closed, what are other options for coping that could help us achieve sufficient welfare in the future?

I hope that this booklet will provide you useful information and inspiration for thinking about your welfare in the old age, so that you know which facets and angles of view should be taken into account.

Happy reading!

Tea Danilov

Head of Foresight Centre

Summary of the research

People will have more responsibility for their welfare in the old age. Ways of coping that are not part of the national pension system become important.

What are the good solutions for ensuring the well-being of the elderly when life expectancy increases, but at the same time, there are less working-age people?

Which would be acceptable for me:

> saving more money;
> higher immigration;
> higher tax burden;
> later retirement, or
> having more children?

All three pillars of the state pension system are under pressure

I pillar

The pension funded from general taxation (pay-as-you-go) (first pillar) is threatened by:

› **increasing number of dependants,** because people live longer. Raising the retirement age helps alleviate the situation, but it requires an increase in healthy life years, which does not grow at the same pace as the life expectancy.

› **lower social tax revenues**, because more and more people are self-employed or work abroad.

› **risk of low economic growth**

II pillar

Mandatory funded pension (second pillar) is threatened by:

› **prolonged global low yield of low risk asset classes;** this is partially neutralised by the introduction of new financial technologies and more efficient asset management, which allows to reduce the management fees of pension funds.

III pillar

Voluntary funded pension (third pillar) is threatened by:

› **prolonged global low yield of low risk asset classes**

› **conflict between the present me and the future me –** people do not act rationally when saving for their pension.

Financial well-being is “the perceived ability to keep the present standard of living and achieve the desired life style and financial freedom in the future”

Source: Leonore Riitsalu: “The Financial Well-Being of the Future Me. How to Nudge People towards Greater Financial Well-being?”

What are the ways of coping that are not part of the retirement system?

› **Saving and investing at the individual level. If you want to live decently as a pensioner, you have to save more during working age. Everyone will become their own investor, insurer and insurance mathematician.**

› Today the people of Estonia lack the necessary possibilities, interest and abilities. Only 2.3% of the population of Estonia received income from shares, funds or bonds in 2017. 91% of the people of Estonia generally have at least one real estate object, but among younger families, the number of those not owning any real estate objects is increasing.

› In order to receive a pension that covers 70% of the pre-pension salary, a person receiving an average salary should every month invest 18% of their income into the second or third pension pillar, or in some other way. In 2050, the average salary will be around 5000 euro.

› **Keeping your skills and knowledge up to date and taking care of your health to increase the number of years spent working. Financial well-being depends on economic growth, which requires the optimal employment of people throughout their whole lifetime.**

› Changing labour market has an increasing role in retraining and refresher training. Unfortunately, the elderly and the people with lower level of skills are more passive in lifelong learning.

› In 2018, the estimation of the healthy life years of the people of Estonia dropped – men live healthily for 52.8 years and women for 55.6 years.

› **Other ways of coping:** support of the family, support of the community, cooperative activities, sharing economy. Requires strengthening of family and community ties.

In order to receive a pension that covers 70% of the pre-pension salary, a person receiving an average salary should every month invest 18% of their income into the second or third pension pillar, or in some other way.

Maria and **Martin** were both born in 1980, and they will be retired by 2050. We have created three scenarios for old age in the future: "Triumph of Silver Economy", "Good Old Estonia" and "Community of Scarcity". They differ by their comprehension of old age and the pension system. The calculations at each scenario show how Maria and Martin are doing, and how they could get larger pension.

Maria's and Martin's future financial well-being in different scenarios

	Expectations on old age in the scenario	Maria's and Martin's life in the scenario	Martin's pension when he earned the median salary (0.75 of the average)	Pension of the average salary earner	Maria's income from pension (earned 1.25 average salaries)
Triumph of Silver Economy Human-centred – good economic growth	Personal fulfilment – at work or through hobbies	Maria works until her health permits and receives additional income. Martin does not find suitable work and retires.	**With funded pension, Martin's replacement rate would be 46%.**	**With funded pension, replacement rate would be 39%.**	**With funded pension, Maria's replacement rate would be 35%.**
Good Old Estonia Society-centred – good economic growth	Supporting others, leaving main job	Maria has to retire, but does occasional work to cope, and takes care of grandchildren in her spare time. Martin is happy to retire and gets used to low income.	**With only the 1st pillar, Martin's replacement rate would be 40%.**	**With only the 1st pillar, the replacement rate of an average salary earner would be 33%.**	**With only the 1st pillar, Maria's replacement rate would be 29%.**
Community of Scarcity Society-centred – poor economic growth	Active aged people who support others and one another but do not work	Maria contributes at the local club for the elderly and exchanges gardening products with others. Martin does not participate in social life.	**With universal pension (everybody gets the same pension), Martin's replacement rate would be 40%.**	**With universal pension (everybody gets the same pension), replacement rate would be 30%.**	**With universal pension (everybody gets the same pension), Maria's replacement rate would be 24%.**

Trends affecting financial well-being in the future

Future financial well-being of me and other people of Estonia is influenced by different development trends.

Population and society

Population of Estonia is decreasing – the number of population in Estonia in the future depends on increasing of life expectancy, migration and birth rate. According to Statistics Estonia, there will be around 1.2 million people in Estonia in 2080.

The working age population will decrease, but working in advanced age increases – the employment rate of 50–74-year-olds has been increasing in Estonia since 2014, amounting to 59.2%.

Migration flows will intensify – migration is mainly caused by necessity (climate change, political instability), but moving due to work or to find a nicer living environment also increases.

Intergenerational bonds are weakening – younger generations adapt faster to the developments brought along by technology, and the change in communication patterns causes gap between generations.

Health and work life

New forms of work provide flexibility – part-time working, virtual work or being self-employed have become more common.

Changes in people's lifestyle – there is a greater need to combine periods of working, studying and retirement.

New services that shape old age – the elderly are wealthier, and products and services that meet their need better are created for them.

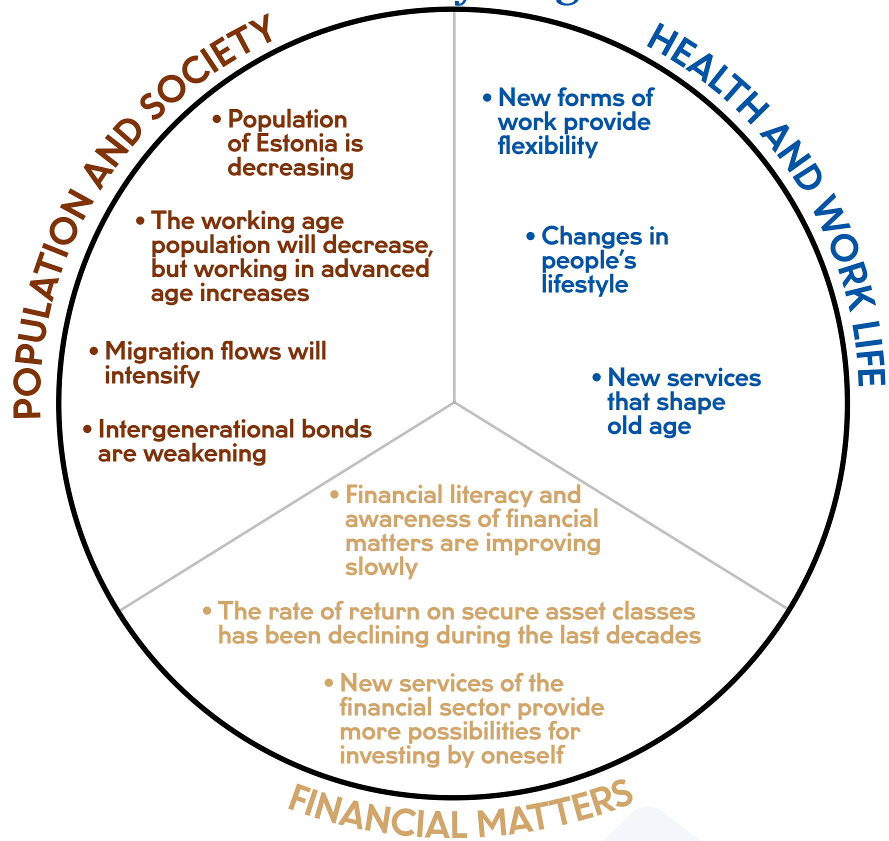
Financial matters

New services of the financial sector provide more possibilities for investing by oneself – interest in investing and setting financial independence as target have been boosted by the simplicity of investing into starting companies, emergence of crowdfunding platforms, cryptocurrencies, etc.

Financial literacy and awareness of financial matters are improving slowly – although the people of Estonia are becoming wealthier, only a few percent of them invest on stock markets, and a little less than 100,000 save in the third pillar.

The rate of return on secure asset classes has been declining during the last decades – future rates of return on investments may be lower than historical rates of return.

In the future society, we are thus more likely to see more flexible pension options and an extended concept of old age. People will work and contribute to society longer.



These trends indicate that with the extension of life expectancy, my own responsibility for securing my future will increase. Slow increase of the number of healthy life years, fragmentation of sources of income and low rate of return on secure asset classes make the situation even more complicated. Besides smart financial planning, it means the need to take care of your health and skills during your whole life.

Income and property profiles of the people of Estonia

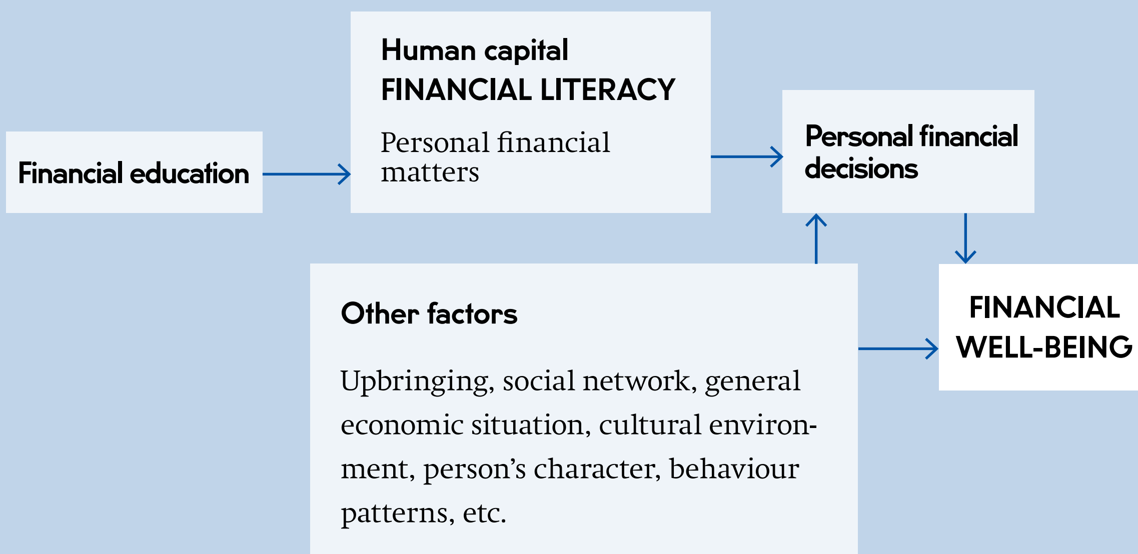
People will insure their future and go along with the changes if they have the skills and interest for it…
… but do not always behave rationally or do not have sufficient knowledge to make good decisions for the future.

Opportunities

Opportunities emerge if there are revenues that can be saved or invested, networks (supporting friends and family) or profitable assets – like real estate for renting.

Interests and skills

Interests and skills show if we are interested in our future or the future of our close ones, the financial world and different opportunities for growing our finances.



Factors contributing to saving

Motivation for saving:
Saving is a purposeful activity, a person has made a conscious decision to save.

Example: A person wants to travel in the old age and writes down a plan for getting the necessary sum together.

Motivation for saving:
A person saves during everyday activities.

Example: A person buys a flat because it is more favourable than renting. They discover they can rent it out during travels.

Motivation for saving:
Internal pressure is the reason for saving.

Example: A person is interested in seeing the increase of the amount of money.

Motivation for saving:
Money is saved to balance fluctuations in spending during lifecycle.

Example: A person works in the USA, where the university fees are high. They start saving for their child's education since the birth of the child.

The people of Estonia are not active as investors

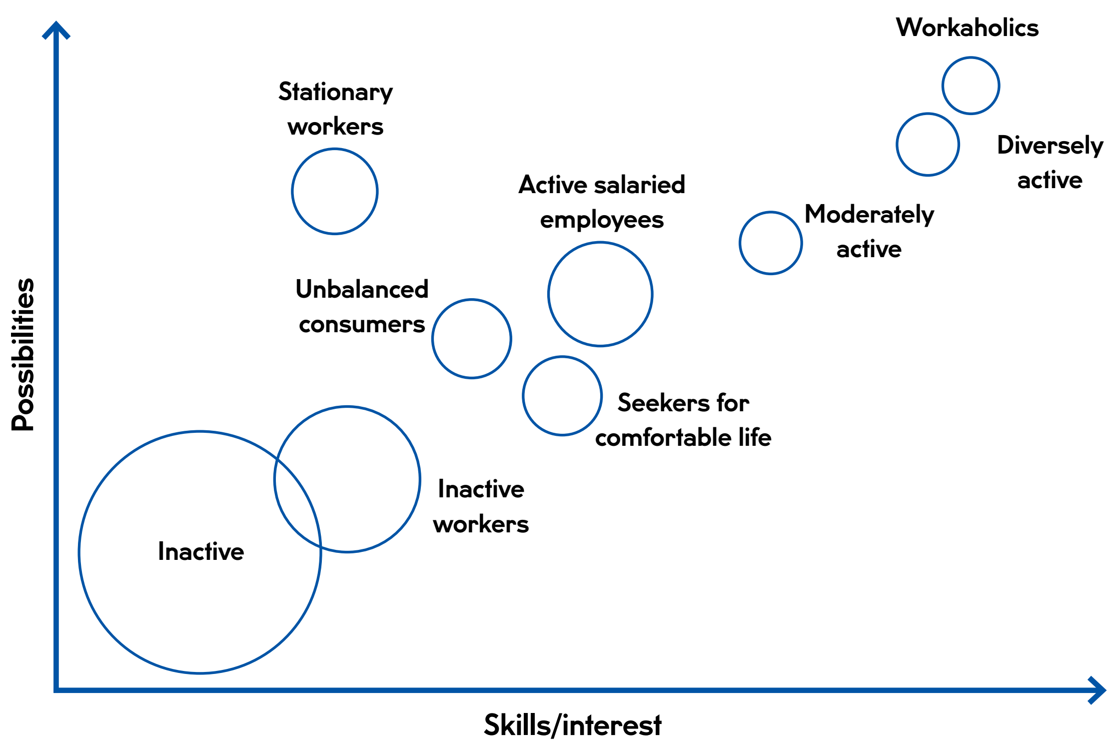
The people of Estonia have a rather lukewarm interest in investing. 4.3% of the people in the age group of 50 and over had invested in shares, funds or bonds in 2015. Small interest is also indicated by the fact that, according to their words, 9% of those who joined the second pillar had compared the terms and conditions of pension funds before making the decision; others had accepted the offer made to them or proceeded from the decisions of other people without comparing the alternatives. Less money is invested in the third pillar (altogether 6.9% of the population in 2017), and it is done mainly by wealthier and more educated people. Investing in the third pillar has significantly decreased among the 25–39-year-olds. **Estonian people prefer investing in real estate,** although the percentage of real estate owners has decreased a little. The percentage of owners has decreased the most among the young (25–39-year-olds). The percentage of female real estate owners has increased over the years, and has become equal to male real estate owners. The greatest number of real estate owners are of pension age.

The interests of the future me are overshadowed by the interests of the present me

People might not make rational decisions even if they have much information and good financial knowledge.

- Future is too abstract and incomprehensible to let it stop spending money today.
- I do not perceive future me as myself.
- Making their money grow for the sake of a distant future is seen by people as losing their money – people are two times more sensitive to the pain of loss than to the joy of winning.
- People tend to be optimistic and self-confident, therefore the possibility that their income may decrease is underestimated. They are more prone to expect positive events like a pay rise or promotion, and they think less of health risks and negative scenarios.

The largest among the nine groups of the income and property profiles of the people of Estonia are the groups of people with few possibilities and skills. Greater saving and investing characterises people who are active in life also in other ways and who have diverse interests.



See also: Centre for Applied Social Sciences of the University of Tartu, 2019, Income and property profiles of the people of Estonia, Foresight Centre

People of Estonia prefer investing in real estate, although the percentage of real estate owners has decreased a little. The greatest number of real estate owners are of pension age.

Pension systems in Estonia and abroad

Most of pensions today are funded from income from taxation. The period of contributing to the 2nd pillar has not been long. Therefore the present system provides low protection, but is financially sustainable.

Pension system has two central objectives:

- **preventing poverty in the old age**

  1) ensuring basic income
  2) vertical redistribution from people with higher income to people with lower income

- **preserving relative income level**

  1) ensuring substitution income
  2) horizontal redistribution across the human lifecycle

In the assessment of pension systems, there are two important central criteria that have to be balanced.

They are:

1) financial sustainability of the pension system
2) adequacy of pensions, or the level of protection provided

The best pension systems in the world are characterised by strong funded pension, good state supervision and retirement age that is connected to life expectancy. In 2018, the top five of the pension index were the Netherlands, Denmark, Finland, Australia and Sweden. A good pension system is like a three-legged stool where all legs balance each other.

Source: Melbourne Mercer Global Pension Index, 2018

Mercer points out that states can improve their pension system if they **increase the retirement age** to reflect increasing life expectancy, **encourage saving and limit the access to the saved funds before retirement.** Even the countries that have the best systems in the world constantly think how to make their systems more reasonable.

The stool is balanced when it stands on a firm ground that is composed of:

- possibilities to insure one's future
- clear long-term objectives of the pension system
- good supervision system

1st leg

Pay-as-you-go – the employer pays current pensions

+ covers poverty risk
- depends on tax burden

2nd leg

Mandatory funding – private market or state fund invests the money

+ dispersed investment risks
- depends on the rates of return of markets

3rd leg

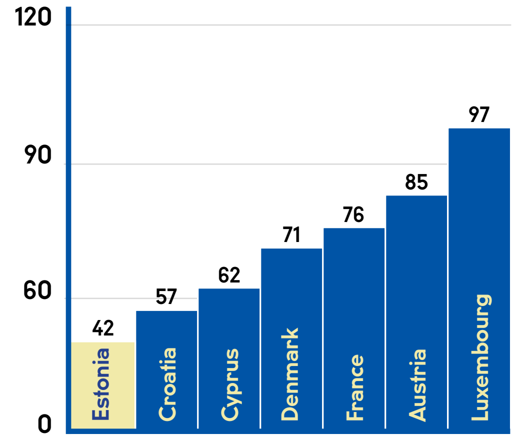
Voluntary funding

+ additional income during retirement
- individual investment risk is greater
- low habit of saving or limited possibilities for saving

The Estonian pension system is sustainable, but it provides low protection.

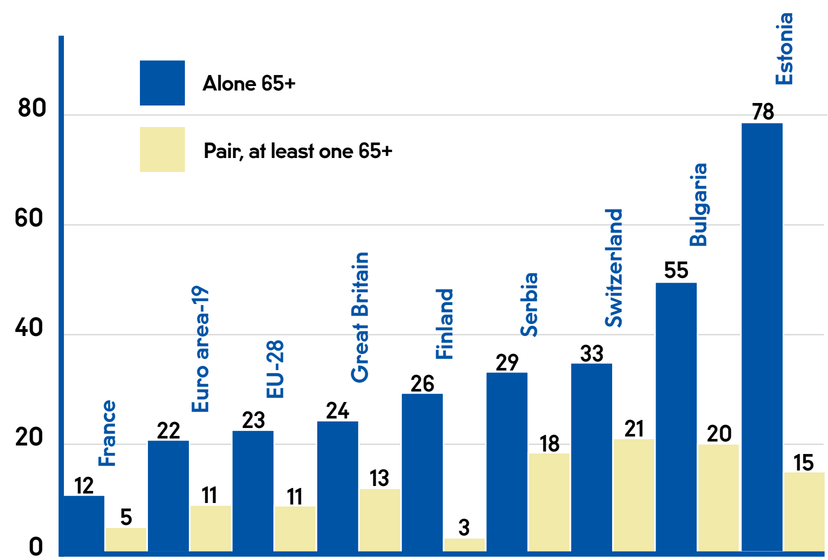
The theoretical net replacement rate of Estonian pensions is the lowest among the European Union countries.

Theoretical net replacement rate (%), worker retiring at general retirement age with 40 years of continuous employment and average salary, 2016 data



The poverty risk of older people living alone in Estonia is the greatest in Europe.

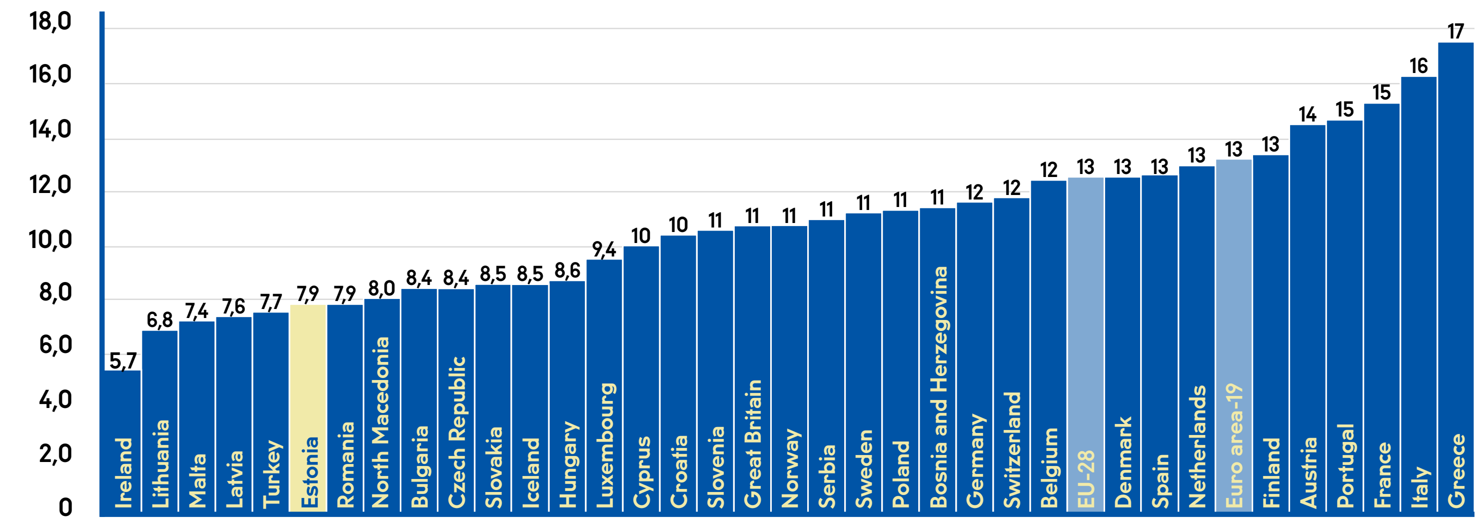
Risk of poverty rate according to household type 2017, %



Sources: Leppik, L.; Vallistu, J. 2019, Our Future Financial Well-Being. The Choices of the Estonian Pension System"
European Commission, 2018. The 2018 Pension, Adequacy Report: current and future income adequacy in old age in the EU.
Eurostat, 2017, 2016

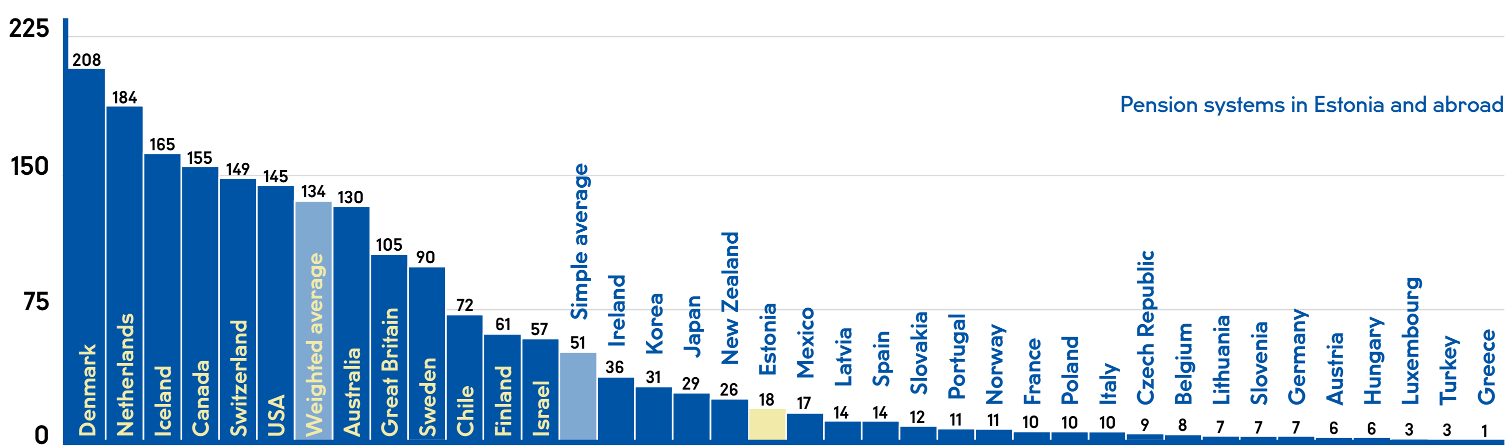
Estonia's total expenses on pensions as a percentage of GDP are among the lowest in Europe.

Pension expenses 2016, total expenses on pensions, % of GDP



The assets of Estonian pension funds form 17.5% of GDP, while the weighted average of the OECD countries is 133.6%.

Assets of pension funds 2018, % of GDP



Financial well-being scenarios for the elderly

What will my financial well-being in 2050 be like?

Financial well-being scenarios for the elderly 2050

In order to understand the possible future of the financial well-being of the elderly, the Foresight Centre has drafted three scenarios until 2050. These scenarios are not a forecast, but a depiction of different and internally logical future situations. In multivariate vision of the future, we can understand better how the aged would cope in different situations – pension policy, services for the aged, employment policy, etc. Different scenarios give an idea what the results of our present choices could be like across decades. Taking the scenarios into account when making decisions helps avoid wishful thinking of the future, when we plan development trends that are favourable for us but preclude each other to take place at the same time, or believe that the changes we actually do not control are under our control.

"Different scenarios give an idea what the results of our present choices could be like in decades."

Framework of the scenarios

Long-term good growth

Human-centred

TRIUMPH OF SILVER ECONOMY
Human-centred and with good economic growth

GOOD OLD ESTONIA
Society-centred and with good economic growth

Society-centred

COMMUNITY OF SCARCITY
Society-centred and with poor economic growth

Long-term poor growth

Change in the value orientation of society

Human-centred and individual	Society-centred and institutional
› Values aimed at self-expression dominate › People feel themselves as independent free individuals › Reliance on themselves › Freedom of expression and possibility to have a say in matters of the state are important for the people › More trusting, more tolerant	› Coping values dominate › People feel themselves as members of a collective › Stronger common identity › Clear roles in society › Reliance on state › Preserving order in the state is more important than having a say

Long-term economic growth

Long-term good growth

- Long-term good growth of global and Estonian economy (productivity, wages), regardless of temporary stagnations
- Possibility for growth of well-being

Long-term poor growth

- Stagnation, frequent economic crises
- Limits the capability of state to tackle social problems

Scenario 1 “Triumph of Silver Economy”

Human-centred – good economic growth

Keywords of the scenario:

Emergence of values relating to self-expression, good economic growth, diversified choices in pension system and the services meant for the elderly, high social confidence, high achievement values and personal responsibility, increasing inequality and weakening social cohesion.

Society is oriented towards economic well-being and Estonia is able to go along with the growth of global economy. Values relating to self-expression are in the foreground in society: freedom of expression, wish to have a say in the matters of the state, perceiving of personal responsibility, enthusiasm in the issues of nature protection and technological development. Self-expression and coping well are the ideal of society. Among other things, working of the elderly and being active until advanced age are valued. Work is a means of self-expression and diversity is valued at workplaces. At best, Estonia manages to use the ageing society to its advantage both at the labour market and in finding business opportunities – in silver economy, there will be a demand for new services and products, and also employment possibilities for the aged. If the developments are not so good, growing inequality will start to undermine society because cult of success and high level of achievement do not suit everybody. Weak health may restrict the participation of the elderly on the labour market.

Martin **Maria**

Maria and Martin retire

Maria has earned around 1.25 average salary during her lifetime, and when she attains retirement age, she continues working because there is a great need for teachers. Martin has earned around 0.75 average salary during his lifetime. When he attains retirement age, he tries to continue working, but does not find anything and retires at the first opportunity.

In this scenario, people are more aware of their financial matters and their responsibility for their future. If possible, they try to save. The state does not want to assume responsibility for those who do not cope in the future, therefore it is probable that an obligation to save has been established.

If the present system with mandatory funded pension continued

If Maria and Martin continued their contribution to the mandatory funded pension according to the present pension system, Maria's pension would reach 35% of her last salary, and Martin's 46%.

The pension of the average salary earner under the mandatory funded pension system would be 39% of their last salary.

How much would Maria and Martin have to save from their salaries every month in order to get 70% of their salary when they retire?

If Maria and Martin wanted to get a pension that would form at least 70% of their last salaries, today's system with mandatory funded pension would not be sufficient for that. One possibility for getting a higher pension would be to save more for retirement.

If Martin wanted to get 70% of his last salary as pension, he would have to save altogether 14% of his salary every month.

If Maria wanted to get 70% of her last salary, all her savings (both contributions to pension funds and acquisition of other assets) would have to amount to 19% of her gross salary every month.

In order to get 70% of their last salary as pension, an average salary earner would have to invest 18% of their income into the 2nd or the 3rd pension pillar, or in some other way.

The calculations have been made on the assumption that the rate of return on investments is similar to the historical rate of return of pension funds (4%), and that the average salary in 2050 will be 5000 euro.

OPPORTUNITIES

+ higher awareness and personal responsibility bring better security during retirement
+ society supports personal fulfilment also in old age
+ the state does not allow falling in absolute poverty (everyone is guaranteed minimum income)

RISKS

- people may not know how to take responsibility
- a certain part of society may lag behind and are not able to save and invest
- loneliness of the elderly may increase
- health or skills may not enable to work in the old age

If the present mandatory funded pension system continued, Maria's pension would be 35% of her last salary, and Martin's 46% of his last salary. If they wanted to get higher pension, one option for that would be to invest a fixed sum monthly for their old age.

Scenario 2 "Good Old Estonia"

Society-centred – good economic growth

Keywords of the scenario:
Society-centred, deepening of coping values and materialism or "consume now" attitude, good economic growth, low trust and tolerance – but possible greater sense of belonging and unity as society.

Economic growth has been good for some time, but its fruits have not been distributed equally and inequality has increased. It has created antagonism and the feeling of deprivation in some groups of society. Opposition to globalisation and open economy model emerges. People wish that things would again be in order – that the pressure of competition would not be so great and it would be easier to cope. Striving for self-expression and need to achieve something decline, society-centredness and institutionality gain prominence. It will bring along lessening of confidence between people, fixing of established roles and lower tolerance towards differences. People expect the government to know how things are done. As a result of that, the number of people who think that everyone should be in charge of their future is gradually decreasing in society. Although the increasing importance of Estonian values and traditions creates possibilities for greater sense of belonging and solidarity, such a system of values may not suit all groups of society. If things go well, Estonian values become Estonian patriotism; prioritising traditional approach to life and way of life are in harmony with the views of many ethnic groups living in Estonia, and it will improve the integration and contributing to the life of society of different ethnic groups. If things do not go well, it will result in frictions between different group identities and a large part of society will feel left out.

Martin Maria

Maria and Martin retire

Maria has earned around 1.25 average salary during her life and she would like to go on working after reaching retirement age, but her farewell party at school is already planned. From time to time, she does occasional work and once a year sells her pies at a fair.

Martin has earned around 0.75 average salary during his lifetime. When he reaches retirement age, he is happy to retire because his health does not permit him to work, although he could do with some extra money. In this scenario, people rely on the wisdom of the state and have not cared much about saving, or just have not known how to do that.

Maria's and Martin's pension calculations have been made on the assumption that in this scenario, there is only pay-as-you-go pension scheme and no mandatory pension saving.

If there was only pay-as-you-go pension scheme

Under pay-as-you-go pension scheme (pensions are paid from the revenues received from the taxes paid by working people and there is no mandatory funded pension), Maria's pension would be 29% and Martin's pension 40% of their last salary.

The pension of the average salary earner under such a pension system would be 33% of their last salary.

How large should the pension insurance part of the social tax be if the pension was 70% of the last salary under pay-as-you-go pension scheme?

If Maria and Martin wanted to get a pension that would be 70% of their last salary under the pension system funded from the taxes paid by active taxpayers, the possibilities are: a) to increase social tax (or find other sources from the state budget), or b) to reduce the percentage of dependants (e.g., by increasing immigration quota).

Martin would get a pension that forms 70% of his last salary if the pension insurance part of social tax were 31% (at present, it is 20%). Maria's salary has been higher and therefore it would be necessary to increase the taxes even more to 47%, to pay her larger pension.

In order to provide 70% replacement rate to an average salary earner, the pension insurance part of social tax would have to be 42% (at present, it is 20%).

OPPORTUNITIES

+ more time, less struggling, stronger family ties
+ more solidary society, incl. neo-communitarianism and increase of creativity
+ good relations between different groups of society ("Good Old Estonia") or common identity

RISKS

- the elderly are not welcome on the labour market, although their pensions are low and they would like to earn more
- responsibility of families increases or people are poor
- various group identities become stronger and there are conflicts between them

Under the pension system with only the 1st pillar, Maria's pension would be 29% of her last salary, and Martin's 40% of his last salary. If they wanted to get a higher pension, one possibility for that would be to increase the social tax.

Scenario 3 "Community of Scarcity"

Society-centred – poor economic growth

Keywords of the scenario:

Society-centredness, increase of communitarian lifestyle; low economic growth; uniform services provided by the state and equal state pension to all; additional community-based solutions and provision of people-to-people services via sharing economy platforms.

Economy does not grow for a long time or the frequency of economic crises increases. There is not enough work and incomes are small. People have little confidence in financial markets and saving for pension is rather pointless because of low rates of return. The pension and services provided by the state are not sufficient, and under poor economic conditions, families are not able to bear the burden alone. Thus taking care of the elderly is the responsibility of everyone: the state, families and local communities. The way of thinking that a poor society has to stick together spreads. This favours the emergence of traditional values. Values relating to family life, like readiness and skill to take care of others, are important, also the role of community increases. The state supports community activities, like cooperatives and local sharing economy, because it eases the burden of the state. If things go well, new type of communitarianism is found under this scenario, helping of others and solidarity increase, which enables coping and sufficient well-being. Less favourable developments lead to fight between generations over resources.

Martin Maria

Maria and Martin in this scenario

Maria has earned around 1.25 average salary during her life and she has to retire when she attains retirement age. Martin has earned around 0.75 average salary during his lifetime. When he attains retirement age, he is happy to retire. Both are still active in their communities when possible in order to cope.

Under this scenario, people rely on the state, at the same time understanding that during hard times, pensions cannot be generous. Additional support is expected from community and family. Confidence in financial markets is low, there are few savings and saving is also not mandatory. Increase of solidarity creates a possibility for the emergence of universal pension – all pensioners get equal pension.

If there was universal pension system

In a more solidary society, an idea may emerge that all people should get equal pension. Under equal pension system, where the taxes collected for pensions are divided into equal pensions, Maria's pension would be 24% of her last salary and Martin's pension 40% of his last salary. Average salary earner would get a pension that is 30% of their last salary.

How high would retirement age have to be so that pension would be 70% of last salary?

If Maria and Martin wanted to get a pension that would be 70% of their last salary under the pension system funded from the taxes paid by active taxpayers, one possibility for achieving that is increasing the retirement age. Then it is necessary to pay pension to less people, and it would be possible to have higher pension.

If we wanted to pay the people a pension that is 70% of Martin's last salary, the retirement age in the future would have to be 74 years, and even higher if we wanted to pay 70% of Maria's salary.

In order to pay 70% to an average salary earner, the retirement age would have to be 78 years.

However, most probably the retirement age will not be increased so much, and in order to get higher pension, people would have to save more, the working age population would have to pay higher taxes or larger immigration would have to be allowed.

OPPORTUNITIES

+ role of social capital, incl. caring and solidarity, increases, less loneliness

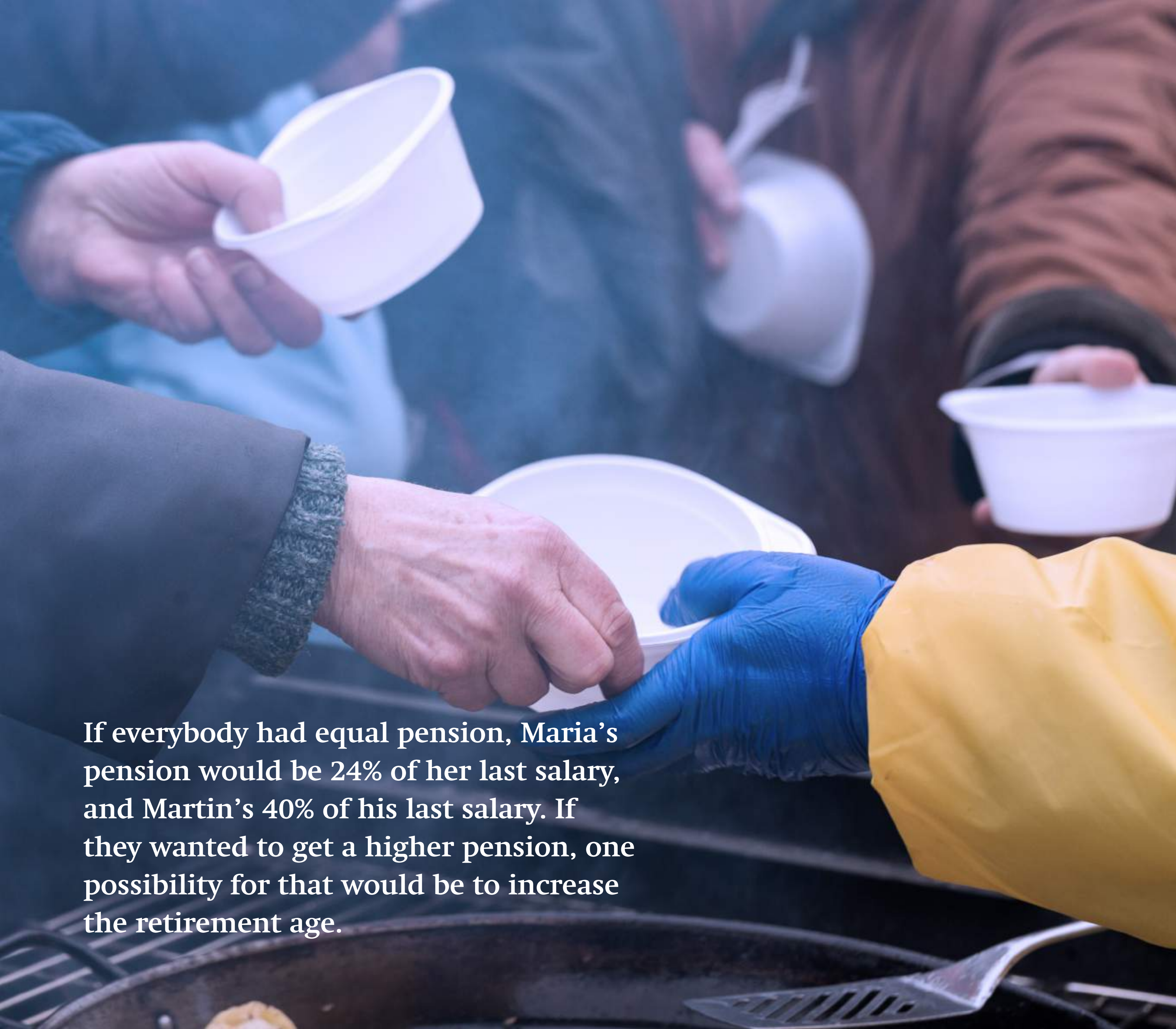
+ strained circumstances force to find new solutions for coping

RISKS

- low level of coping, exclusion

- when hard times pass, solidarity will pass too

- society fighting for resources emerges



If everybody had equal pension, Maria's pension would be 24% of her last salary, and Martin's 40% of his last salary. If they wanted to get a higher pension, one possibility for that would be to increase the retirement age.

Comparison of scenarios

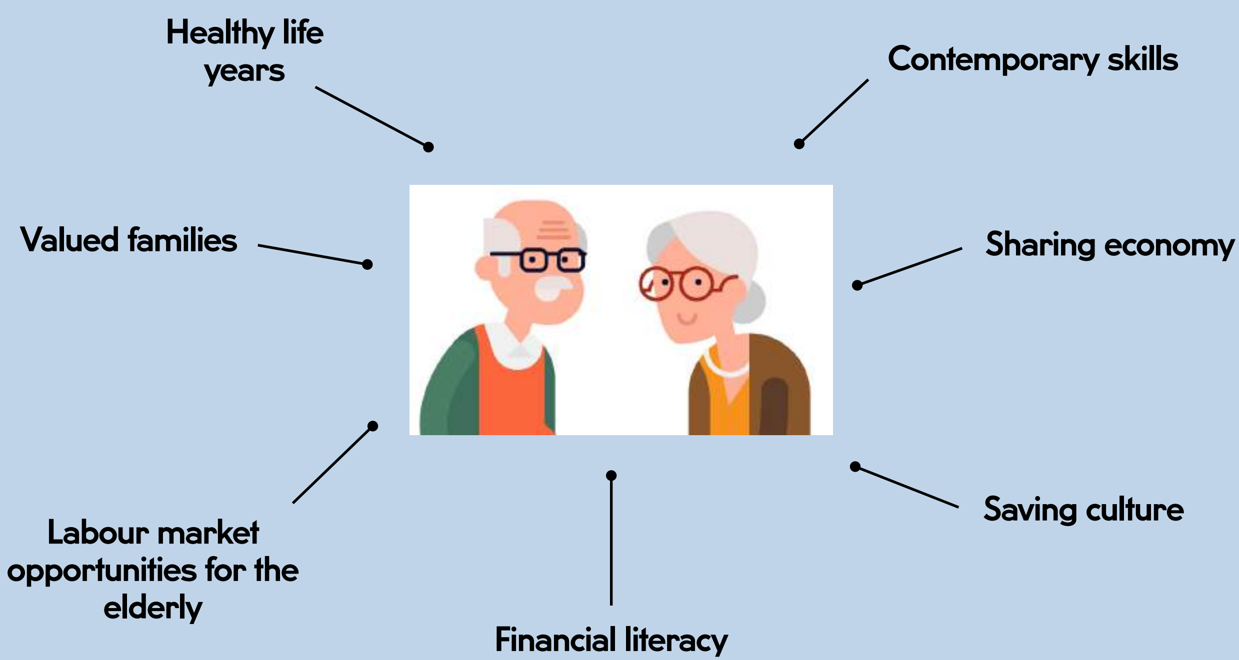
	1) TRIUMPH OF SILVER ECONOMY **Human-centredness and good economic growth**	2) GOOD OLD ESTONIA **Society-centredness and good economic growth**	3) COMMUNITY OF SCARCITY **Society-centredness and poor economic growth**
Scenario is characterised by	The goal is the possibility and freedom for self-expression without depending on others.	The goal is to feel oneself as belonging somewhere.	The goal is to cope by supporting each other.
People rely on	Themselves	The state	Community
Ideal of the role/ working life of the elderly	Working in one's profession until health permits	Old age is meant for resting from work, but performing new supportive roles (taking care of children, other part-time work, etc.)	Active old age is necessary for coping, but there are few official possibilities for working
Expectations on securing old age (And who is actually responsible?)	Personal responsibility. The state has to see that nobody falls in absolute poverty (obligation to save, knowledge for saving)	Reliance on the state. In reality, the responsibility often falls on families	Reliance also on community – all have to help others
Services for the elderly	Functioning and mostly chargeable private market. Diverse choices	Mostly state-provided. Private market is not very interested in providing services because the state has established price caps. Uniform choices	Thin at state level. Community-provided according to possibilities. Alternative providers and people-to-people services
Financial well-being of the elderly	On the average good, but with great variations. Large part of the people have not been able to save sufficiently, therefore cannot use services. Great inequality and insecurity	Lower than assumed. Working possibilities limited, the state is unable to pay generous pensions. Depends on self and family	Financial well-being tends to be poor, depends on community and social capital
Options in the scenario	Increase of the average financial well-being of the elderly. Choices. Working possibilities. Self-expression	Strengthening of family ties, more time, less struggling. Better integration of the society, people of Estonia as one collective	New possibilities for self-expression, more sticking together and solidarity
Risks in the scenario	Increasing inequality. Poorer part of the population more and more dissatisfied	Withdrawal, deepening of integration difficulties, declining economic growth, which result in lower pensions	Fight over resources, the law of the strongest and a great number of people who are beaten in the struggle for survival

Roadmap of human-centred pension system

How could the system support me more in preparing for retirement?

As my responsibility and awareness increase, it is assumed that the state supports my choices, and everything relating to pension is clear and understandable.

My coping in the best way in my old age is supported by pension policy, and besides that, the general well-being of me and other people of Estonia.



Roadmap of human-centred pension system – how can the state support people in making better decisions for their future?

Implementation of behavioural economics

Directing people by "nudging" to save and invest more, and to think about their future me.

Setting of long-term targets

Trust is the basis of the functioning of the system, and people trust the pension system if they understand what the long-term changes they have to face are.

Increasing of individual responsibility

People understand what their financial well-being in the old age will be like under certain preconditions and are ready to adapt their behaviour accordingly.

Approaches taking into account the lifecycle

The state gives recommendations on both mandatory funded pension and supplementary funding, considering a person's age group, family status, time until retirement, etc. Transitions between solutions involving different risk profiles are smooth and simple.

HUMAN

Increasing of transparency

Functioning of the pension system is understandable and transparent, it is also clear what are personal expenses and choices in the system (e.g., fees of pension funds).

Innovation in management of finances

Data analytics and new digital solutions create possibilities for adopting more cost-effective and intuitive solutions. This may mean better solutions for managing the pay-as-you-go pension scheme, private sector solutions or solutions for managing personal finances.

Human-centred solutions

People can see the personal information and overviews on themselves and get the support corresponding to their situation. E.g., a pension account that shows the link between savings and consumption, and helped create financial well-being for retirement (or unexpected life events).

October 2019

Foresight Centre
Lossi plats 1a, 15165 Tallinn, Estonia
arenguseire@riigikogu.ee
www.riigikogu.ee/arenguseire

ISBN 978-9949-7410-1-4 (pdf)

This paper is a summary of the financial well-being of the future elderly research of the Foresight Centre.

When using the information in the paper, please credit the source: Foresight Centre, 2019. The financial well-being of the future elderly. Scenarios until 2050. Summary of the research. Tallinn: Foresight Centre.

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