Keeping workers informed about their pension position: a short description of representative European cases

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In DB earnings-related pension systems benefits are computed according to fairly simple rules and workers can easily calculate their expected pension benefits at retirement. Given earnings and career length, workers can have an approximate idea of their own replacement rate. In DC systems the mechanism is radically different, as pension benefits depend on the amount of contributions paid, on life expectancy at retirement and on the rate of growth of the economy (as well as on possible elements of redistribution embedded in the system).

Several surveys have shown people's poor knowledge about both their national pension system (for some European countries Boeri, Börsch-Supan, Tabellini, 2002) and their personal public and private pension provisions (for the US Mitchell, 1987 and Gustman and Steinmeier, 2001).

It is clear that more information available to workers would improve their knowledge about the system as well as about their own future benefits. However, it is not straightforward whether more accurate knowledge can lead to "better" choices in terms of retirement timing and income. The existing literature shows that informed workers do appear to respond to the incentives embedded in the pension system, but ill-informed individuals may – actually do – respond to their own misperception of the incentives (Chan and Stevens, 2003). Overall, the effect of knowledge on actual retirement behavior turns out to be modest (Gustman and Steinmeier, 2001) or is significant only for certain groups of workers (Mastrobuoni, 2006).

In any case, information has an important role and it becomes crucial especially when a pension system undergoes major structural reforms, as in the case of the shift from DB to NDC in Italy, Sweden and Poland. Among industrialized countries, some social security systems started providing workers with personal detailed information about estimated pension benefits at given retirement ages and under different scenarios (e.g. growth scenarios). These pieces of information are usually not only available upon request but are actually sent annually by letter to workers above a given age.

In 1998 – at the same time as the reform was being enacted – the **Swedish** Social Insurance Agency and The Premium Pension Authority started sending workers the so-called Orange Envelopes[1]. These contain the amount of pensionable income accumulated up to that moment – with explanations on how this amount is computed – and forecasts of national and premium pension under different growth scenarios (0% and 2% per annum). The document displays the pension amount that one would receive if retiring at the ages of 61, 65 or 70. Moreover, additional pensionable amounts coming from disability pension, military service, studies and child years are also shown.
A telephone survey performed in the period 1998-2006 about the effectiveness of the Orange Envelopes shows that the level of knowledge about the pension system is not very

[1] An example can be seen at: http://www.lavoce.info/news/view.php?id=13&cms_pk=448&from=index

high among Swedish workers, even though it increased with respect to ten years ago (Swedish National Social Insurance Agency, 2006).

In 1999 **Poland** implemented a multi-pillar pension system with a NDC component. The main institutions managing the mandatory parts of the Polish pension system are the Social Insurance Institution (ZUS) and open pension funds. ZUS collects all contributions and transfers part of them to a pension fund chosen by the worker.
Every year ZUS informs the insured about the contributions amount recorded in her individual notional account and how much money was transferred to an open pension fund. People aged 35 years or more receive additional information on the hypothetical pension benefit resulting from their fund at 60 (women) or 65 (men).
From 2009 ZUS will also inform people who are 5 years younger than retirement age about the amount of their hypothetical old-age benefits if they retire 1 to 5 years after the minimum age, so that they can know the approximate accrual rate they would be entitled to in case of deferred retirement.
Similarly, every year open pension funds have to send their members information about their individual accounts, including description of accumulated contributions and the rate of return.

In **Finland**, starting from 2008, everyone will receive annually personal data concerning earnings, pension benefits and pension accrual under different hypotheses about the age of retirement.

In 1995, the **US** Social Security Administration started sending out the annual Social Security Statement[2]. The statement contains information about the worker's estimated benefits at the ages 62, 65, and 70 and other information about prospective social security benefits in case of disability. Information on the relevant elements in the calculation are highlighted along with explanation of rules concerning disability benefits, survivor's benefits and cumulating work income and pensions.

Italy is an exception in this panorama. After the 1995 Dini reform, no actual delivery of information – of the kind adopted in other countries – has been undertaken. In order to comply with the reform law the National Social Insurance Institute (INPS) improved its information services to help citizens understand the reform contents, but information could only be obtained upon demand (Jappelli and Padula, 2003).
In 2003 INPS started sending account statements (*estratti conto*) that contained a description of contributions paid by the worker, but did not estimate prospective benefits. Even worse, in subsequent years the experiment was interrupted.

Even though results from other countries – namely Sweden and the United States – are not fully encouraging, there is still a rationale for better information initiatives in Italy.
A similar program – whose political cost would be zero – is particularly needed given the structural reform that changed the calculation formula from DB to NDC and the recent attempts at building a supplementary private pillar to complement the retirement income coming from the public tier.

[2] An example of a Social Security Statement can be found in the Appendix to Mastrobuoni, 2006.

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