Abstract

The paper studies the sustainability of public pay-as-you-go PAYG pension systems. In particular it analyses Notional Defined Contribution NDC systems, which are financed on a PAYG basis, but where the pension is linked to the contributions paid during the working life, with a notional account for each participant. It presents a stochastic model for a defined contribution pension scheme with a funded component, focusing on the demographic risk “new entrants”. A set of risk indicators for the financial sustainability of the fund is constructed. The paper also gives numerical examples where these indices are applied.

Keywords: sustainability, demographic risk, public pension system.


References