



Financial crisis and welfare systems in Europe

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Cost of banking bail-outs to the EU

- Moral hazard widely present
- Cost of financial catastrophe:

% GNP	approved	effective
EU-27	31.4	12.7
Eurozone	25.3	11.2

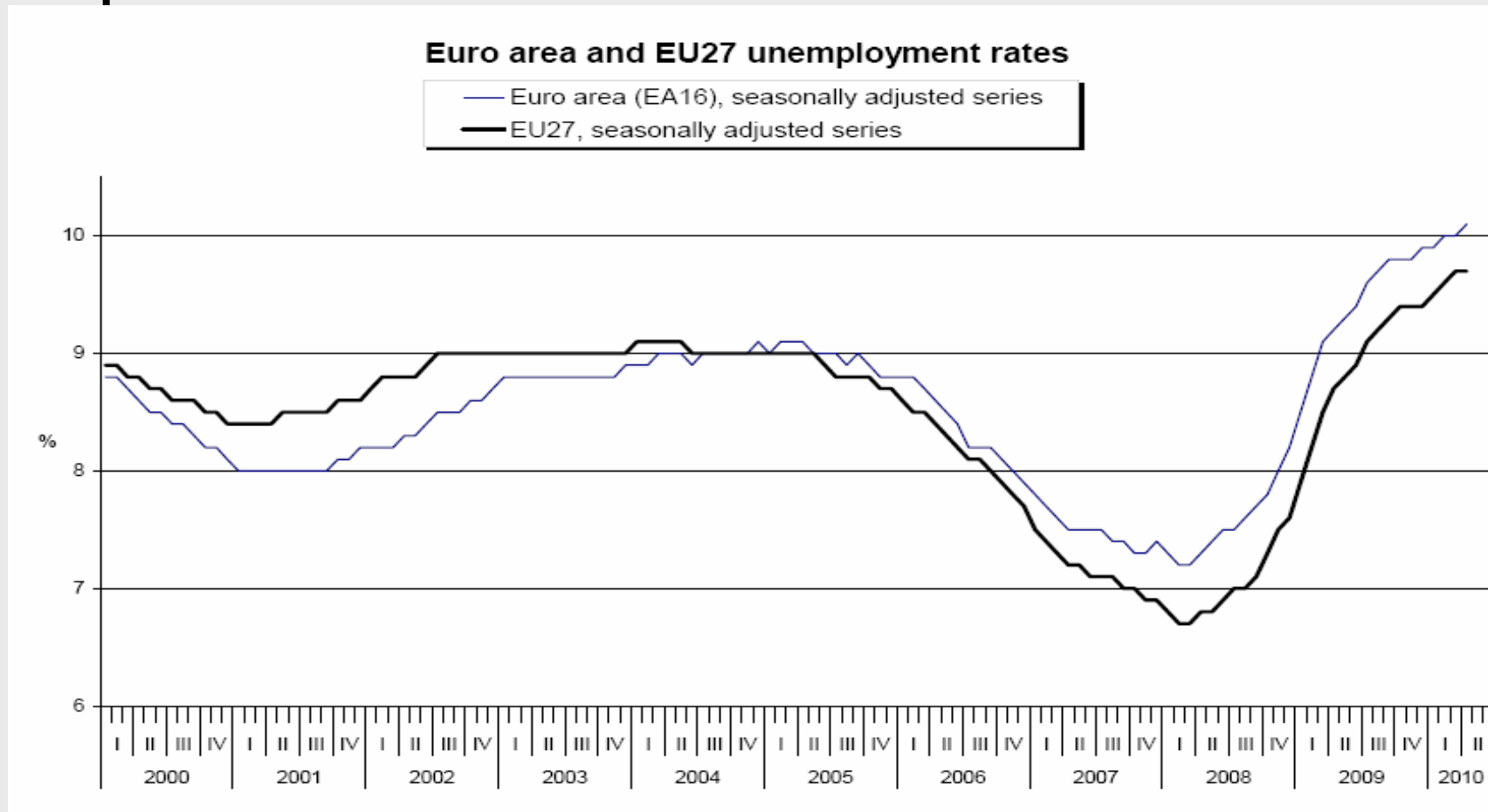


Wider impacts to EU economies

- Cost of recession
- Costs of potential countries downgrading
- Costs of raising unemployment
- Increase of public debts and deficits
- Lower economic growth prospects



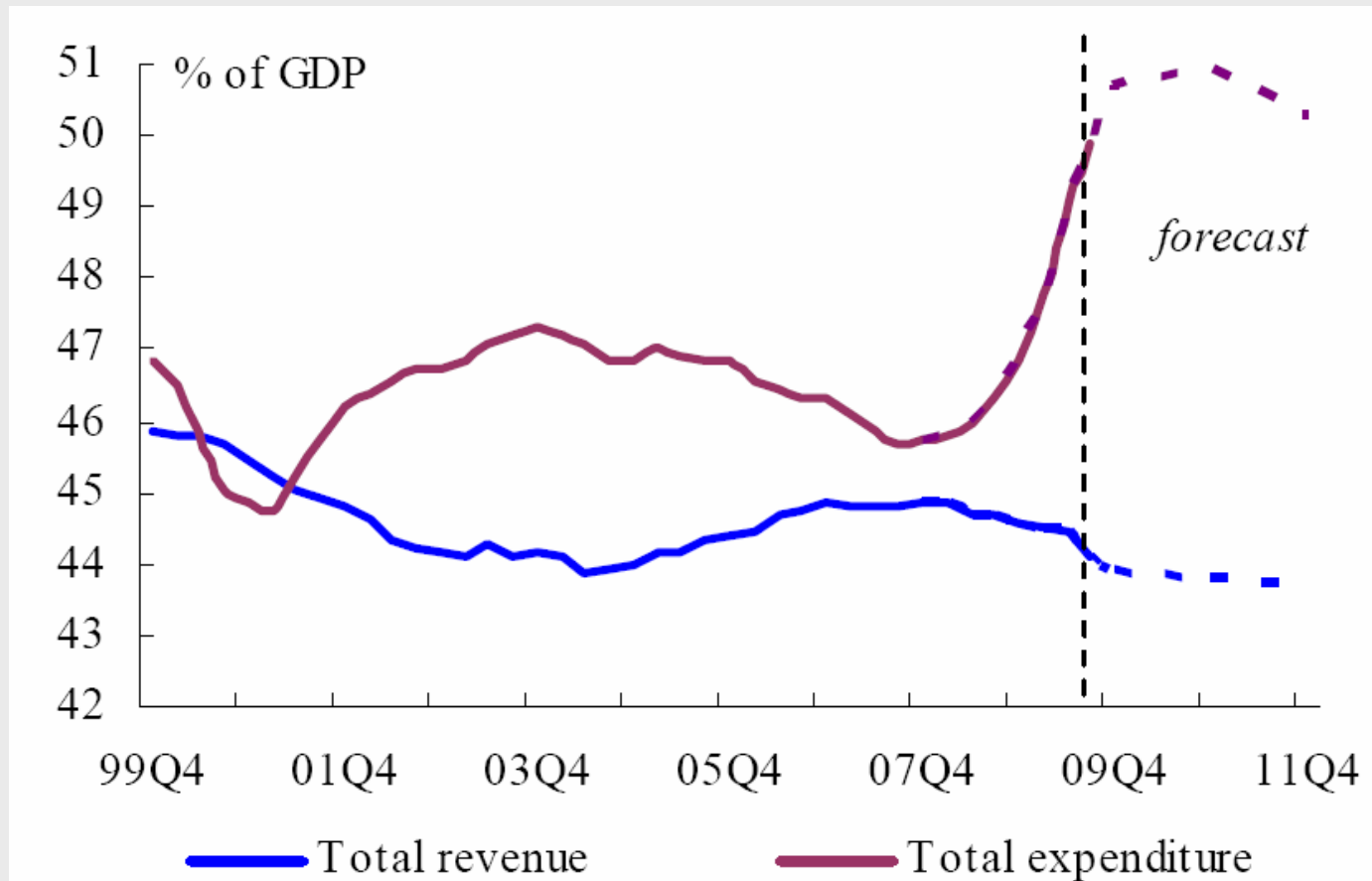
Rising unemployment



- ● ● | Rising unemployment: Risks
- Excessive unemployment among disadv.
 - Youth, elderly, migrants, etc.
- Long-term unemployment & poverty
 - Especially among elderly
- Budgetary impact of crisis measures
 - Lower tax collections
 - Financial guarantee & relief schemes
 - Increasing pressures from unemp. insurance



Fiscal pressures



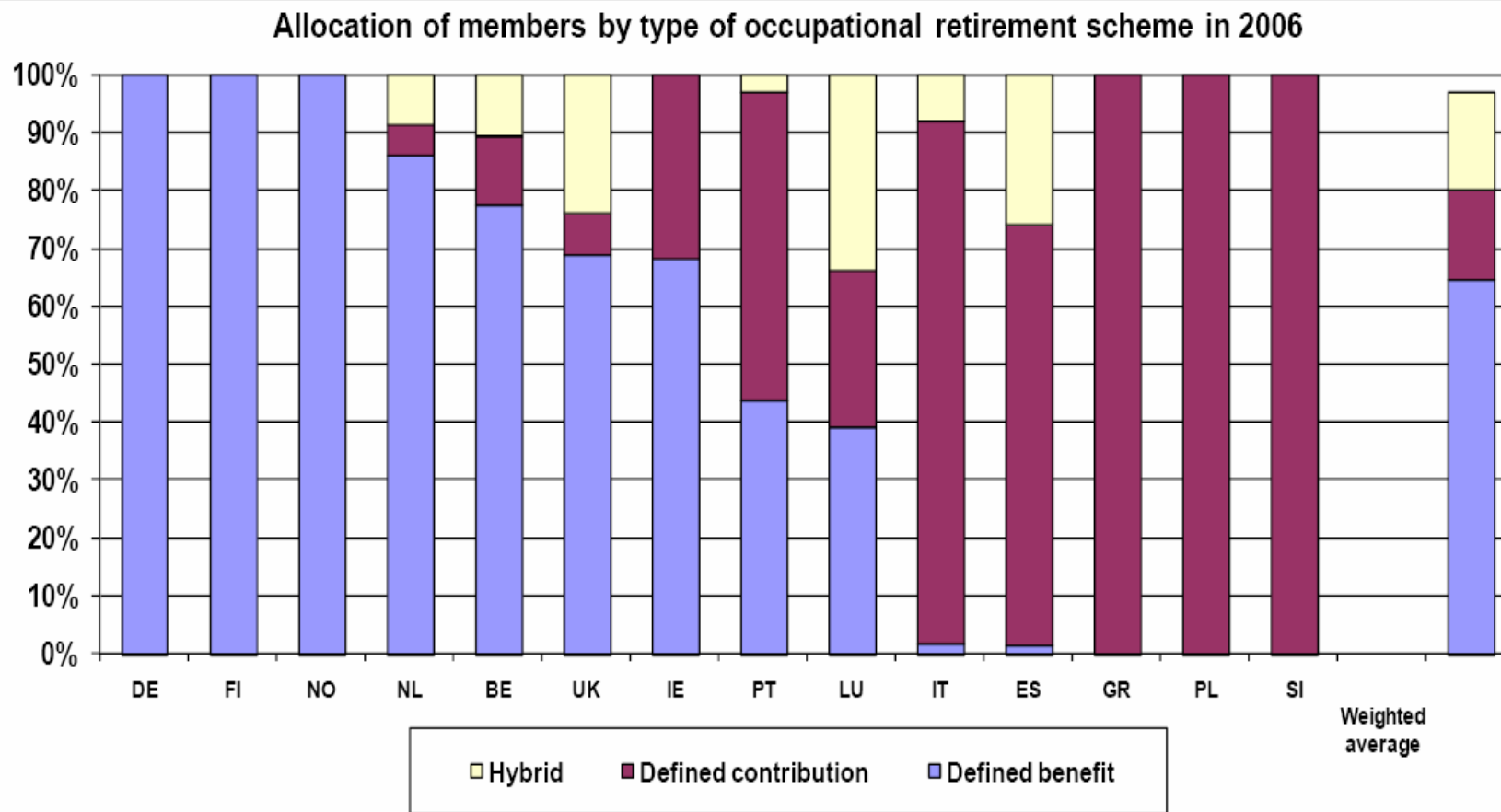
Source: DG ECFIN, European Economic Forecast, Spring 2010

Note: Four-quarter moving averages

- ● ● | Pension schemes in EU
- Mostly Pay-as-you-go (PAYG)
- Some defined-benefit (DB) funding
 - Mostly suppl. occupational pensions
- Private retirement savings important in
 - NL, UK, DK, IR, & SE

Pension schemes in EU

DB versus DC in selected European countries



- ● ● | Impact on pensions: Short-term

- PAYG & DB systems

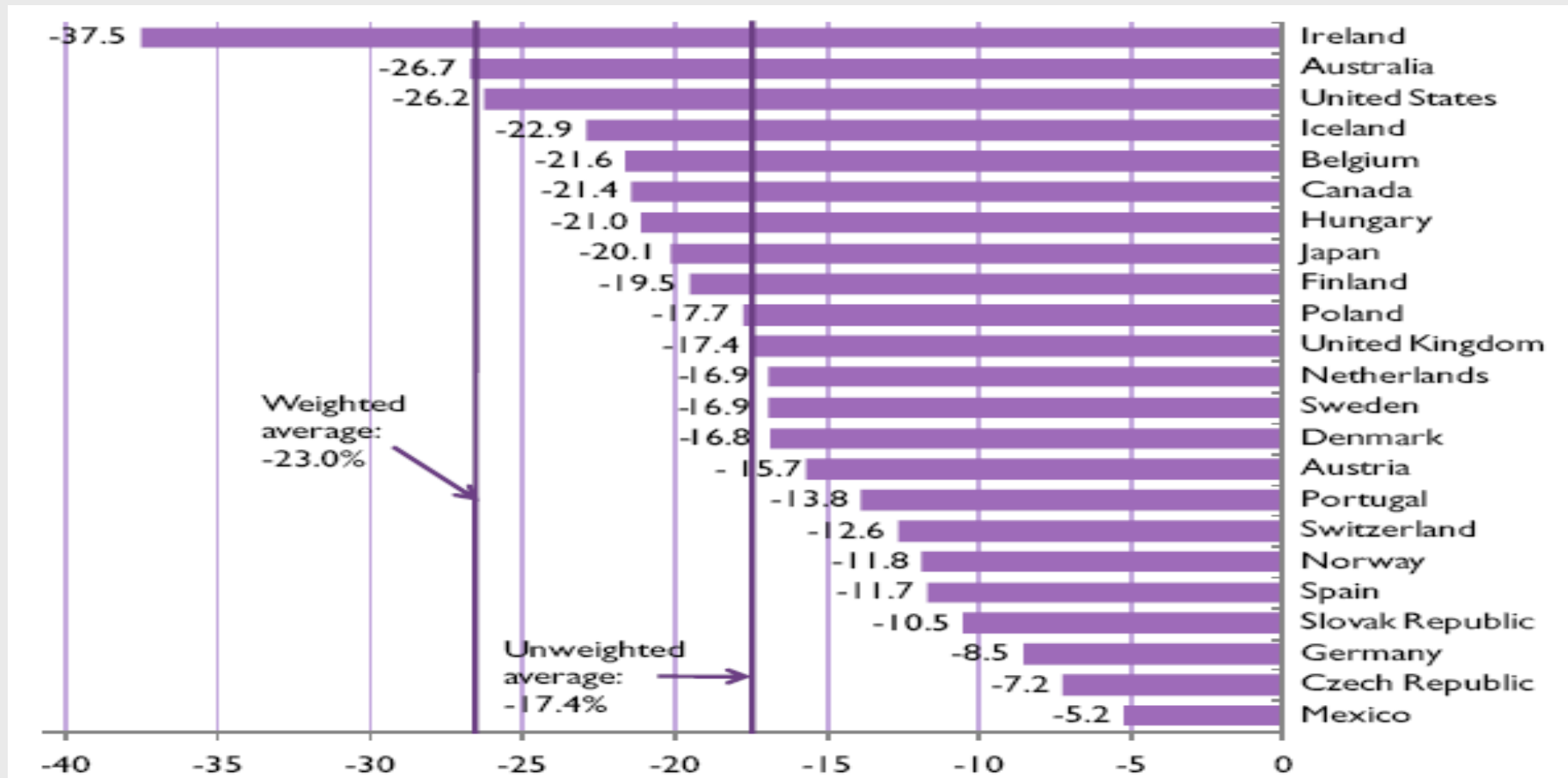
- Schemes able to absorb risks (currently)
- Benefit cuts where elderly poverty high, i.e. NMS

- DC systems

- Small part of retirement income
- Risks for retiring workers
- Vulnerability to volatility financial markets
- Need for more prudent management?

Returns on private pensions

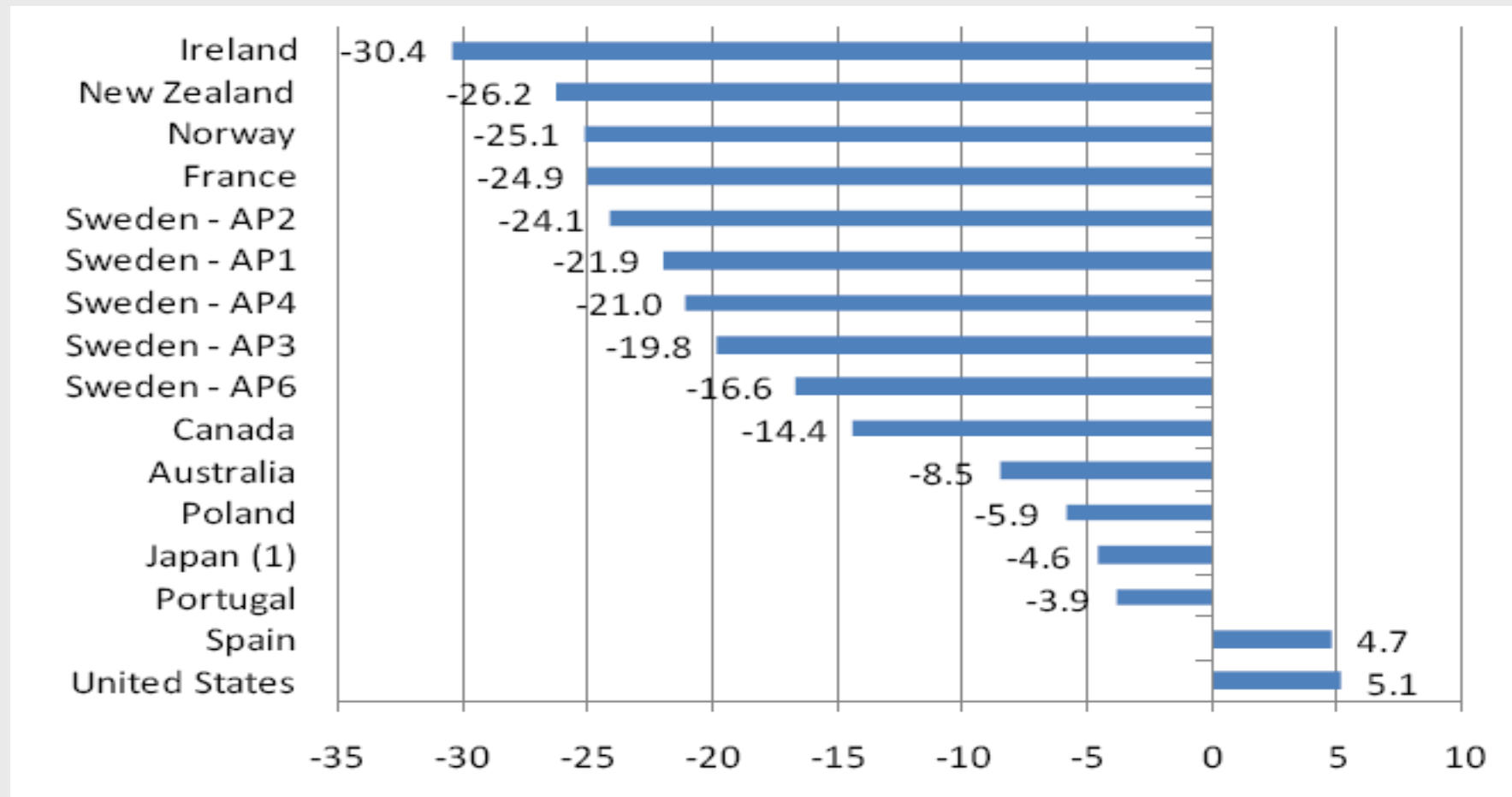
Real investment returns (%), 2008





Returns on public reserve funds

Nominal returns (%), 2008



- ● ● | Impact on pensions: Long-term
- PAYG
 - Potential adjustments due to national debt
- DB
 - Funds in deficit will adjust benefits
 - May close for new members
- DC
 - Heavy losses for older workers
 - Increasing role?
 - Lifestyle or lifecycle funds, as in UK



Conclusions

- Crisis stabilised thanks to enormous state support – how to organise exit and minimise future costs to the society ?
- Will single market be repaired?
- EU's social protection schemes held well (so far), but further challenges down the road (fiscal)
- Increased reliance on DC schemes require careful regulation