

PHD THESIS ABSTRACT

The focus of this dissertation is on a pension reform approach applicable to various schemes including PAYGO plans in distress. The thesis is integrated in pension related areas carefully chosen and thoroughly revisited. As a theoretical framework, “Life Cycle Hypothesis” best captures saving patterns observed during active years to maintain consumption in retirement. Institutionalizing this behaviour forms the basis for pension schemes in a non-paternalistic manner. Historically, the existence of rudimentary pensions dates back to ancient civilizations. Developing over millennia, the first national social welfare scheme was adopted in Germany under Otto von Bismarck. This important piece of legislation crossed boundaries of place and time, spreading throughout the world as PAYGO pension schemes. In particular, it inspired the U.S. social security program, a scheme unparalleled in scale.

Economical, socio-cultural and demographical changes have since challenged PAYGO schemes globally, to which countries have responded differently. In an initial step, these real-world examples of reform efforts are analyzed and briefly outlined. Additionally, we comb through the existing body of knowledge on pension reform for best practices and the ideal model. Our contribution is two-faceted with a focus on the reform process as well as ensuing management issues. Contrary to the “narrow” definition of reforms used among researchers and policymakers, our proposal represents a holistic yet simple approach to capture any scheme’s current state and identify future steps in its reform process. Based on an axial representation of pension plans, we acknowledge the crucial role of a funding component and evaluate management styles applied to funded schemes. This roadmap approach ultimately culminates in identifying a publicly managed reserve fund as the superior pension arrangement. Since the full potential of this pension delivery vehicle is only realized through ongoing management, the thesis is concluded with a glimpse into governance and financial engineering matters as success drivers of modern pension fund management.