

Pension Liabilities and Generational Relations

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This paper, preliminarily completed at the University of Oxford, the UK in June 2005, estimates the size of pension liabilities and discusses generational relations for the PAYG DB pension scheme in Vietnam in a future aging society

- Estimates are done by closed-group approach with generational accounts.
- Although the estimated size is small compared with GDP2002, its existence indicates implicit debt to the government, and these liabilities are eventually paid by taxes. Thus, in “generational battle”, current pensioners are winners, and current workers may be losers.
- The “battle” will be more severe if the economy is dynamically efficient.
- Intertemporal budget constraint is used to cushion financial shock.
- Reforms are immediately needed, along with sound governance and regulatory framework.

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“My pension has been renegotiated, and in lieu of a monthly check I’ll receive a crateful of seasonal fruit.”