



Animated video serie «Little Green Bags» of the University of St.Gallen (HSG)

»»[Playlist](#)

Text off he video

«**The intergenerational contract: Work longer and make babies: Six Steps towards more intergenerational fairness**». Author: Prof. Dr. Martin Eling, Institute of Insurance Economics (I.VW-HSG)

Copyright: Universität St.Gallen (HSG) / Text: Martin Eling (I.VW-HSG) / Kreation: Andri Hinnen & Julia Krättli, Zense, Zürich / Wissenschaftlicher Leiter: Thomas Beschorner (IWE-HSG). Link: <https://www.youtube.com/watch?v=u2Pz9u9d3ww&feature=youtu.be>

Imagine you are at the end of your career – 65 years old, in good shape and the world's at hand to do what you've never had time for before! Aaah, how nice!

But what if you have neither kids nor relatives to support you, no savings to feed on and that you live in a society without social security systems. Err... how are you going to pay for rent, food, transportation, health care, or your summer holidays?

Luckily, many countries do have social security systems to take care of their elderly population – for example guaranteed state pensions. Ooor shall we say: STILL have social security systems? Because, you might have heard, the system as we know it, IS crumbling.

In this video we want to ask: What jeopardizes the so-called “intergenerational contract” between young and old? And what are important steps and measures to obtain and improve intergenerational fairness?

Not long ago the system was simple... and it's still in place in some societies — the younger generation takes care of the older one by allowing them to spend their “golden age” under their own roof. Solidarity and responsibility took place WITHIN families.

This basic idea is an “intergenerational contract”. Of course, this isn't a codified contract where the contractual partners literally sign a document. It's more implied. An unspoken promise. Luckily, we don't always have to do this. Many societies have shifted away from intergenerational contracts at family level towards institutionalized contracts in our societies.

The establishment of this societal contract goes back to the Industrial Revolution, towards the end of the 19th century, when many people moved to the cities. Family ties were torn apart and couples were having less and less children.

Leaders like Germany's first chancellor Bismarck foresaw the arising social problems resulting from these changes and, consequently, set up the first social security system. The simple, yet brilliant idea: today's working population finances the pensions of those already retired, always hoping that the future generation will do the same for them.

So, intergenerational fairness – as opposed to intragenerational fairness, which is about fairness within a generation, for example between social classes, genders, or countries – is about fairness BETWEEN generations!

But what happens if future generations aren't willing or able to provide the expected level of solidarity with the retired work force?

The idea of intergenerational contracts works well when there are only few retired people compared to a large group of working people. In the times of Bismarck, for example, ten workers financed the pension of one retired person.

But again, times have changed: Most Western countries are facing extreme demographic changes. Due to an increasing life expectancy as well as low birth rates, our society is getting older and older. On a personal level this is good news, since in many cases we live long and in very good health. But: What are the consequences of an older society on our intergenerational contract and the pension system? Statistics paint an alarming picture: In the year 2000, for example, only four Germany workers financed the pension of one retiree. And the prognosis for 2040 is even more extreme: by then two people in the workforce will have to finance the retirement of one person.

Is it fair that the next generation carries such a high burden? Is this intergenerational fairness? One does not need to be a math genius to see: Houston, we might have a tiny little problem!

Tiny? Increasing expenses in the pension systems are just one of many burdens that are waiting for future generations. Another one is the fact that aging societies' demand of health care is exponentially higher. This is mainly because medical and assisted living costs for really old people are a lot higher than for old people. Who will pay for all that?

And, oh, have we mentioned the economic costs of environmental pollution, decreased biodiversity, and climate change?

So, what can we do?

Research suggests **six concrete measures** to ensure the future of the intergenerational contract.

First, everyone needs to work longer!

Due to increased life expectancy a later retirement age is unavoidable. In Switzerland, for example, the retirement age of 65 Years was set in 1948. At that time life expectancy for men at age 65 was 77 . "Today, life expectancy in Western countries for men at age 65 is 85, for women at age 65 even 88. Despite the fact that their retirement age is set at 64. These changes threaten the very existence of our pension system. One promising solution is the installation of automatic mechanisms. In Denmark, for example, increased life expectancy automatically leads to an adjustment of the retirement age.

Second, put an auto-stop on social security!

Politicians should introduce a debt brake on the social security system that affects contributions and benefits. Never spend more than you have. Only few countries have already implemented a mechanism that limits public pensions in case of imbalances.

Third, we need new types of insurance!

It should be mandatory for everyone to pay into a new kind of insurance for high age medical care. Germany, for example, has started to introduce new concepts for long term care insurance.

Fourth, incentivize voluntary work!

The state can't account for everything. Solidarity starts with us as citizens. Many young and old people are engaged in sports clubs, take care of dependent relatives or neighbors, or participate in educational or political activities. Modern states need to facilitate and institutionalize this commitment. In the 21st century, humanity has to live intergenerational fairness at both the institutional level of the 20th and the familial or let's say communal level of the 19th century.

Fifth, bring qualified foreign workforce to the country!

If we can't satisfy our countries' labour demand ourselves we have to get help from outside. Let's allow for qualified workers from other countries to immigrate, increase our working population, strengthen our economy, and ultimately help carry the burden of future generations. Countries like Canada, New Zealand, the Netherlands and Denmark, for example, have established smart immigration policies.

And finally, the fun part: Make more babies!

The ultimate impediment of the intergenerational contract is the lack of children. An even more effective way to increase the intergenerational fairness than allowing for a smart immigration policy is to invest in incentives for young families to make children, better childcare, continued access to the labour market for mothers, and education.... Have fun!

That's it. Work a couple of years more, put automatic brakes on social security, introduce new and mandatory insurance for high age health care allow foreign workers to strengthen our economy, and make loots of babies. Because ask yourself, what's worse: This – or this ?»

Ask the expert on «The intergenerational contract»:

Prof. Dr. Martin Eling, Institut für Versicherungswirtschaft (I.VW-HSG)
Tel.: +41 71 224 79 80, martin.eling@unisg.ch, www.ivw.unisg.ch

Contact for questions on the animated video serie «Little Green Bags»:

Prof. Dr. Thomas Beschorner, Institut für Wirtschaftsethik (IWE-HSG)
Tel.: +41 71 224 31 43, thomas.beschorner@unisg.ch, www.iwe.unisg.ch