

# **Suicide-Pensions or Mattress-Pensions?**

## **From fraud to reward**

*Marcello Malavasi - Venetian Institute*

[Translated by Giampietro Lea - Venetian Institute]

Pensions are a way of ensuring an income when one is too old to continue working. Retiring from work is like jumping from a height and to soften the impact with the ground a worker puts aside some money to be used as a mattress to fall onto. When there are many people working a lot of money is being put aside, and if the pensioners are few the mattress will work even if the money is being thrown at random. A random throwing is being counter-balanced by the large number of “money-throwers” and those who jump will always have the certainty of ending up on a mattress of banknotes.

But when the ones throwing money are less than those jumping, then you start having problems: there is an increasing risk of ending up on a pile of loose change or even without a mattress at all. In these conditions if the money is being thrown randomly, retirement becomes a suicide.

In all developed countries, this is becoming *the* issue, but in Italy the situation is dramatic to say the least: less-than-healthy public finances and an aging society exacerbate the faults of a pension system which was born already badly structured. This is not an opinion but a fact recognized by everybody: one can argue on the details, but from whatever perspective you look at the Italian pension system, be it from the right or the left, everybody agrees on the moral of the story. Pensions, as they are currently structured, have become a suicide.

There is no hope then? Fortunately there is. There are models on how to throw one's money methodically and there exists also a method for moving from suicide-pensions to mattress-pensions. The bad news is that the fact recognized by everybody is being left aside and people argue on the details, while the situation gets worse and worse and in a few years time there will be mass jumps into a void. The good news is that, not only have theories been developed, but in one country it has actually been put into practice. And with success.

The economist Jose Pinera, as labour minister of Chile, led his country from suicide to

mattress. The fundamental concept consists in a carefully aimed and efficient throwing of one's own money. Instead of throwing money on to the pile, hoping then to jump mainly on money being thrown by others, the Chilean system requires an orderly throwing from each worker, and the protection provided by the common pile will be guaranteed only to those who are less wealthy. The difference is significant.

In the suicide model one is throwing money to cushion other people's fall, and one hopes that when the time comes to jump someone else will be doing the same for him. Old people's pensions are being paid by young people, but when there are fewer young people than old people the latter will jump without being there anyone to throw money for them.

In Pinera's model, a young person will be throwing money for himself, in a way structured on his personal profile and needs. Specially created agencies undertake a methodical throwing on his behalf. The most interesting aspect of this model is that in order to avoid conflicts of interest, the agency and the worker's pile of money are two separate entities: the worker can move his pile from one agency to another (or from one country to another once the model is fully integrated globally). This implies that the worker's money will always belong to him, even if he changes job.

The comparison between the two systems is merciless: the suicide-pension system is a fraud, workers' money is being stolen with the promise that money will be stolen also from future generations, but truth has come to the surface and now one can see clearly what politicians had kept hidden. Money deducted from one's salary does not in fact constitute a deposit towards one's pension but is effectively a withdrawal. And if I withdraw your money, then I am stealing it. The fact that I am promising you I will return this money later obscures the issue, but if I never give it back to you then quite clearly I am a thief.

In Chile, you are really depositing your money on your future account, and indeed a Chilean worker can at any time check how much his pension will be. Those are real deposits! And one's pension really is a mattress and represents a reward for one's working life.

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Marcello Malavasi is originally from Mantua (Venices). He graduated in philosophy

from the University Ca' Foscari in Venice, and is currently undertaking a research doctorate (PhD) at the University of London.

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