Pensions

The two funding models, and the risk each carries.

Economics

Pay-as-you-go

- Today's workers fund today's pensioners
- No fund accumulated
- Vulnerable to demographic change
- Politically hard to reform
- Immediate coverage on introduction

Funded

- Contributions invested for the contributor
- Fund accumulated over a career
- Vulnerable to market returns and inflation
- Transition cost from PAYG is large
- Individual account balances visible

THE DIFFERENCE THAT MATTERS

Both depend on future output. A fund is a claim on future production, just as a PAYG promise is.

Educational reference. Most systems combine both, plus a means-tested floor. Design varies greatly between countries.