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ABSTRACT

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Abstract

In recent years the development of Finland's earnings related pension system has been widely discussed. The pension system needs to cater for the large age-groups retiring and various institutions have been involved in working out how the efficiency of the pension system could be improved. The year 2005 has seen Finland's pension system reformed in such a way that the average age of retirement should start to increase in the future. What remains to be solved is how the investments of the pension fund should be controlled in order to decrease the burden of the workforce having to pay for the large age-groups' retirement.
This thesis aims to analyze possible ways in which Finland's pension insurance system could be improved by making the existing pension fund yield higher investment returns. Currently the security of the pension fund is considered more important than high returns but as the large age-groups retire this might have to change. The goal of this thesis is to study whether it is possible to increase the investment return of the pension fund without increasing the investment risk too much. The cost of additional investment risk taken is weighed against the benefit of the larger investment returns alleviating the pressure of financing the large age-groups' pensions.
A model in which the investment returns earned on the pension fund can be simulated is built using Microsoft Excel. Existing time series are used as the basis for simulating returns for a set of investment classes which form the return of the portfolio used to invest the pension fund. The structure of this portfolio ultimately depends on the means by which the pension system is controlled. The results of the simulation show that even though the development of the market is the key factor influencing how healthy the pension system will remain over the coming decades, wisely investing the pension fund may significantly enhance the welfare created by the pension system.

Key words	eläkejärjestelmät, eläkerahastot
Further information	