



Joint Colloquium of the IACA, PBSS and IAAHS Sections of the International Actuarial Association

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Social Security Issues from a Global Perspective

John A. Turner

Pension Policy Consultant



A Global Perspective

- The majority of people age 60 and older around the world are not covered by a social security benefit program.
- These people tend to be poor.
- Many of them live in Africa and Asia.
- The most important social security problem from a global perspective is to extend coverage to poor people.

Move to Funded DC Systems

- There has been a noticeable move toward funded DC systems
- But most social security programs around the world are traditional social insurance DB systems

Retrenchment

- While in the 1950s and 1960s, systems were expanding, raising payroll tax rates, countries now are more likely to cut benefits

OECD Perspective

- In the high-income countries of the OECD, nearly all workers are covered by social security programs.
- In these countries, the most pressing problem is dealing with population aging.
- Population aging in part is the result of increasing life expectancy.

Responses to Increasing Life Expectancy

- Increasing life expectancy is occurring in all high-income countries.
- The focus of this presentation will be responses to increasing life expectancy in OECD countries.

Three Approaches to Population Aging

- Move to defined contribution or Notional Defined Contribution system
- Raise the early retirement age
- Automatic adjustment mechanisms to maintain solvency
- Raising the contribution rate, but this option is no longer being used in many countries

Move to Defined Contribution System

- A number of countries in Latin America and in Central and Eastern Europe and Central Asia have moved to defined contribution systems – e.g., Chile, Argentina, Peru, Macedonia, Poland, Mexico, Australia

Notional Defined Contribution System

- A Notional Defined Contribution systems is a pay-as-you-go system where each participant's benefit is defined in terms of an individual account, to which contributions and investment earnings are credited.

Move to Notional Defined Contribution System

- A recent trend – mainly since 2000
- Sweden, Latvia, Italy, Norway, Poland

Raise the Early Retirement Age

- A number of countries have higher early retirement ages than our age of 62
- Ireland - 65

Gender Equality

- Some countries are raising the early retirement age of women to that of men
- UK – men 65, women rising from 60 to 65 over the years 2010-2020

High ERA

- Some countries already have a high ERA
- Norway – 67
- Iceland - 67

Forward Looking

- Some countries have anticipated the continuing improvement in life expectancy and have already made needed changes
- UK raising the early retirement age to 68 by 2046

Age 65 Popular

- A number of countries have age 65 as the ERA for social security, at least for men
- UK, Australia, Austria, Germany, Ireland, Netherlands, New Zealand, Switzerland

Auto Adjustment Mechanisms

- A major new trend in social security policy in high-income countries is the use of auto adjustment mechanisms
- Some mechanisms, such as life expectancy indexing of benefits, are used annually to help keep the system in balance
- Some mechanisms are only used when the system gets out of balance

Countries with Life-Expectancy Indexing of Benefits

- Traditional DB social security – Brazil, Finland, Portugal
- Notional Defined Contribution – Sweden, Italy, Latvia, Norway, Poland

Life Expectancy Indexing of Benefits

- Life-expectancy adjustment of benefits is natural in an NDC system, and all those countries have adopted it in some form
- Technically, the adjustment can easily be adopted in a traditional PAYG system, and a couple of countries have done so.

Life-Expectancy Indexing Other Parameters

- Adjustment factor for postponed retirement – Italy
- Early retirement age UK
- Ratio of contribution years for a full benefit to average years in retirement - France

Auto Adjustment Tied to Insolvency

- Countries also having life expectancy indexing – Sweden
- Countries without life expectancy indexing but using other auto adjustment mechanisms – Germany, Japan, Canada

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Contact me

- JTurner47@verizon.net