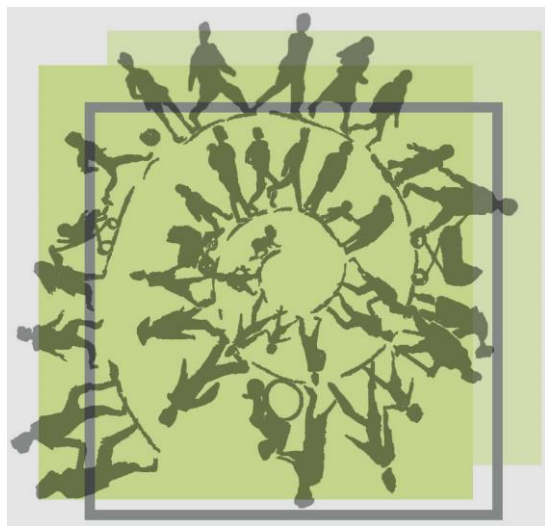


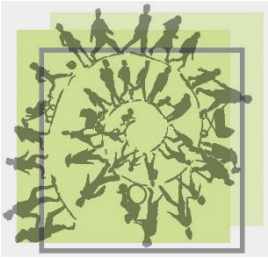


Sustainability and Adequacy of Social Security in the Next Quarter Century:

Balancing future pensions' adequacy and sustainability while facing demographic change

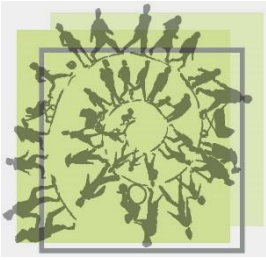


Krzysztof Hagemeyer (Author)
John Woodall (Presenter)
International Labour Office, Geneva



Scheme design and assessment - adequate of provisions





Changing perceptions what is adequate may lead to changes in explicit and implicit social contracts

Definition and timing of retirement

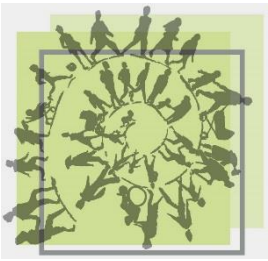
- Happens only when person is not able to work anymore?
- Is a well deserved period of rest after working life?

Level of societal guarantees

- Guarantee aims only at alleviating poverty for those unable to support themselves?
- Guarantees every resident a minimum income at old-age?
- Guarantees also certain proportion of pre-retirement income (replacement rates)?

Degree of solidarity

- People should save for themselves
- Those unable to contribute/save should be supported
- Younger should support old generation



Changing social contracts determine changes in financial and institutional solutions

Social contract behind pensions

What is retirement?

What is guaranteed by the society?

How much solidarity and redistribution towards the poorer?

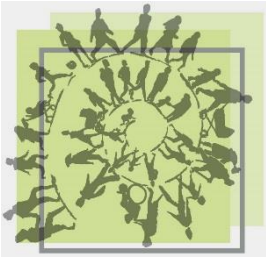
Financial and institutional alternatives

Mandatory versus voluntary

Defined benefit versus defined contribution

PAYG versus advanced funding

Public versus private provision

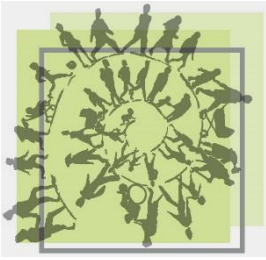


Greatest challenge in the ageing world: coverage gap

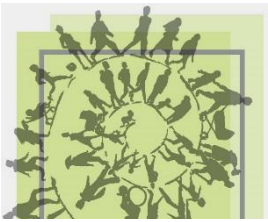
1. Only a minority of the world's working population contributes to any pension scheme (30%)
2. Only small minority of the world's older persons receives any pension (20% in low-income countries)
3. Now already 61% of the worlds' elderly live in less developed regions with lowest pension coverage. This percentage will increase to 83% in 2100

Provide at least basic income security to uncovered majority of the elderly is a priority

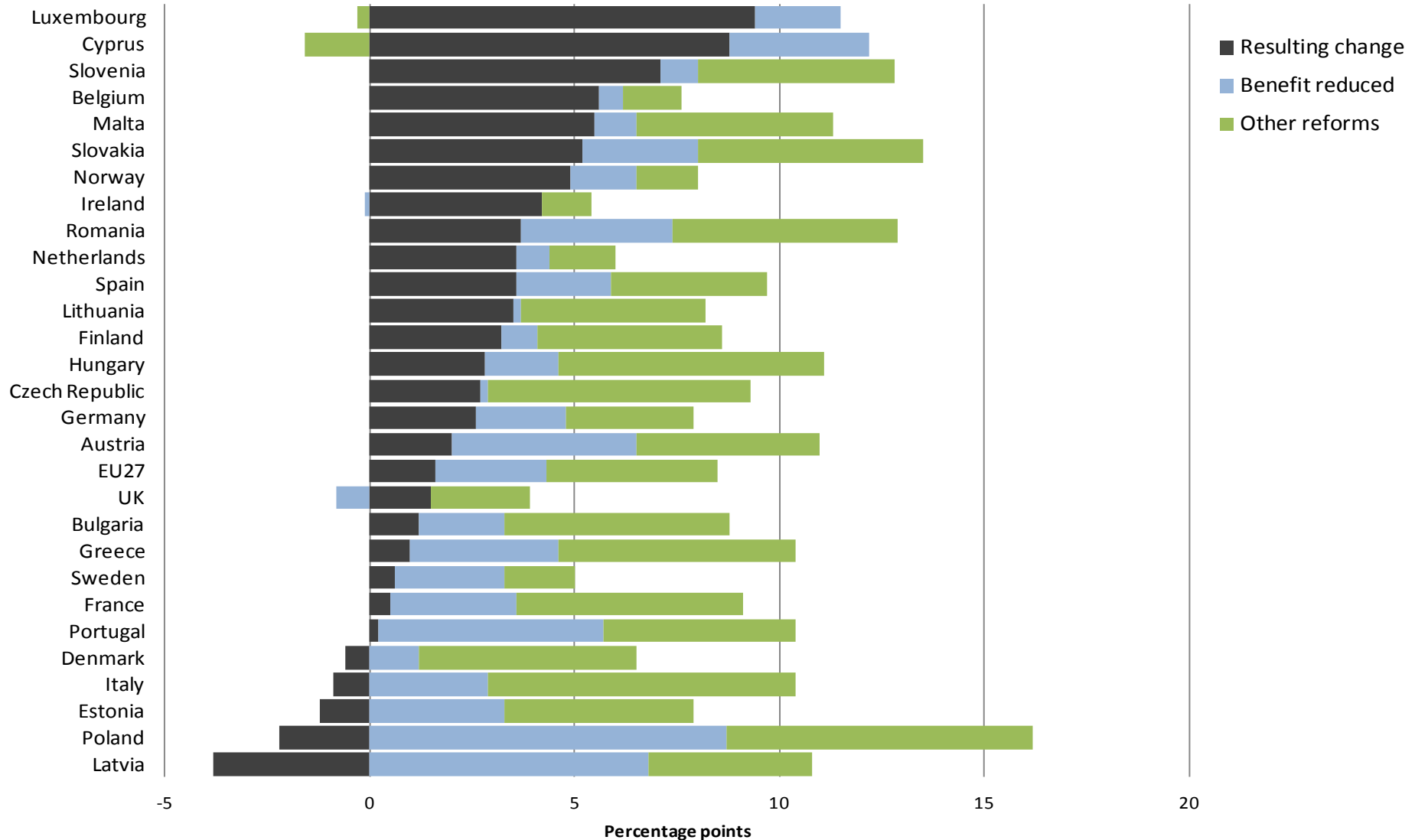
Recommendation no 202 (2012) concerning national floors of social protection

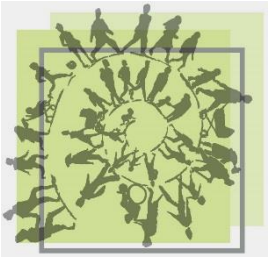


In many European countries already introduced pension reforms may successfully counterbalance financial impact of demographic change (Projected change of public pension expenditure due to different factors in GDP percentage points between 2010 and 2060)



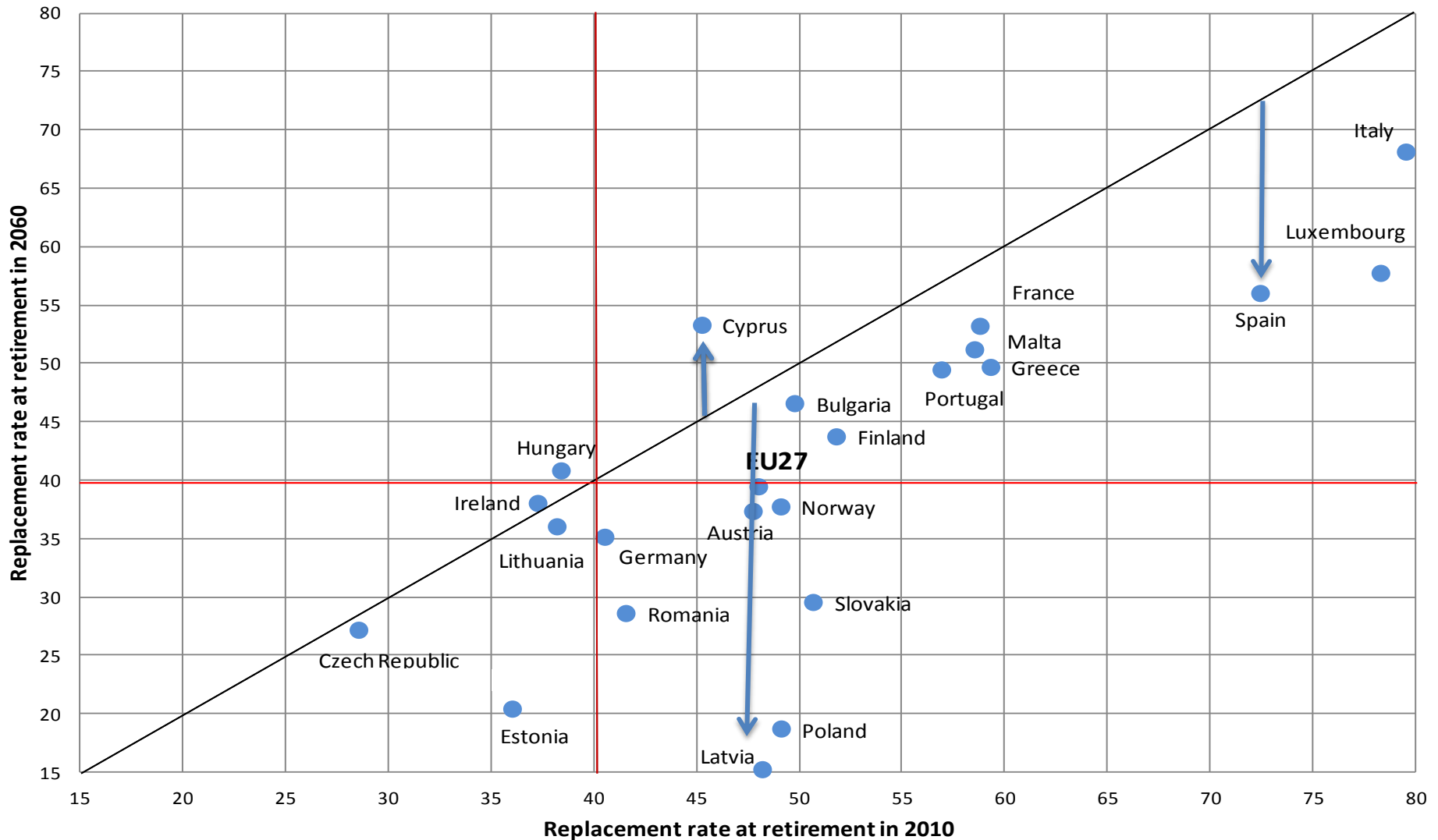
In some countries public pension expenditure are even projected to decrease and average projected increase in most countries is far from dramatic





However in many countries reforms will significantly affect future benefit levels...

Replacement rate in public pension schemes 2010 and 2060





Defining pension adequacy

- 1. Adequacy and sustainability are joint and interlinked objectives of social policy**
- 2. Adequacy is defined nationally as part of the broader implicit or explicit social contract which sets the design of the pension system**
- 3. There are also accepted internationally benchmarks and standards (like ILO Convention no 102 or Recommendation no 202)**
- 4. EU OMC: Adequate old-age pension systems should prevent poverty in the old age but also provide income replacement after retirement preventing sharp decline in living standards**

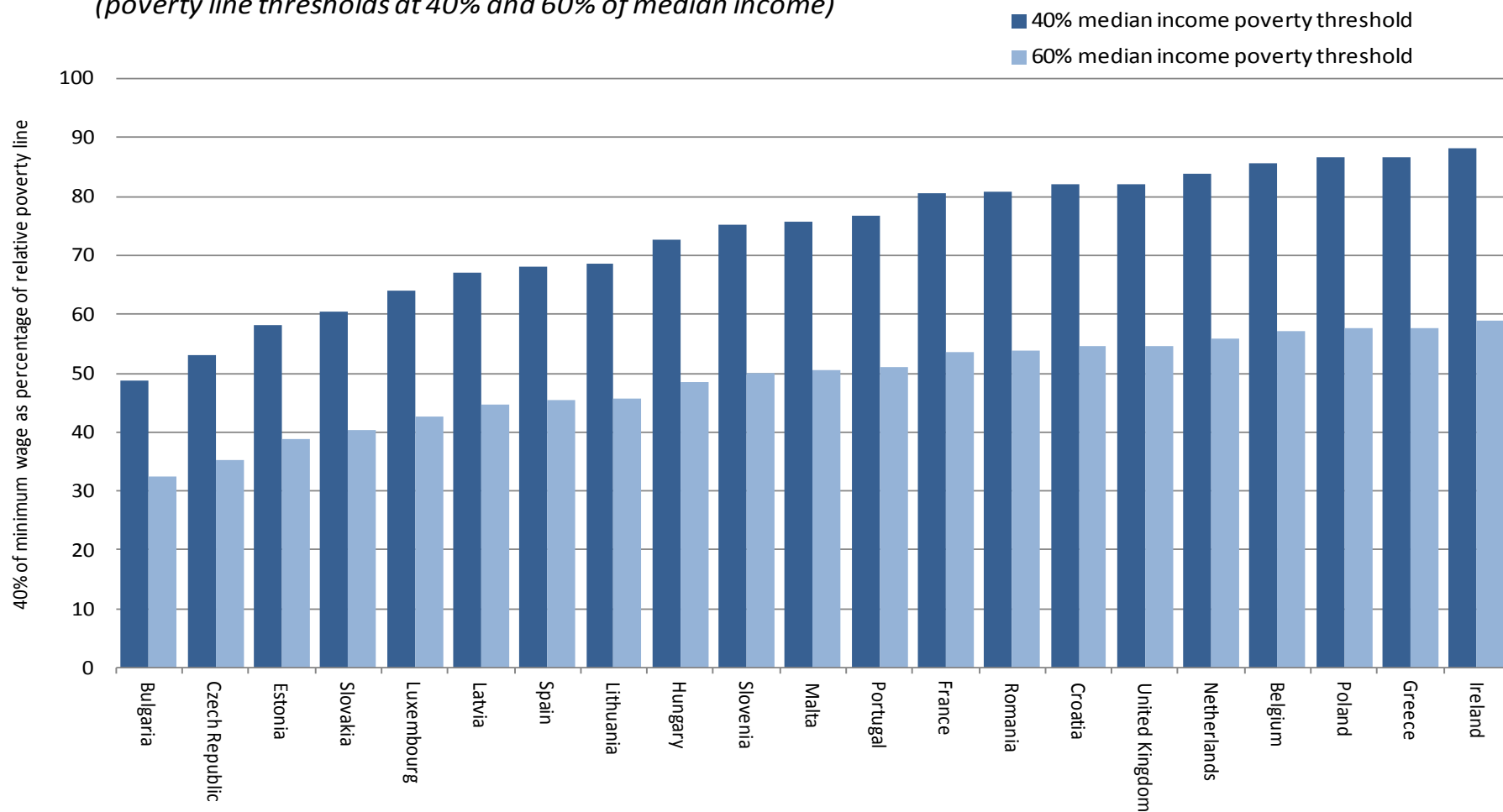


Even 40% replacement rate however does not prevent poverty for those with low earnings

C102 benchmarks

40% of minimum wage as percentage of relative poverty line, 2010

(poverty line thresholds at 40% and 60% of median income)





Protection of those with broken careers and lower life-time incomes weakened by reforms

- 1. Many newly reformed pension schemes are not just translating differentiation of earnings in the labour market into differentiation of pensions: these differences may actually be amplified**
- 2. Reforms often removed from benefit formulas redistributive components aimed to protect against poverty those with lower earnings and shorter careers**
- 3. For a time being such changes have not yet been adequately compensated everywhere by increased role of various non-contributory provisions -**
 - 1. these may include basic minimum pensions or subsidies to contributions of those caring for children or sick and elderly, unemployed, persons with disabilities etc.**

How to prevent from poverty those with lower incomes and those having no possibility to have long unbroken careers?



1. Either:

1. preserve or restore in one way or another the redistributive defined benefit formulas in first pillars, OR
2. Secure that in the overall pension system provides
3. non-contributory income guarantees (such as basic state pension, universal or means-tested) - these need to be much stronger than previously; AND
4. contribution subsidies compensating adequately non-contributory periods

2. To secure sustainability, conditions have to be created to effectively extend duration of working lives and delay retirements

Automatic mechanisms will not replace good policy making in social dialogue



- 1. Many reforms introduce various automatic mechanisms to ensure long-run financial sustainability of pensions**
- 2. There are no similar mechanisms to guarantee adequacy...**
- 3. ...other than good policy making through well informed social dialogue based on agreed adequacy targets, balancing shorter and longer term needs as well as benefit adequacy with financial sustainability**



How is debate mediated?

- 1. Democratic process**
- 2. Tripartite social dialogue**
- 3. Different interests are not necessarily transparent**



Possible implications for actuaries ?

- 1. How should the actuaries balance the roles of:**
 1. technician
 2. interpreter
 3. adviser?
- 2. How should actuaries participate in (national) debate on social policy when the debating framework is open-ended ?**
- 3. What is the scope of “fairness” in terms of:**
 1. actuarial equity
 2. social justice ?