SECTION SUR LES PENSIONS, AVANTAGES SOCIAUX ET SÉCURITÉ SOCIALE DE L'AAI

IAA PENSIONS, BENEFITS AND SOCIAL SECURITY SECTION

PBSS

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Social security

"Intergenerational Solidarity: Policy Challenges and Societal Responses", Asghar Zaidi, Katrin Gasior and Alexandre Sidorenko (2010), European Centre for Social Welfare Policy and Research, Vienna, Policy Brief July 2010,
http://www.euro.centre.org/data/1277212383_19649.pdf

Summary: The challenges associated with population ageing in EU countries are traditionally sketched out in two contrasting ways. First, there is a concern about the financial sustainability of public welfare systems, which are affected adversely by a rising share of older age population. Such concerns have become more evident and evidenced in the wake of the worst economic downturn Europe has faced since the 1930s. Second, important as fiscal prudence in public spending has become, it is also considered imperative that European social welfare systems continue to provide adequate retirement incomes and sufficient basic social services, such as health and social care, in old age. Each of these concerns justifiably merit the policy scrutiny and priority which are happening –albeit at varying degrees and pace – across EU countries and contributing to lessening the future economic challenges.

A less discussed and also less clearly defined goal is that of social sustainability, which encompasses both the ideas of pension adequacy and financial sustainability, but also includes an inter-generational solidarity aspect. The notion of social sustainability requires that a balance is achieved between the distribution of resources across different generations at a single point in time (such as between young and old), and ensuring that future generations of old and young have the same or greater access to social resources as their counterparts in the current generation. Social sustainability also captures a wider conception that goes beyond incomes and provision of public services. Taking the perspective of the older age generation, the social sustainability needs include not only adequate pension income but also access to affordable and good quality health and social services. What has become obvious is that the societies experiencing population ageing have a new demographic mix in their population and they need to embrace the need for mutually beneficial and satisfying relationships between generations. Creating an awareness of importance of intergenerational relationship, and recognising not only their diversity but also their complementarity, will allow public policy strategies to address the resulting needs satisfactorily. Without such awareness and intergenerational policies, we believe that a strong risk of perverse 'competition' for limited resources across young and old will develop – to the detriment of both generations, and society in general. There is ample scope for developing effective solutions which are cooperative and mutually beneficial to current and future generations. This Policy Brief addresses the policy challenges that intergenerational solidarity presents, and how societies are responding to them.

Pension systems reform

"Review of international pension reform", Sharon Collard and Nick Moore (2010), Department for Work and Pensions Research Report No 663, http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep663.pdf

Summary: The Department for Work and Pensions commissioned this review of international pension schemes and pension reform to draw together evidence, potential learning points and areas of distinction between the UK and comparator countries, to inform implementation of the Government's workplace pension reforms. The review focused mainly on the introduction and implementation of workplace pension reforms that aimed to encourage private pension saving among individuals of working age. It centred on eight case study countries, all but one of which had instituted pension reforms that were similar in some respect to the proposed reforms in the UK. The eight case study countries selected for inclusion in this review were (in alphabetical order): Australia, Canada, Denmark, New Zealand, Norway, Poland, Sweden and Uruguay. They represent a range of pension schemes to promote private pension saving, most (with the exception of Canada) the result of pension reform instituted in the last 20 years.
The review comprised a rapid evidence assessment and telephone interviews with pension experts in the case study countries. The main gaps in knowledge highlighted by the review seem to be around attitudes to pension reform, pre and post-implementation; the effectiveness of incentives to encourage voluntary employee contributions above and beyond any minimum requirement; the outcome of pension reforms and pension schemes on incomes and living standards in retirement (although this may improve over time); and the wider macro-economic impacts of pension reform, such as the effect on aggregate savings levels, labour market impacts and the impact on small businesses. With the exception of New Zealand, there is a dearth of robust evaluation of pension reform in the case study countries we looked at.

"Complementing or Replacing Old Age Insurance? The Growing Importance of Funded Pensions in the French Pension System", Naczyk, Marek and Palier, Bruno (2010), REC-WP Working Papers on the Reconciliation of Work and Welfare in Europe No. 08-2010 http://www.socialpolicy.ed.ac.uk/__data/assets/pdf_file/0018/44082/REC-WP_0810_Naczyk_Palier.pdf

Summary: The French pension system has for long been characterised by its very low reliance on funded pensions, which have almost become a taboo subject since the Second World War. While other countries have often complemented statutory pensions with funded occupational pension schemes, in France, the social partners have put in place an encompassing network of supplementary pension arrangements financed on a pay-as-you-go (PAYG) basis. The generosity of these schemes and their defence by trade unions and part of the business community has considerably limited the room for expansion of funded pension schemes. However, the role played by these supplementary PAYG schemes has significantly changed over the last two decades. First, the gradual harmonization of rules within the different schemes and their compliance with EU social security regulations are leading to their quasi "first-pillarisation". Second, similar to statutory pensions, these schemes have also undergone gradual retrenchment and will offer reduced replacement rates. As a result, the development of pension savings has been implicitly promoted, although more on a voluntary basis than on a compulsory one. Despite a unification in the regulatory framework governing funded – occupational and personal – pension plans, access to these schemes remains mostly limited to high-skilled workers.

"Ageing and the Politics of Pension Reforms in Central Europe, South-Eastern Europe and the Baltic States", Cerami, Alfio, (2010). International Journal of Social Welfare, forthcoming.

Summary: This article investigates ageing and the politics of pension reforms in Central Europe, South-Eastern Europe and the Baltic States. It emphasises the importance of historical legacies, presence of veto points, trade unions' power, electoral rules and country-specific patterns of political competition, but it also highlights the central role in institutional change played by other concomitant factors, such as those associated with the communicative actions of national and international actors. The role played by power politics, class conflicts and strategic use of social policies is also emphasised. The main argument put forward in this article

is that pressures for reforms in the pension systems have not only been the response of demographic, economic and financial pressures but have also been the result of a new consensus found on new economic ideas and discourses that saw in the privatisation of the economy a new modernisation paradigm.

"Retirement Responses to a Generous Pension Reform: Evidence from a Natural Experiment in Eastern Europe", Danzer, Alexander M. (2010), Institute for the Study of Labor (IZA), IZA Discussion Paper No. 4726, http://ftp.iza.org/dp4726.pdf

Summary: The retirement decision is under researched in developing and emerging countries, despite the topic's close relation to many development issues such as poverty reduction and social security, and despite the fact that population ageing will increasingly challenge the developing world. This paper uses a natural experiment from Ukraine to estimate the causal effect of a threefold increase in the legal minimum pension on labor supply and retirement behaviour at older ages. Applying difference-in-difference and regression discontinuity methods on two independent nationally representative data sets, the paper estimates a pure income effect that caused additional retirement of 30 to 47 percent. Additional evidence suggests that retirement incentives are stronger at the lower tail of the educational distribution and that the strict Labor Code curbed responses at the intensive labor supply margin. Although the substantial pension increase provided strong disincentives to work and put a heavy fiscal burden on Ukraine, it significantly reduced the propensity of falling into poverty for those in retirement.

Retirement savings

"What is the Age of Reason", Sumit Agarwal, John C. Driscoll, Xavier Gabaix, and David Laibson (2010), Boston CRR IB#10-12, http://crr.bc.edu/images/stories/Briefs/ib_10-12.pdf

Summary: Most U.S. households have accumulated significant assets by retirement, but these assets are often accompanied by significant liabilities. Including net home equity, households with a head age 65-74 had a median net worth of $239,400 in 2007, according to the Survey of Consumer Finances (SCF). At the same time, the SCF reports that 48 percent had debt secured by a residential property, 26 percent had installment loans, and 37 percent carried credit card balances from month to month. Overall, about two-thirds of these households had at least one form of debt. This brief raises the question of whether older households have the ability to manage their increasingly large and complex balance sheets. The first section of this brief documents the decline in cognitive function that occurs as individuals age. The second section describes new evidence from 10 different financial transactions indicating that middle-age adults make fewer financial mistakes than younger or older adults. The third section explores possible policy responses to help older individuals more effectively manage their finances. The final section concludes that the best way forward is not yet clear, stressing that further research is needed on several key questions.

"The EBRI Retirement Readiness Rating:™ Retirement Income Preparation and Future Prospects", Jack VanDerhei and Craig Copeland (2010), Employee Benefit Research Institute, EBRI Issue Brief #344,
http://www.ebri.org/pdf/briefspdf/EBRI_IB_07-2010_No344_RRR-RSPM.pdf

Summary: The EBRI Retirement Readiness Rating™ was developed in 2003 to provide assessment of national retirement income prospects. The 2010 update uses the most recent data and considers retirement plan changes (e.g., automatic enrolment, auto escalation of contributions, and diversified default investments resulting from the Pension Protection Act of 2006) as well as updates for financial market performance and employee behaviour (based on a database of 24 million 401(k) participants).

While knowing the percentage of households that are "at risk" is obviously valuable, it does nothing to inform one of how much additional savings is required to achieve the desired probability of success.

Therefore, this analysis also models how much additional savings would need to be contributed from 2010 until age 65 to achieve adequate retirement income 50, 70, and 90 percent of the time for each household. While this concept may be difficult to comprehend at first, it is important to understand that a retirement target based on averages (such as average life expectancy, average investment experience, and average health care expenditures in retirement) provides, in essence, a retirement planning target that has approximately a 50 percent "failure" rate. Adding the 70 and 90 percent probabilities allows more realistic modelling of a worker's risk aversion.

"Spousal Health Shocks and the Timing of the Retirement Decision in the Face of Forward-Looking Financial Incentives", Coe, Norma and Van Houtven, Courtney (2010), Boston CRR Working Paper No. 2010-7, http://crr.bc.edu/images/stories/Working_Papers/wp_2010-7.pdf

Summary: A long and still growing strand of the retirement literature examines the role financial incentives play in the timing of the retirement decision. A more recent second strand of work has focused on the role of health shocks in the retirement decision. This paper combines these two components of the literature in order to measure the marginal impact of current wealth (including pension accrual), forward-looking financial incentives (peak-value pension wealth), and health shocks on married individuals' retirement decision. This paper helps to clarify whether previously omitted forward-looking financial incentives can explain the strong role attributed to health shocks in the retirement decisions of coupled individuals. We find that financial incentives are the most important determinant of retirement behavior empirically. A husband is about half as responsive to his wife's financial incentives as he is to his own. Interestingly, we find that married men are responsive to their wives' health shocks, on both the intensive and extensive margin, but find wives' decisions concerning work are largely unaffected by their husbands' health shocks.

"Work and Retirement Patterns for the G.I. Generation, Silent Generation, and Early Boomers: Thirty Years of Change", Johnson, Richard W., Butrica, Barbara A. and Mommaerts, Corina, (2010). Boston CRR Working Paper No. 2010-8, http://crr.bc.edu/images/stories/Working_Papers/wp_2010-8.pdf

Summary: This study examines how the shifting choices and constraints facing older workers have changed work and retirement patterns over the past 30 years. Health improvements, declines in physical job demands, changes in Social Security rules, and the erosion in traditional defined benefit pension coverage and employer-sponsored retiree health insurance have altered work incentives at older ages. This paper compares labor force exits by older workers born 1913 to 1917 (part of the G.I. Generation), 1933 to 1937 (part of the Silent Generation), and 1943 to 1947 (part of the Baby Boom Generation). The analysis uses 16-year longitudinal panels from the Health and Retirement Study and decades-long administrative earnings records linked to respondents in the Survey of Income and Program Participation. The results show that early boomers worked longer than members of the Silent Generation, and that the pathways older workers follow out of the labor force have become more complex over time. The median retirement age for men was about one-half year higher in the 1943–47 cohort than in the 1933–37 cohort (62 vs. 61.5), but differences were more pronounced at older ages. By age 65, for example, 40 percent of early boomer men had not yet retired, compared with only 20 percent of Silent Generation men. Both male and female workers in the 1933–37 cohort were much less likely than their counterparts in the 1913–17 cohort to follow the traditional retirement path of exiting the labor force from full-time employment and never returning to work.

Longevity and life expectancy

Nothing this month

Regulation

Revised IOPS Principles of Private Pension Supervision: Public Consultation

The Revised IOPS Principles of Private Pension Supervision cover the main aspects of a robust and efficient supervisory regime; including Objectives, Independence, Adequate Resources, Adequate Powers, Risk-based Supervision, Proportionality and Consistency, Consultation and Cooperation, Confidentiality, Transparency and Governance.

The Principles were initially approved in 2006. Revisions have been made to ensure compatibility with subsequent IOPS guidance and work and to reflect the changes in the financial, economic and supervisory environment. The full text is at http://www.iopsweb.org/dataoecd/29/5/45587417.pdf

The deadline for receiving comments is **3 September 2010**. All comments should be sent to Ms. Fiona Stewart [fiona.stewart@oecd.org] or Sally Day-Hanotiaux [sally.day-hanotiaux@oecd.org] of the IOPS Secretariat.

Other

OECD Pensions in focus, issue 7, edited Juan Yermo & Jean-Marc Salou (2010), OECD
http://www.oecd.org/dataoecd/46/46/45637367.pdf

Summary: Covers (1) Performance of Pension Funds , (2) I nvestment Activity by Individual Pension Funds in the OECD, (3)Performance of Public Pension Reserve Funds. Reports that while pension funds have strengthened with the financial market rebound, OECD data show that pension fund assets in most countries have yet to recover to pre-crisis levels. Public pension funds, however, have now fully made up for their crisis-related losses due to more conservative investment strategies. During 2009, pension funds experienced a positive investment rate of return of 6.6% on average. Despite this recovery, by 31 December 2009 their asset values were still on average 9% below their December 2007 levels.

By December 2009, OECD pension fund assets in relation to national economies amounted to 67.1% of GDP on average, down from 78.2% in 2007, but substantially higher than the equivalent figure in 2008 of 60.3%. The Netherlands now has the largest proportion of pension assets to GDP (129.8%), followed by Iceland (118.3%) and Australia (82.3%).

Funding ratios of exchange-listed companies' defined benefit plans were still significantly lower at the end of 2009, and plans continue to be substantially underfunded in some OECD countries.

In 2009, public pension reserve funds (PPRFs) regained the ground lost during the 2008 crisis. By the end of 2009, the total amount of PPRF assets was equivalent to USD 4.5 trillion, on average 7.3% higher than at the end of 2008, and 13.9% higher than in December 2007.

Hannes Androsch Prize 2011

The Austrian Academy Of Sciences announces the Hannes Androsch Prize is to be awarded for a scientifically sound contribution to the following issue:

The design of a social security system which can withstand the dual threat of demographic developments and financial market risk

The Award: € 100,000.00. Closing date for entries: January 31, 2011

Background: It is widely recognised that existing models of the welfare state will need to be extensively overhauled, both in terms of their emphases as well as their financing, if they are to survive and lead the way in the 21st century.

Two of the main priorities of social security are to protect the living standard of the recipients of state welfare, while ensuring that the burden on payees remains within the bounds of what is socially acceptable.

Social insurance provides the first pillar of the system; private-pension plans a second, while personal savings could be regarded as a third. State social insurance systems are usually unfunded, and operate on

a pay-as-you-go basis; private pension plans of various kinds are funded, and are typically supported by employers and/or by tax shelters.

The second pillar was developed to support the increasingly inadequate benefits provided by the first, but it lacked the coordination which is required for what is, in effect, a supplementary system.

The third pillar, personal savings, lacks any formal integration into the official system, or any safeguard to its real value.

These systems combine, collectively and quantitatively, in extending total old-age transfers. However, they fail to address one of the main concerns of the elderly insofar as they do not stabilise combined real payments over time. Demographic change, labour market developments or capital market disturbances can, and do, exert a strong influence on the stream of real benefits and so unsettle the beneficiaries' life plans. Consequently, the system encourages over-saving as a means of coping with the potential risk of shocks; it reduces individual wellbeing and turns out to be inefficient from an inter-temporal macroeconomic as well as microeconomic perspective. An optimal system should combine the two official pillars in such a way as to shield the beneficiaries from demographic change as well as from capital market disturbances, thus assuring as stable an income as possible.

This announcement, therefore, invites submissions for the Hannes Androsch Prize. Entries should include a thorough analysis of the social welfare system. They should also provide proposals for an alternative design, which would optimise the magnitude and stability of pensions over time, and confront the double challenge of demographic developments and financial market risk.

Additional information on the Hannes Androsch Prize, sponsored by the Hannes Androsch Foundation at the Austrian Academy of Sciences, is available on the website of the Austrian Academy of Sciences www.oeaw.ac.at/hannesandroschprize