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DEFINING AMBITION

Necessary adjustment of pensions under aging societies

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Dr. Tomoyuki Kubo

1952 Born at Ehime prefecture in Japan

1974 Graduated from Kyoto University (Mathematics)

1974-2004 Sumitomo Trust & Banking CO LTD

Pension Trust department etc.

2004-2013 Nissan Motor CO LTD

Expert Leader of Global Pension Management

1999 Doctor's degree from Tama University

(Management Information Science)

2007- Teaching Professor of several universities

(Tentative – Waseda, Keio, Tokyo Science etc.)

2016-Current Teaching Professor of Nihon University

(“Pension system”, Faculty of Economics)



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I The philosophy of public pensions

Characteristics of (pure) public pension plans

Item	Description
Coverage	Everyone in a country
Enforcement	Compulsory
Management	By a government (a governmental agency)

Quasi public pensions:

Occupational pensions are sometimes deemed as public pensions.

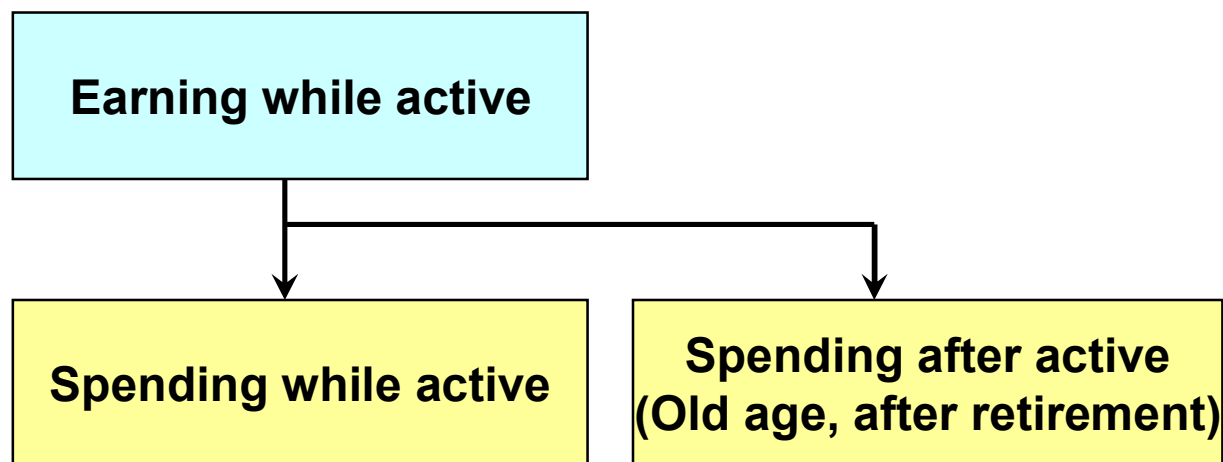
They may be compulsory and be managed by a government.

However, I refer to pure public pensions as those coverage is everyone in a country in this presentation/paper. In my definitions, those occupational pensions should be considered in a category of compulsory private pensions.



Misunderstanding for public pensions

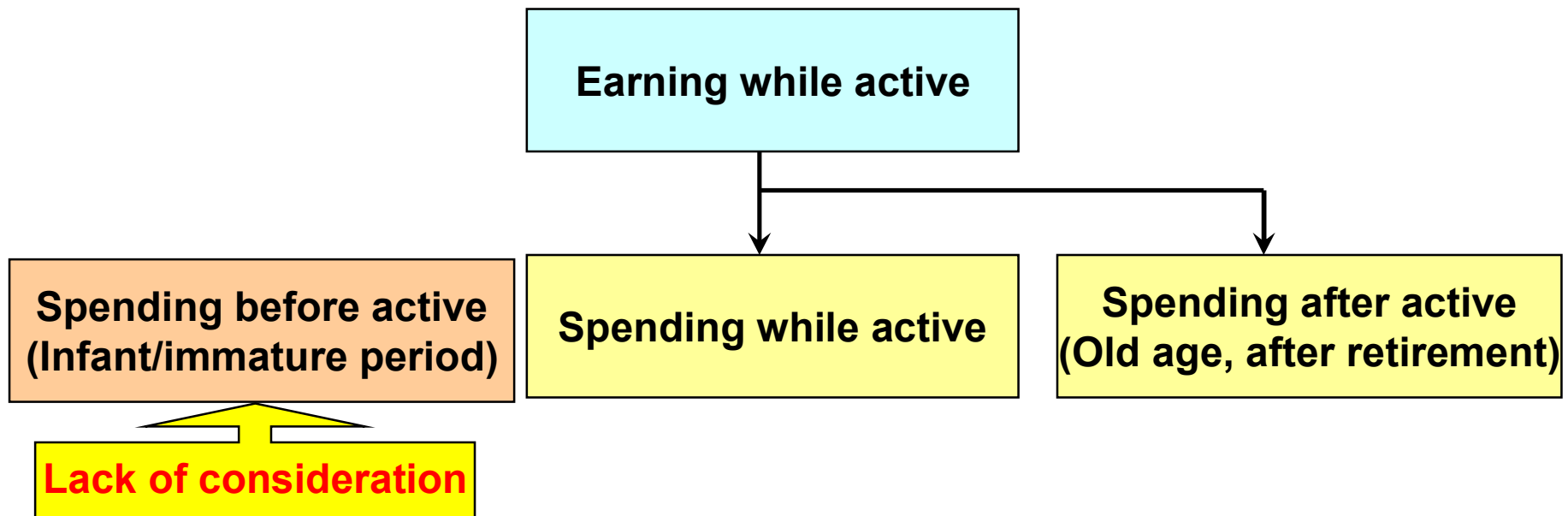
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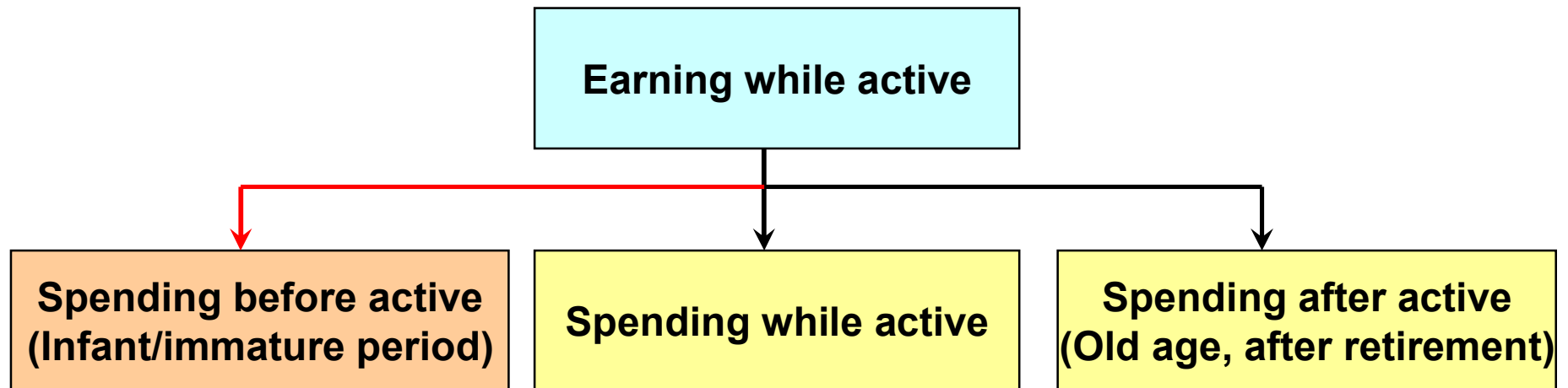


However, this concept is inadequate because of the lack of consideration of infant or immature period.



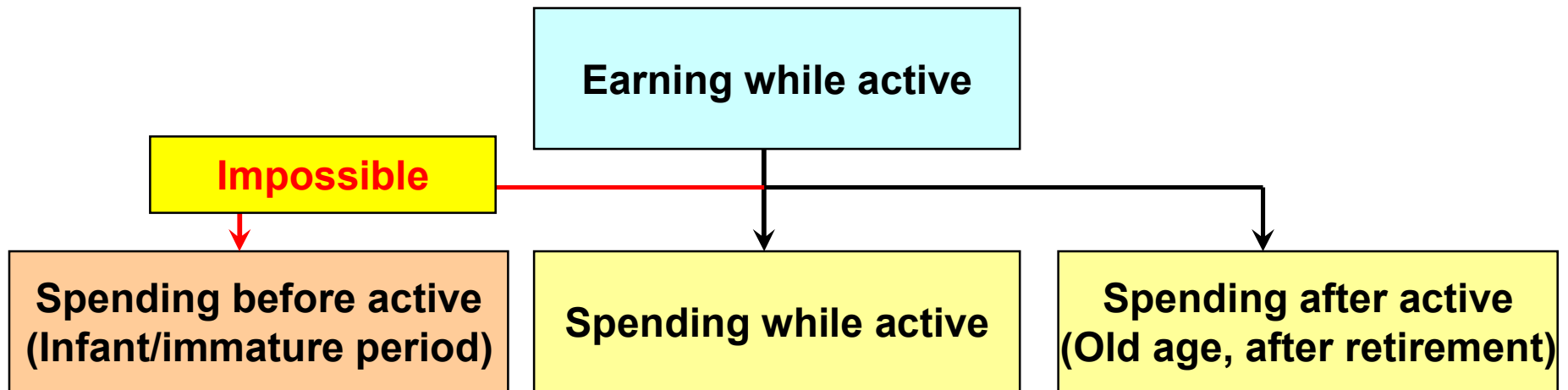
Necessity of Intergenerational consideration

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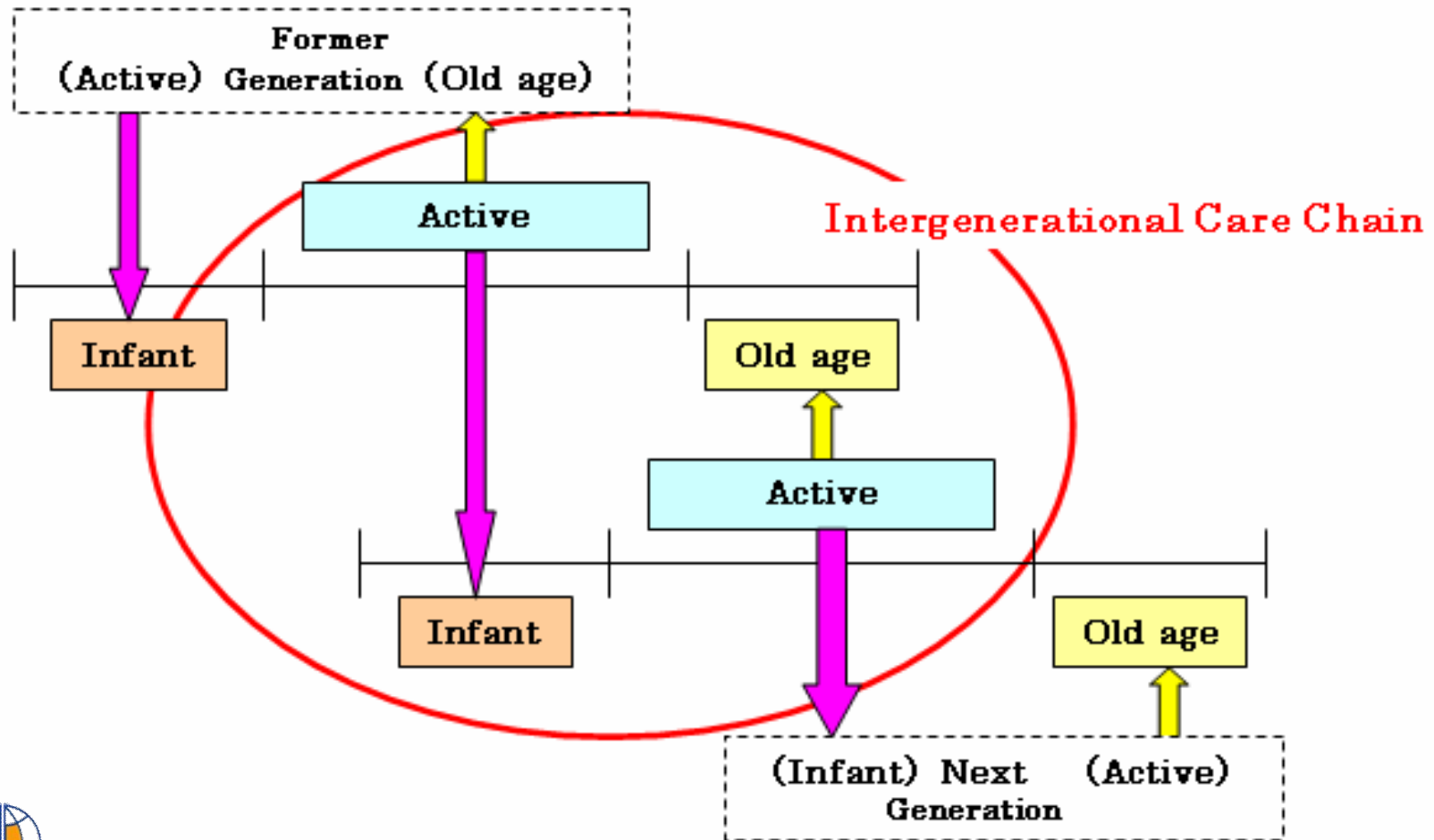


However, it is impossible for any one to support his/her infant period spending by oneself.

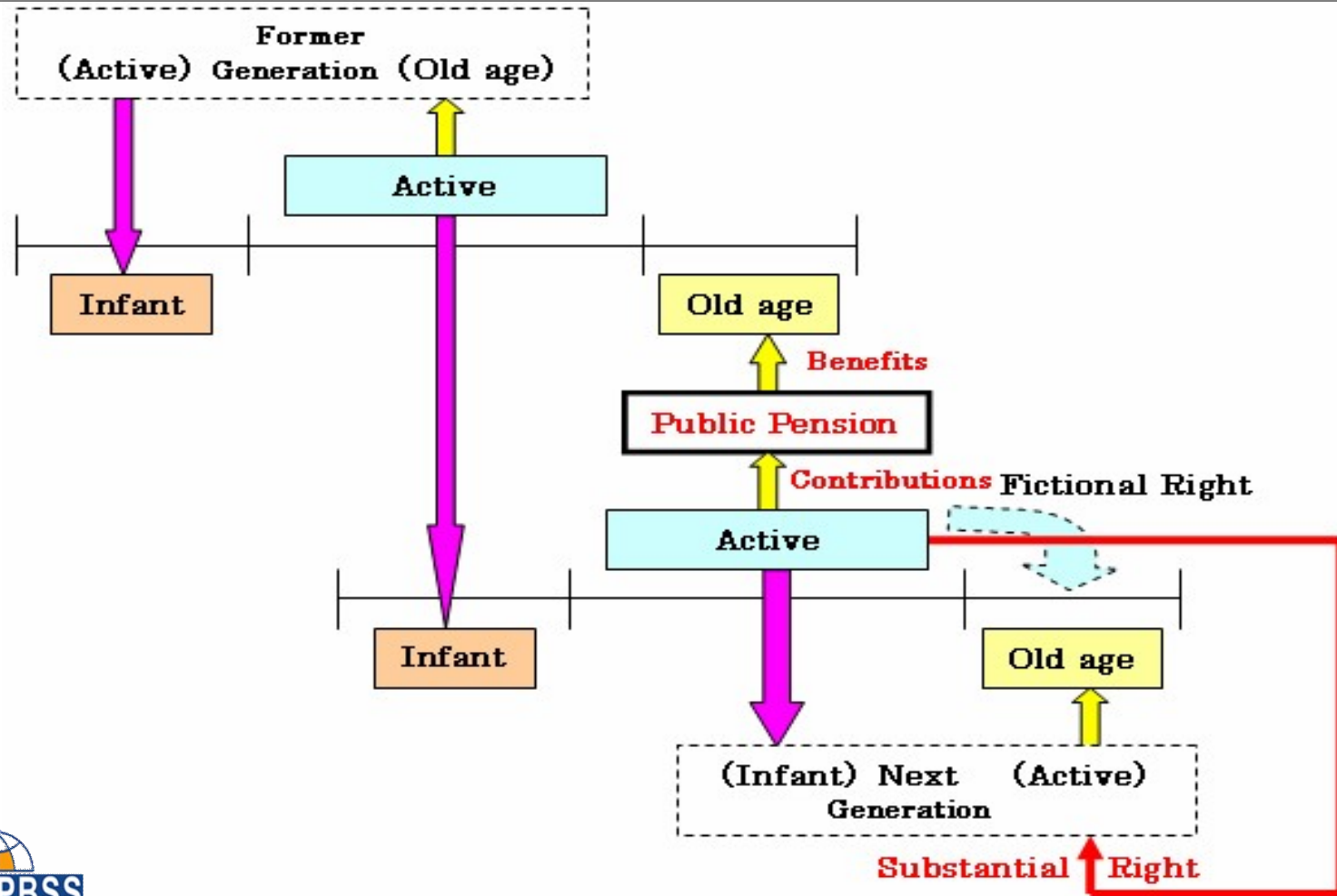
Here, there emerges the necessity of **intergenerational consideration**.



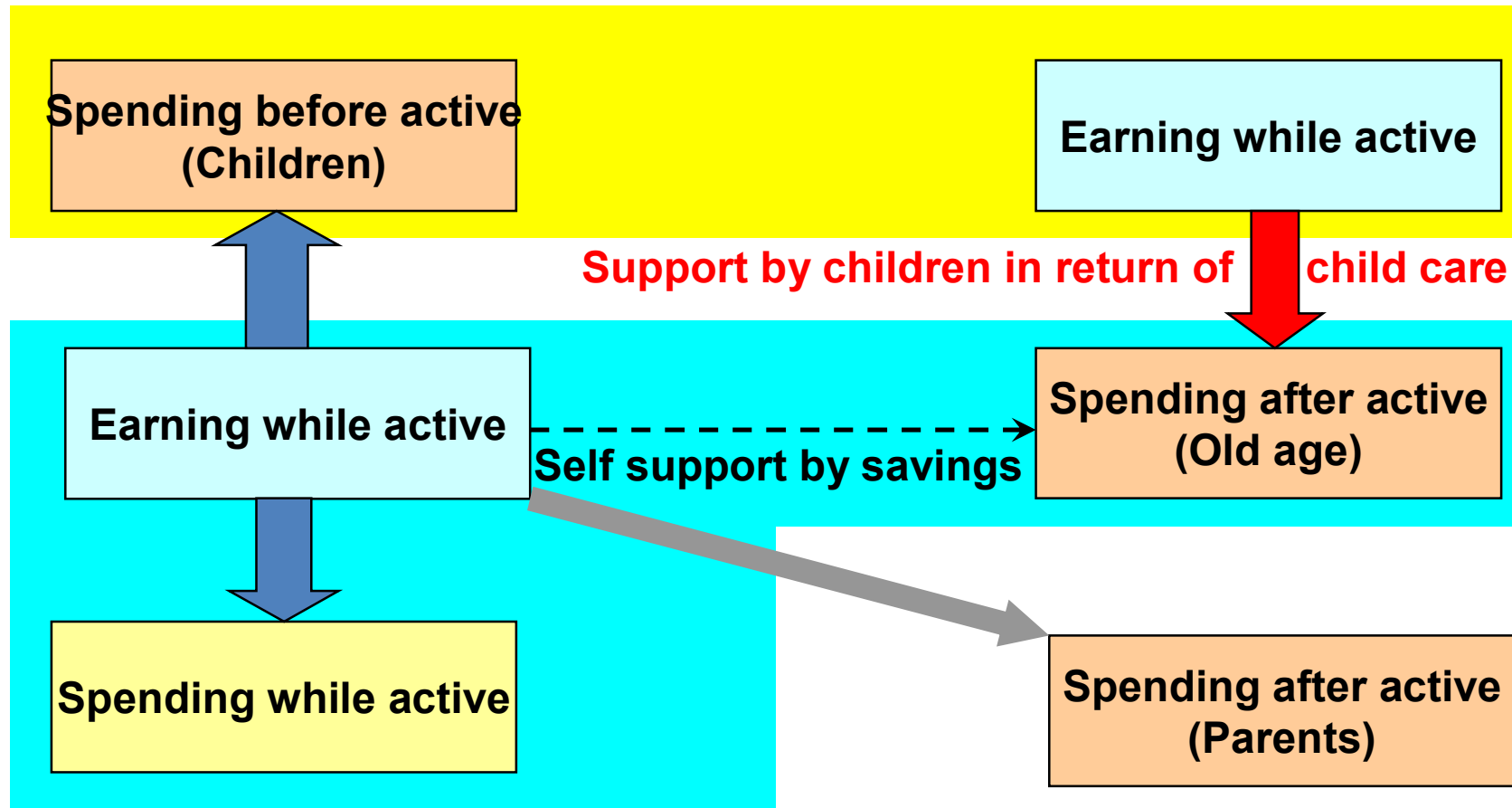
Earning distribution under Intergenerational chain



The role of public pensions for Intergenerational chain

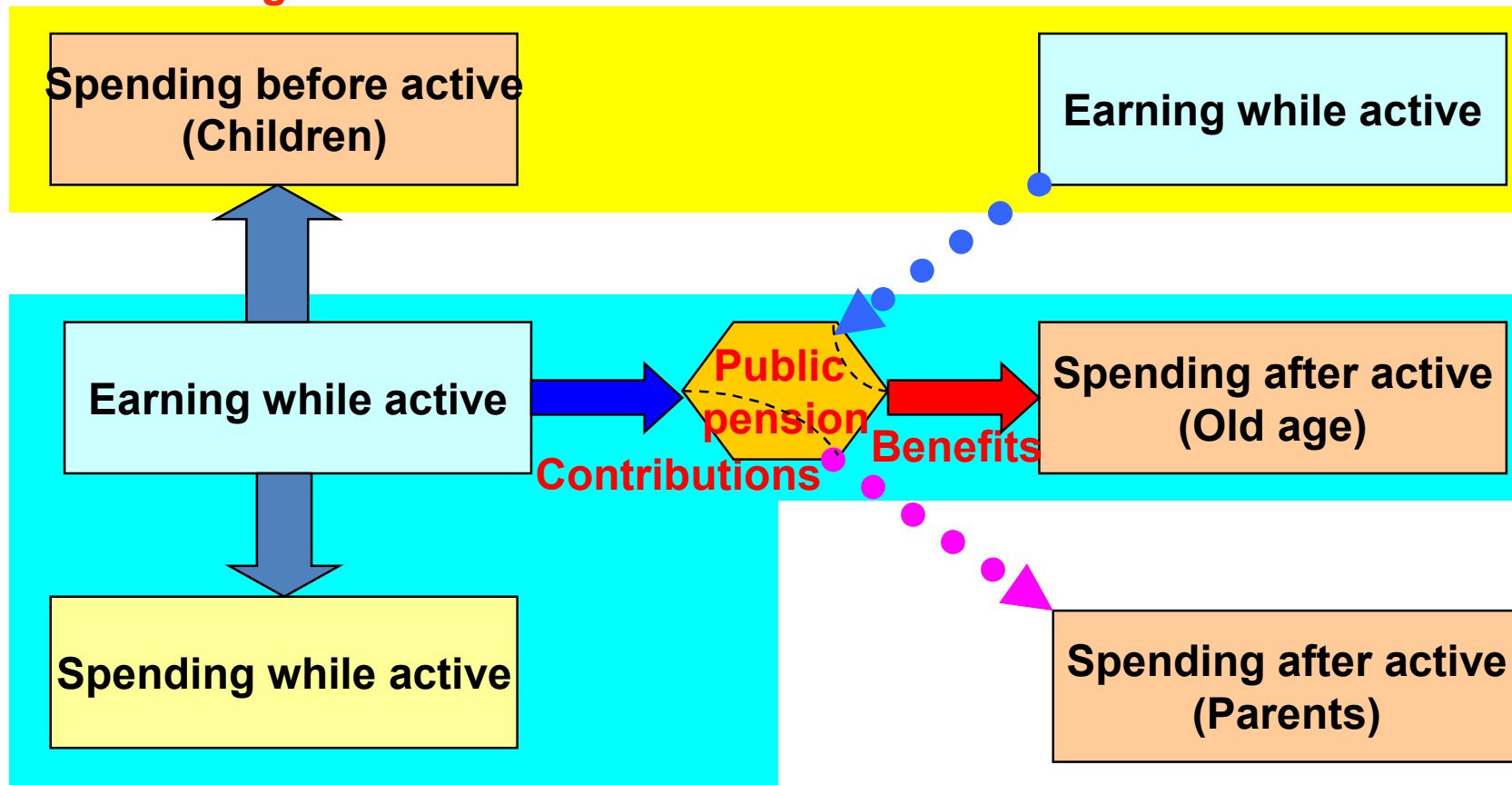


II The influence of aging on public pensions In an era of original intergenerational care chain

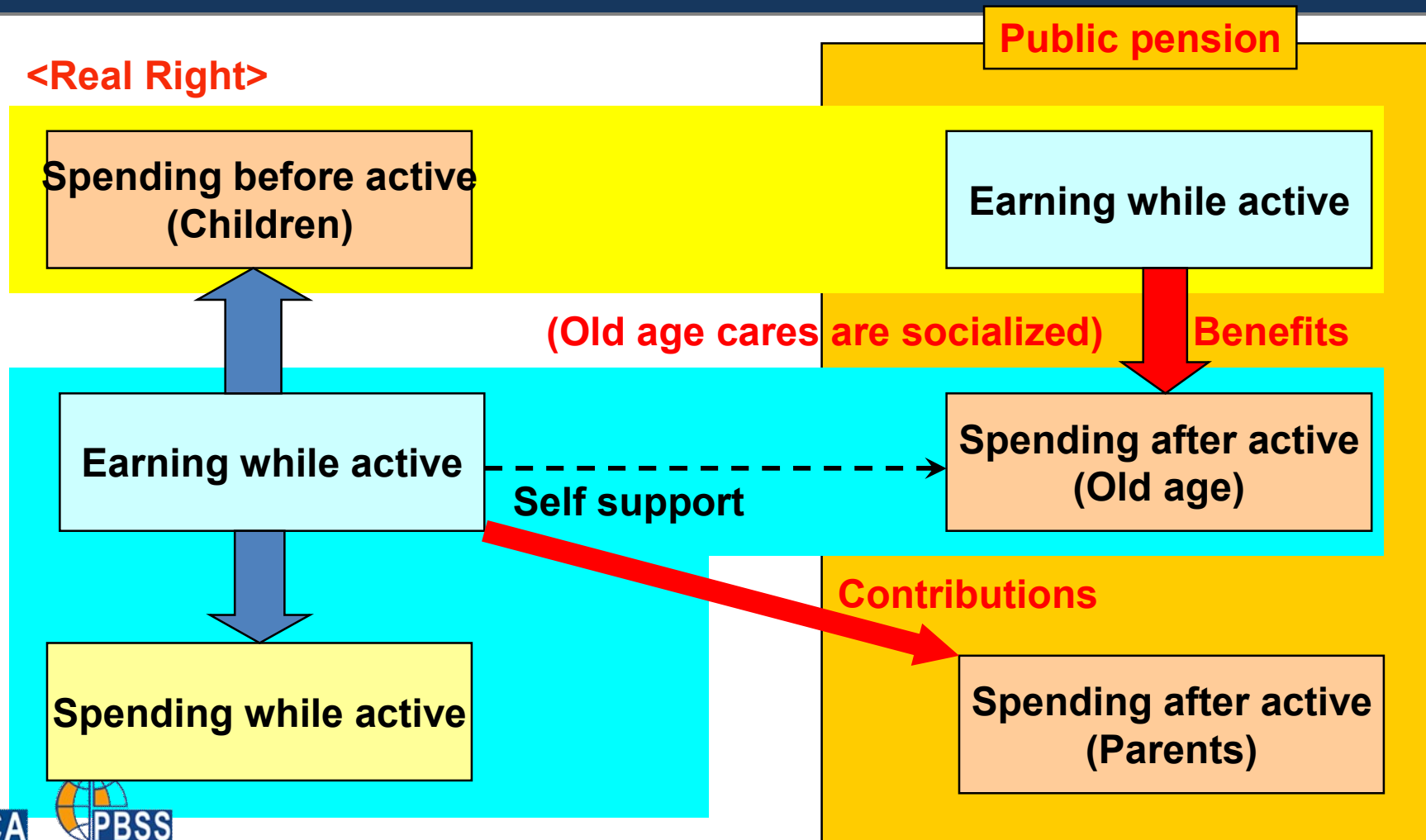


In an era after inducement of a public pension

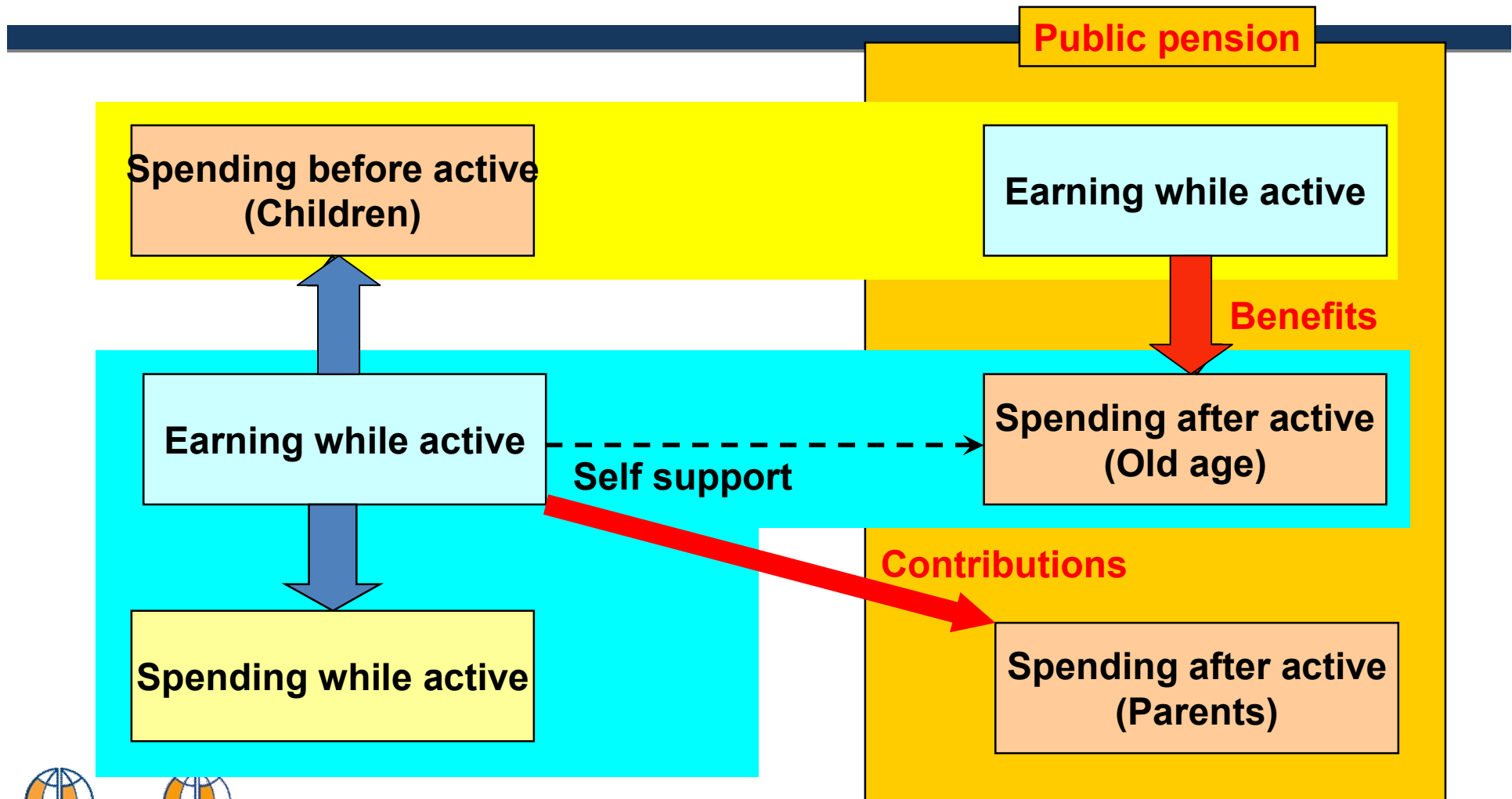
<Fictional Right>



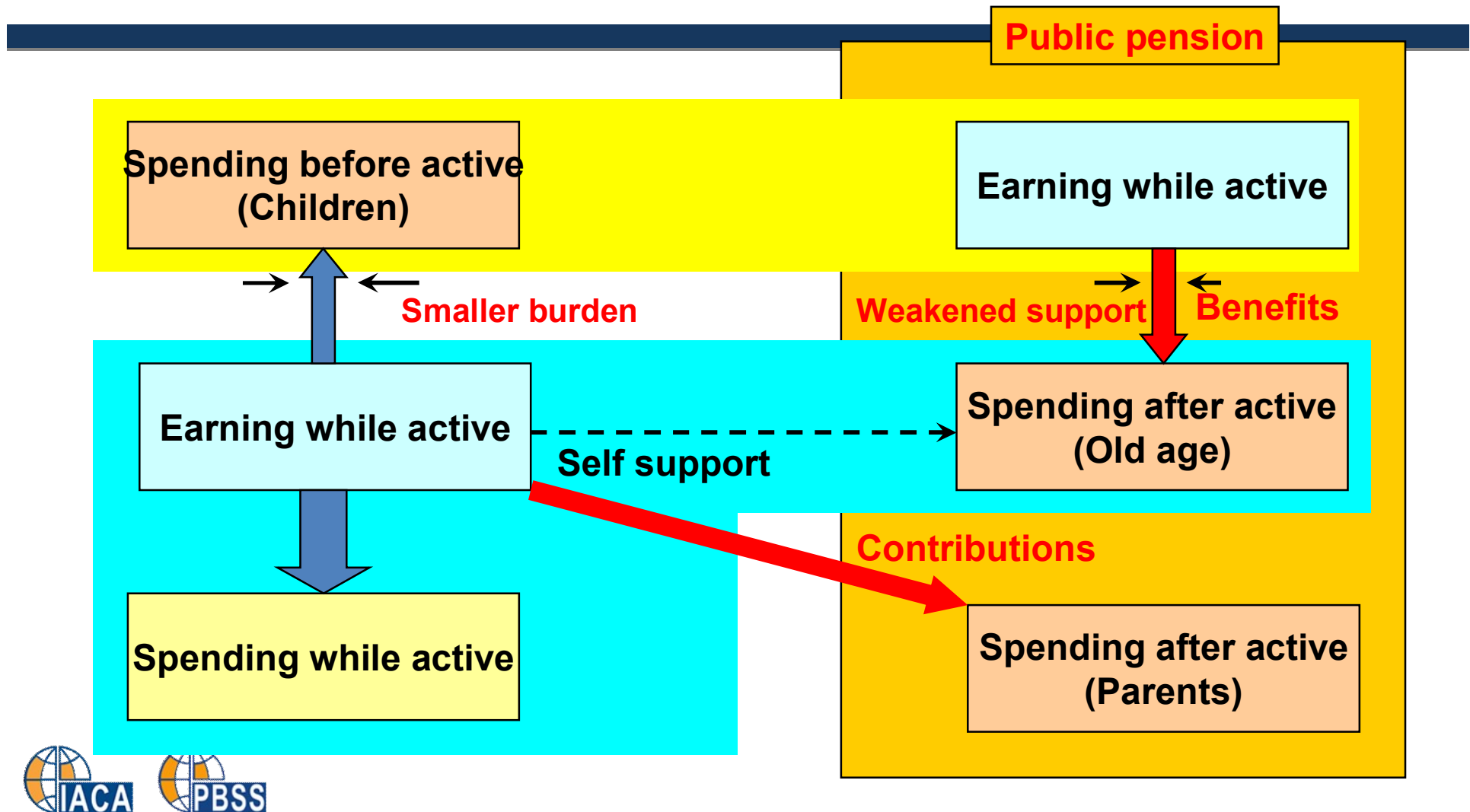
In an era after inducement of a public pension



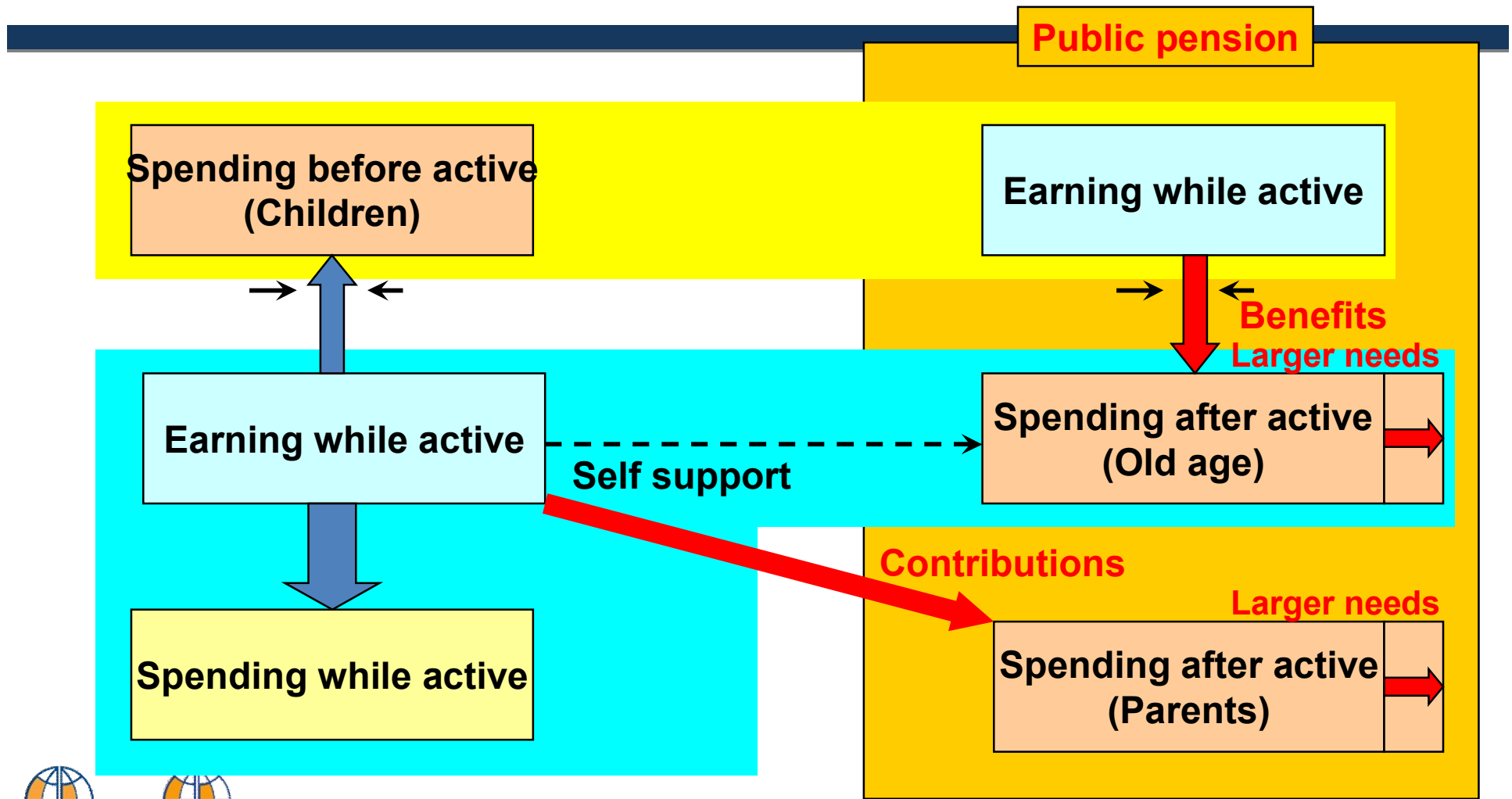
Influence of 'Fewer children' for public pensions



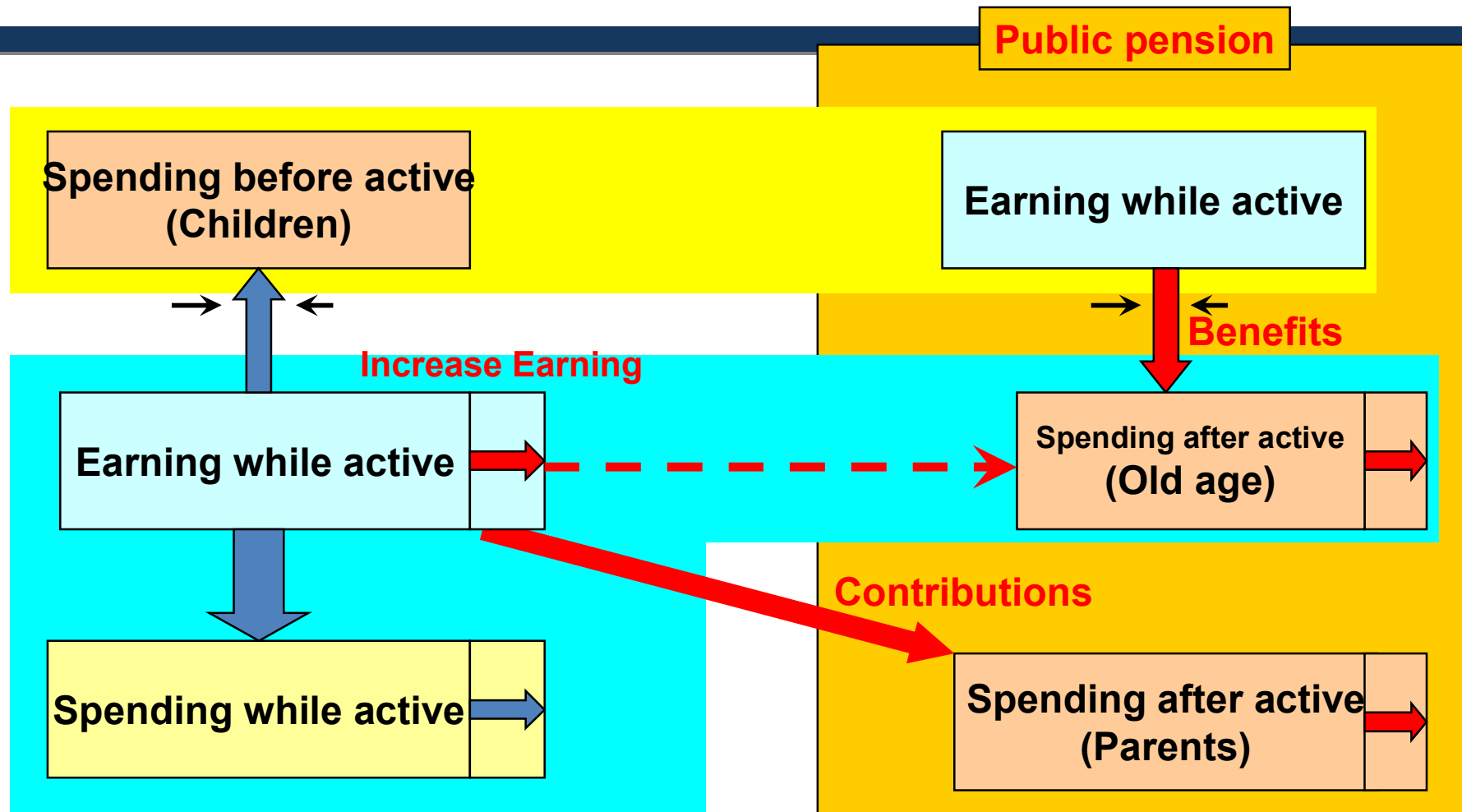
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Influence of 'Longer life expectancy' for public pensions

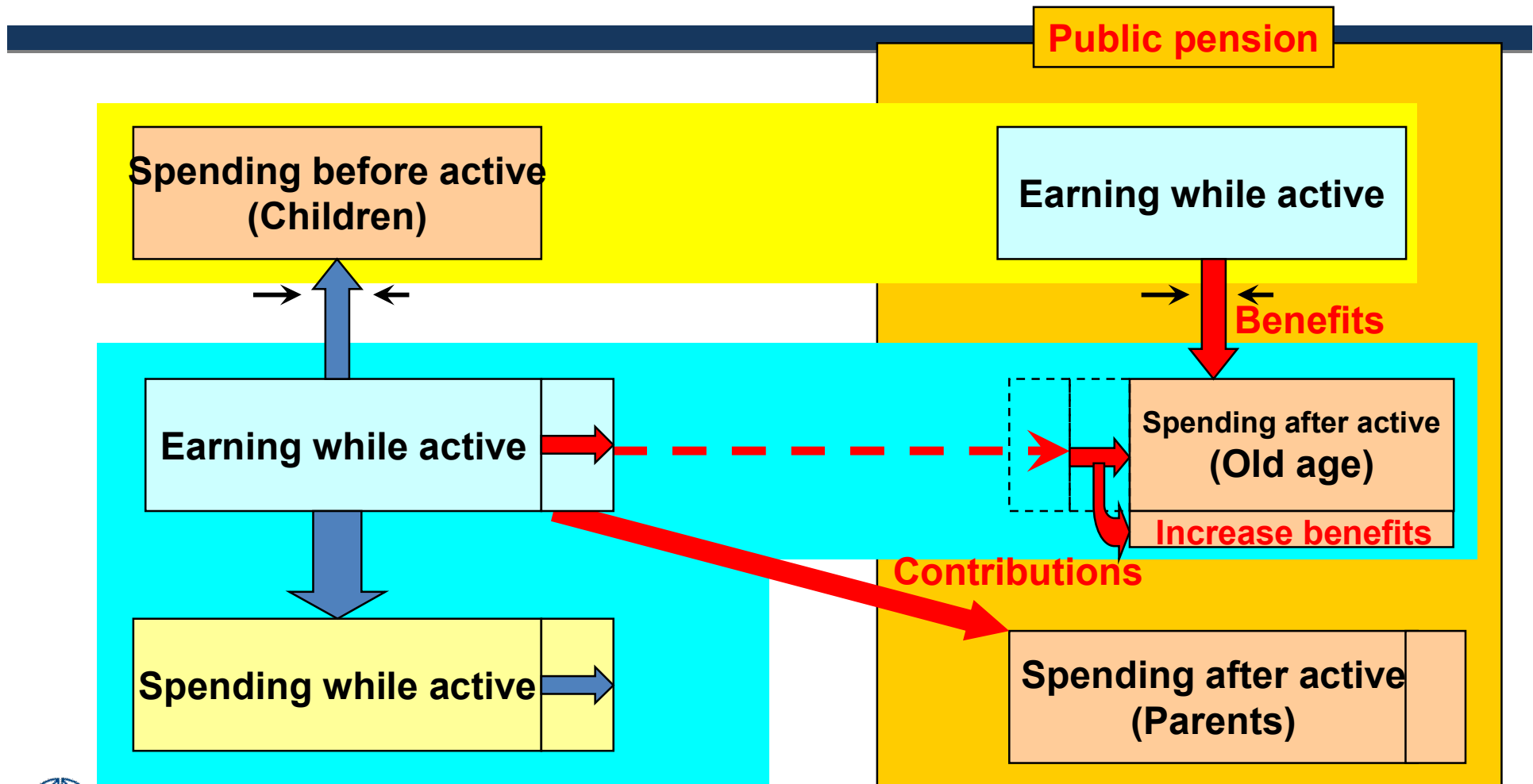


Adjustment of public pensions against aging



Prolong active period (working longer) is the key solution

The effect of (voluntary) raising pensionable age

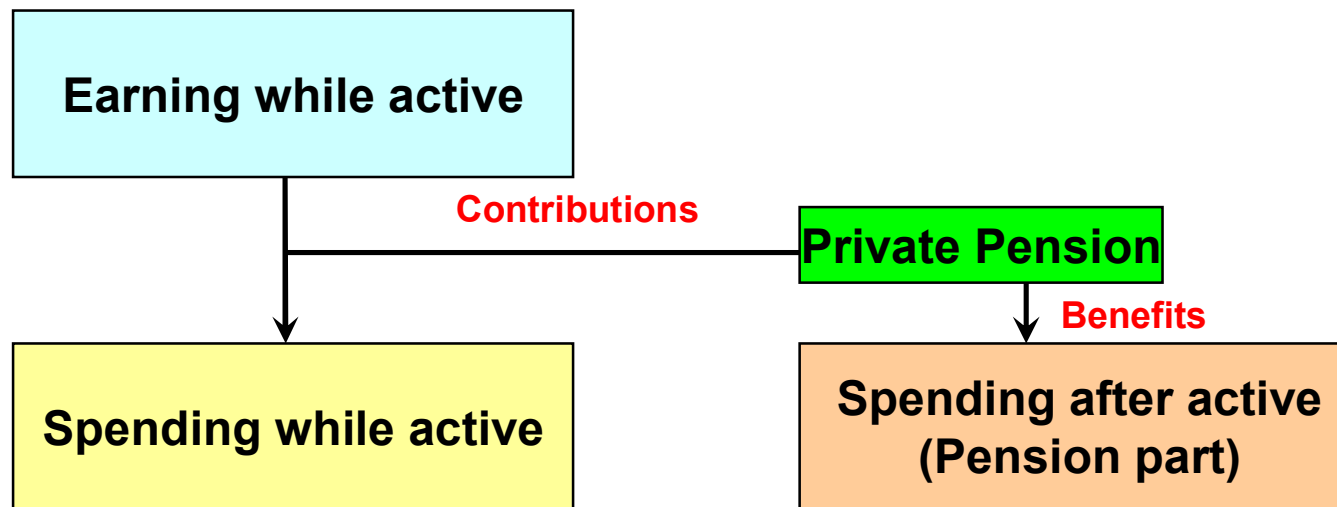


In addition, (voluntary) raising pensionable age is more desirable

III The influence of aging on private pensions

The role/function of private pensions

On the other hand, private pensions are the instrument that part of earning will be distributed to old age (after retirement).



Therefore, private pensions should be understood as a kind of savings, although they may have some function of insurance among the segment of people (participants).



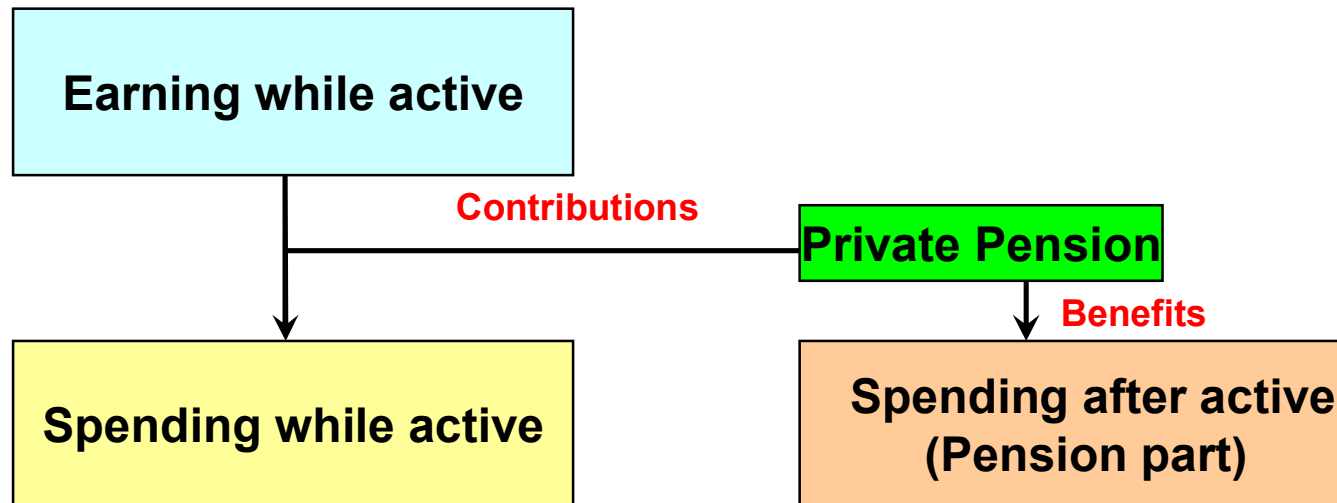
The category of private pensions

Category	While active	After retirement
Lump-sum	Designated benefit	(Realized return)
Traditional DB	Designated benefit	Guaranteed return
Cash Balance like	Designated benefit	Variable interests
Cash Balance	Variable interests	Variable interests
Pure DC	Realized return	Realized return



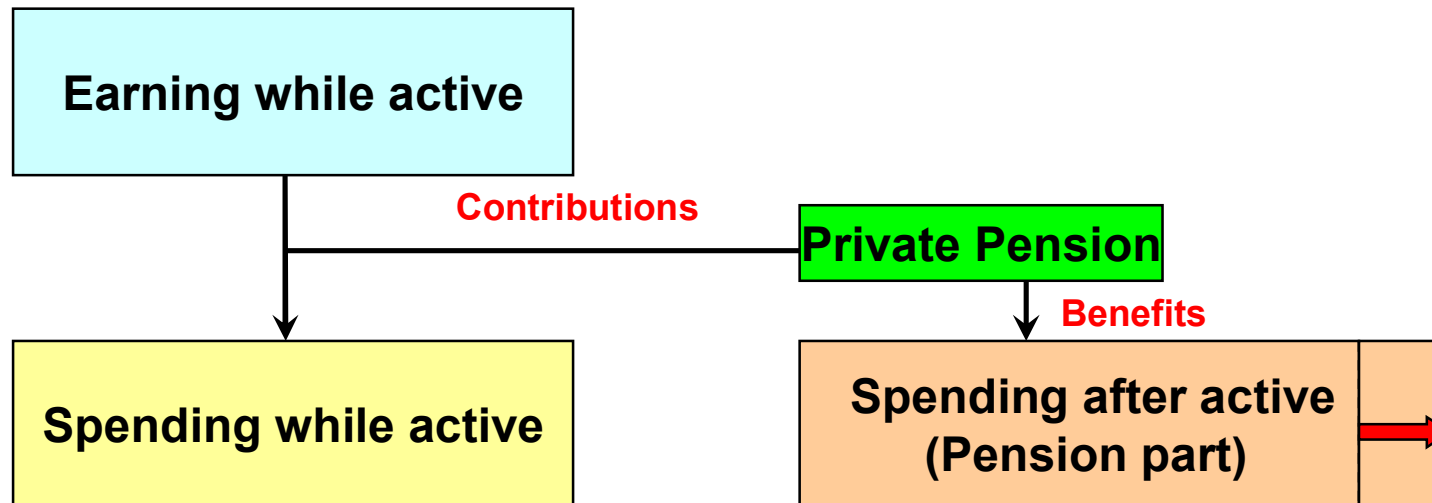
Influence of aging for private pensions

Fewer children would not directly affect to private pensions.
Longer life expectancy would affect to them immediately by **the increase of spending after retirement.**



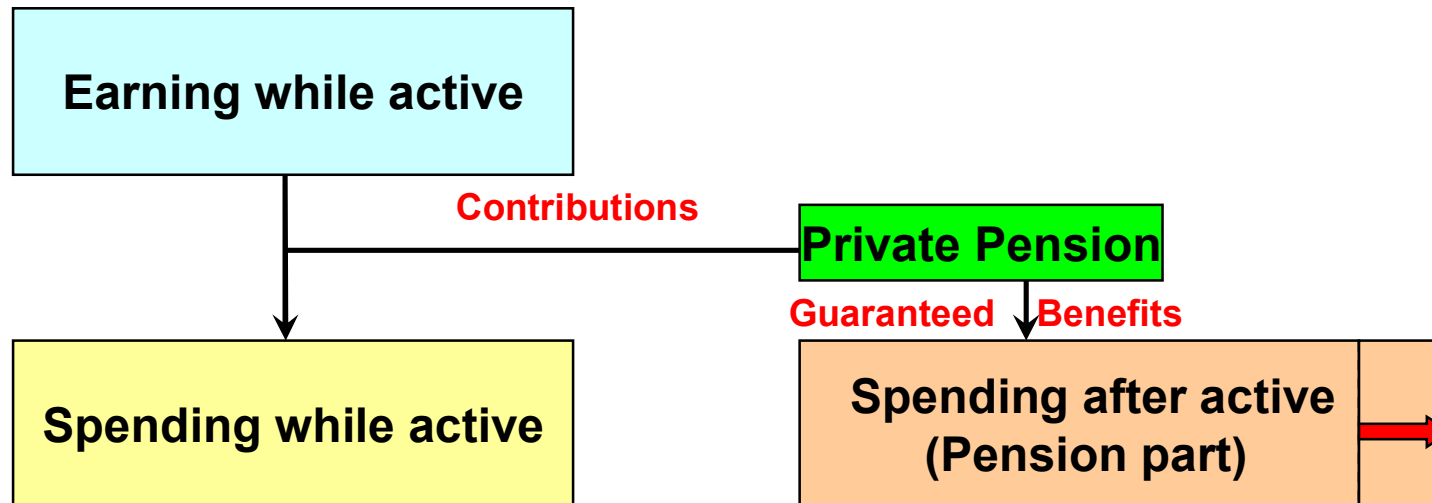
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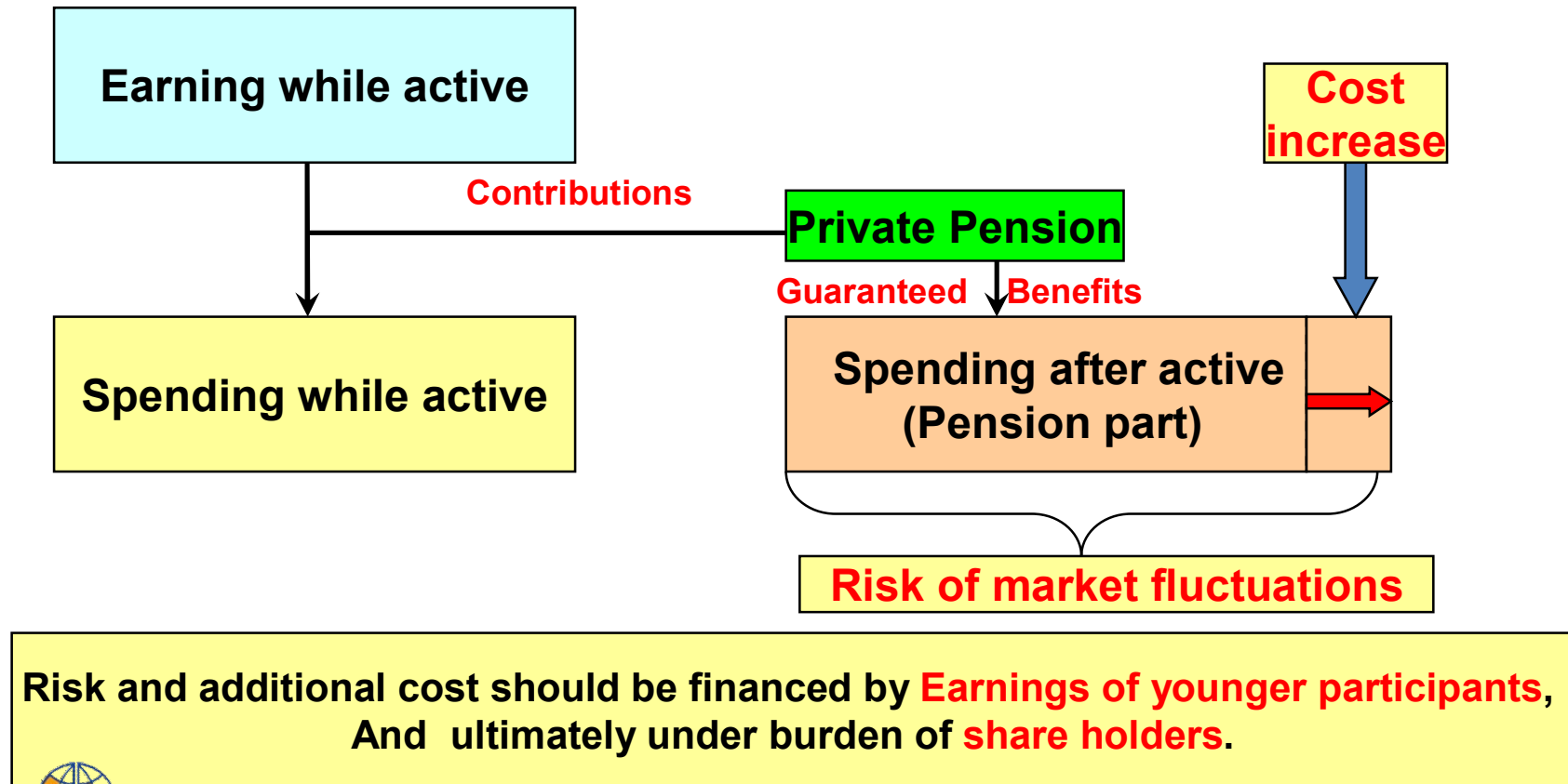
Influence of longer life expectancy for Traditional DB plans

Traditional DB lacks flexibility for aging (longer life expectancy).



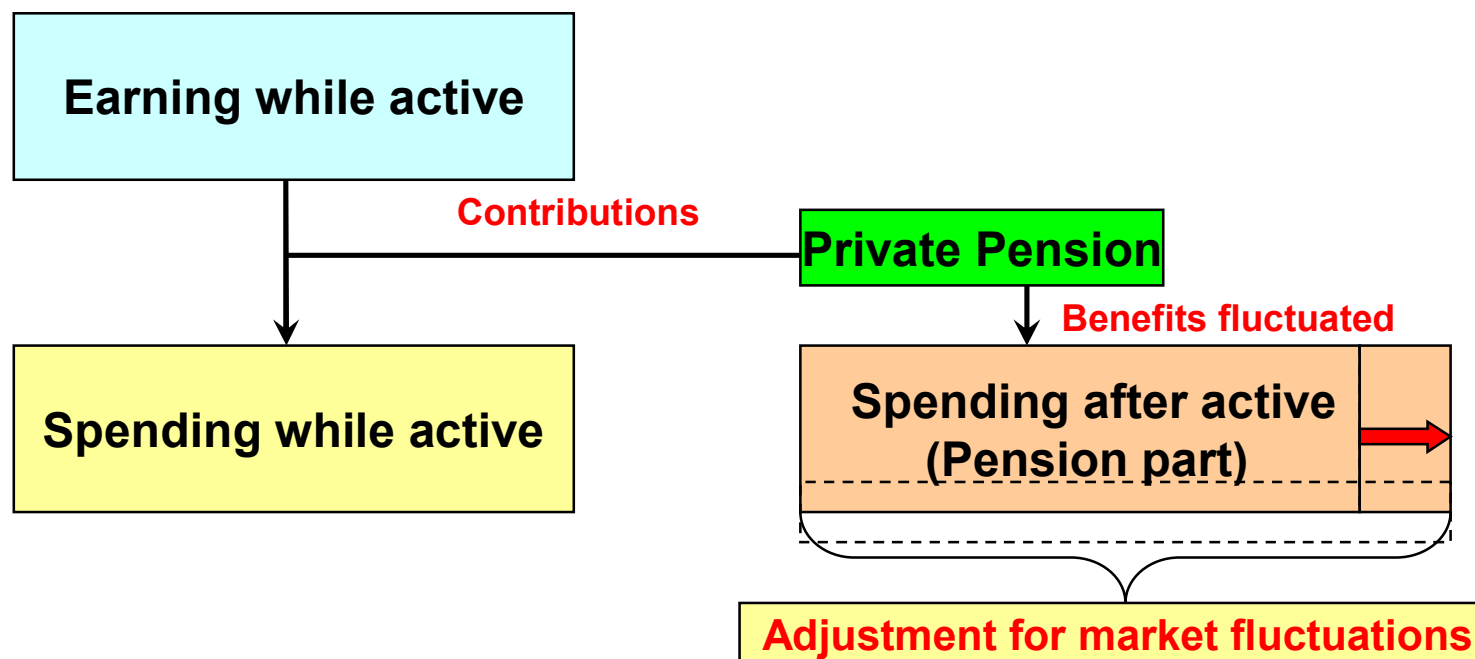
Influence of longer life expectancy for Traditional DB plans

Traditional DB lacks flexibility for aging (longer life expectancy).



Influence of longer life expectancy for pure DC plans

Pure DC abandons the guarantee of benefits, and is **irrelevant for aging**.

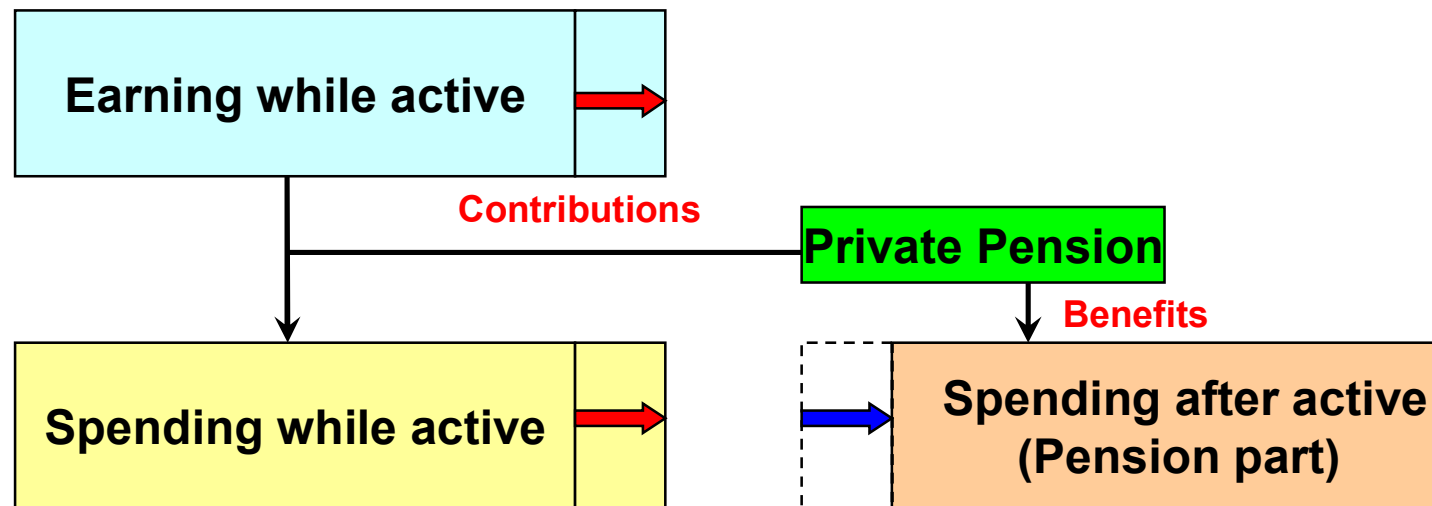


Risk should be financed on the shoulder of **beneficiaries**, that would lead to **unstable old age living**.

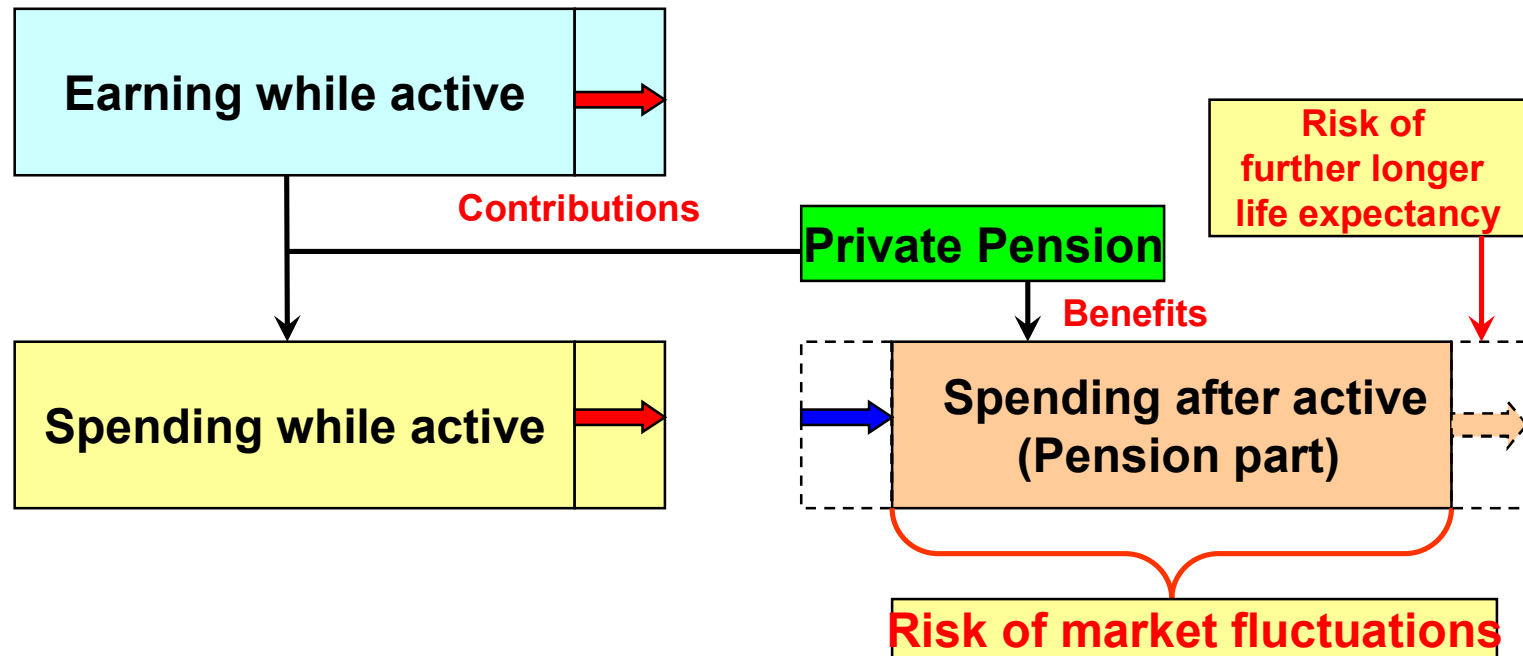


Effective adjustment for private pensions against aging

Here again, **working longer is the effective adjustment** against aging.



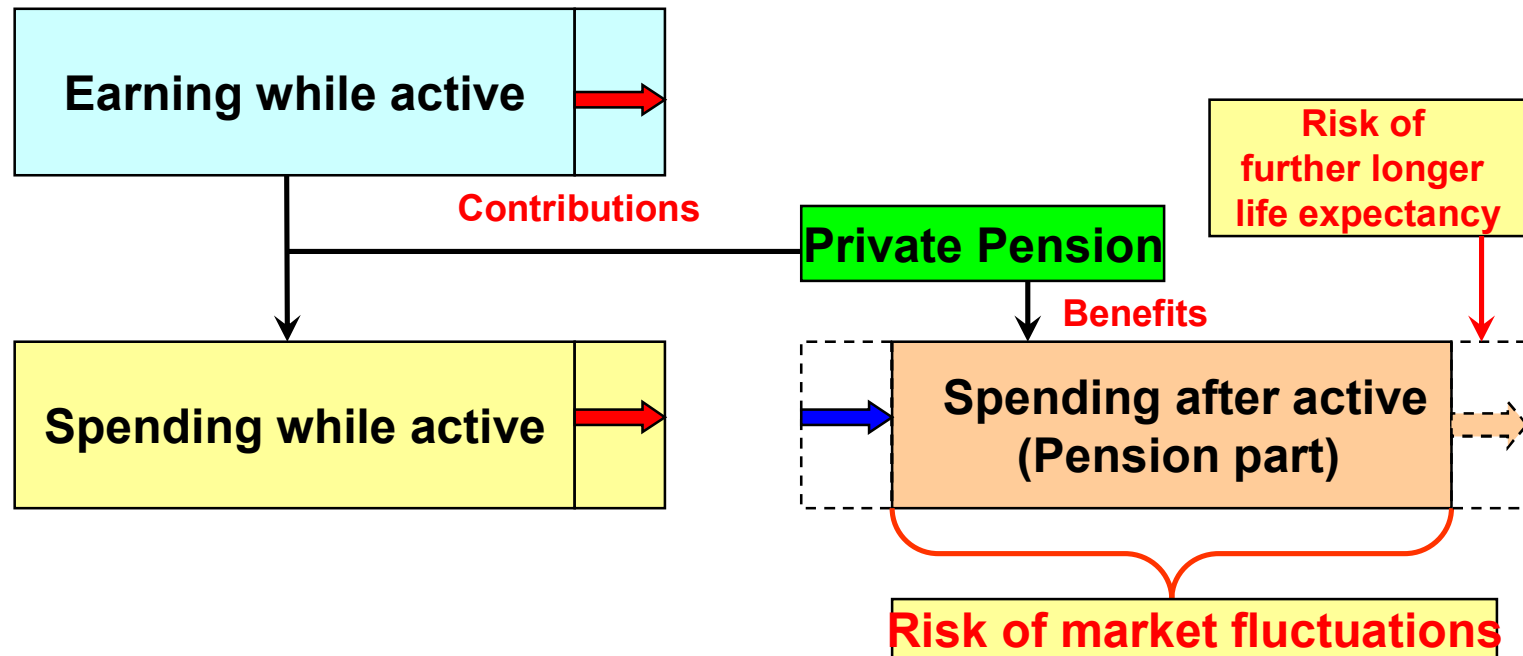
Remained critical risk for Traditional DB plans



However in **traditional DB** plans, there remains the **risk of market fluctuations** that may be critical under unforeseeable market situation. Furthermore, there remains the **risk of future aging**.



Remained critical risk for Traditional DB plans



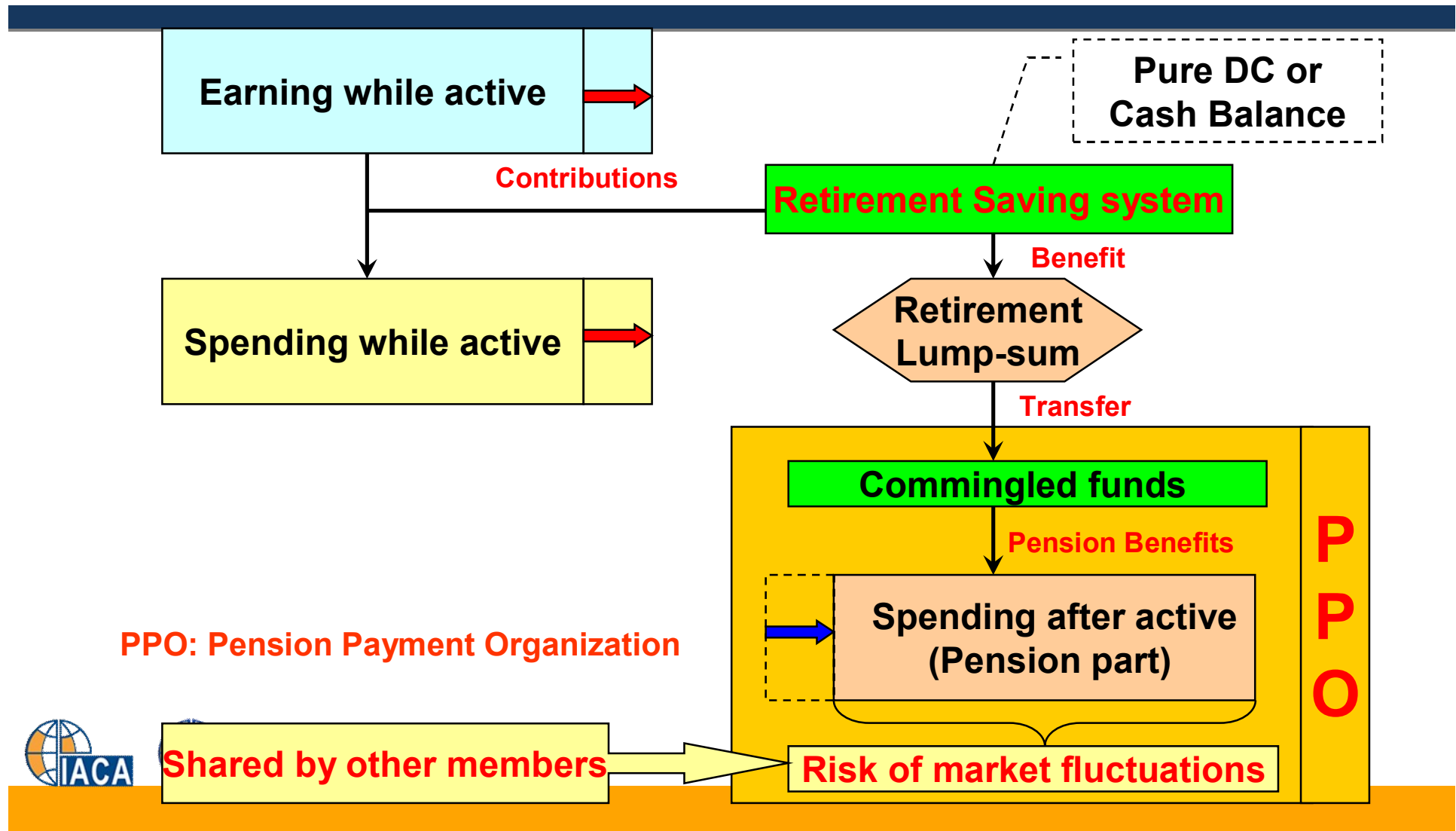
However in **traditional DB** plans, there remains the **risk of market fluctuations** that may be critical under unforeseeable market situation. Furthermore, there remains the **risk of future aging**.

End of pensions provided by employers

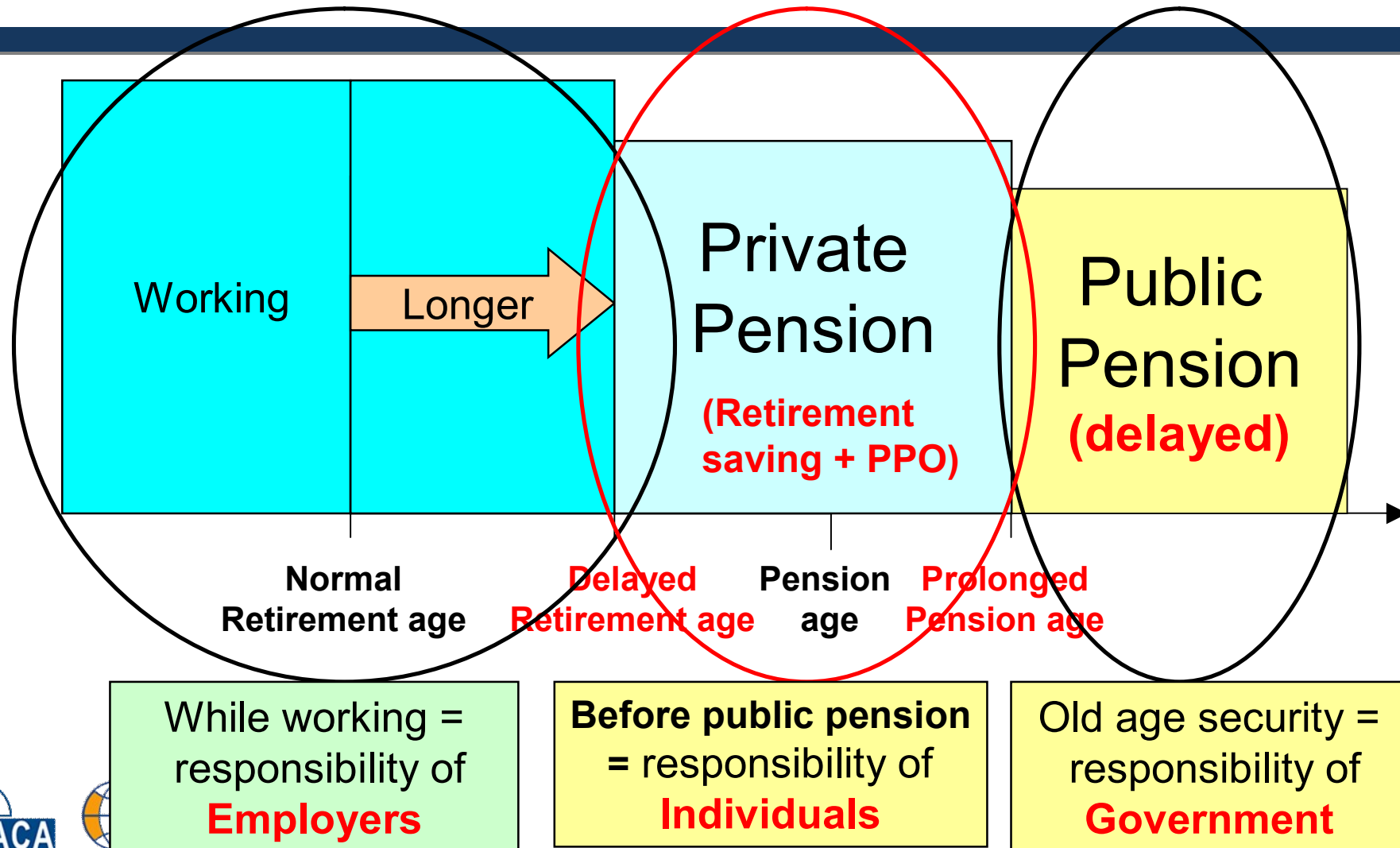


IV Desirable adjustment of pensions under aging societies

Desirable adjustment for private pensions



Desirable burden sharing under aging societies



Conclusions

Public pensions should be understood as a part of **Intergenerational Care chain**. The influence of aging on private pensions is somewhat different from that on public pensions, although **working longer** is effective treatment for both of them.

There has been the trend that DB plans had changed to DC plans. The reason is that employers face **difficulty to persuade young employees and share holders** about undertaking risk to providing pension benefits for retired former employees under aging and volatile market situation.

The system of private pensions should be reviewed. One possible way is the **combination of retirement savings and the Pension Payment Organization** as a group insurance of transferred lump-sum to change into pension benefits.

It is important to make clear the **burden sharing** by dividing 3 phases.

Employers: responsibility to provide their employees **working opportunity**

Individuals: responsibility to support themselves by using **retirement savings**

Government: responsibility to provide people **old-age income security**



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