Necessary adjustment of pensions under aging societies

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1974 Graduated from Kyoto University (Mathematics)
1974-2004 Sumitomo Trust & Banking CO LTD
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2004-2013 Nissan Motor CO LTD
   Expert Leader of Global Pension Management
1999 Doctor’s degree from Tama University
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   (“Pension system”, Faculty of Economics)
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I  The philosophy of public pensions

Characteristics of (pure) public pension plans

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage</td>
<td>Everyone in a country</td>
</tr>
<tr>
<td>Enforcement</td>
<td>Compulsory</td>
</tr>
<tr>
<td>Management</td>
<td>By a government (a governmental agency)</td>
</tr>
</tbody>
</table>

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.
There are some who insist that public pensions should be managed by a funding method. Their concept seems to be as follows:

- **Earning while active**
- **Spending while active**
- **Spending after active** (Old age, after retirement)
Misunderstanding for public pensions

There are some who insist that public pensions should be managed by a funding method. There concept seems to be as follows:

- **Earning while active**
- **Spending before active (Infant/immature period)**
- **Spending while active**
- **Spending after active (Old age, after retirement)**

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

Therefore, their concept should be changed as follows.

Earning while active

Spending before active (Infant/immature period)

Spending while active

Spending after active (Old age, after retirement)
Necessity of Intergenerational consideration

Therefore, their concept should be changed as follows.

**Impossible**

Spending before active (Infant/immature period)  
Spending while active  
Spending after active (Old age, after retirement)

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

Intergenerational Care Chain
The role of public pensions for Intergenerational chain
The influence of aging on public pensions
In an era of original intergenerational care chain

- Spending before active (Children)
- Earning while active
  - Support by children in return of child care
  - Self support by savings
- Spending while active
- Spending after active (Old age)
- Spending after active (Parents)
In an era after inducement of a public pension

<p>&lt;Fictional Right&gt;</p>
In an era after inducement of a public pension

- Spending before active (Children)
- Earning while active
- Spending while active
- Earning while active
- Contributions
- Spending after active (Old age)
- Spending after active (Parents)
- Benefits
- Public pension

<Real Right>

(Old age cares are socialized) Self support
Influence of ‘Fewer children’ for public pensions

- Spending before active (Children)
- Earning while active
- Spending while active
- Earning while active
- Spending after active (Old age)
- Spending after active (Parents)

Benefits: Self support
Contributions: Public pension
Influence of ‘Fewer children’ for public pensions

- Spending before active (Children)
- Earning while active
- Spending while active
- Earning while active
- Spending after active (Old age)
- Spending after active (Parents)

Relations:
- Smaller burden
- Weakened support
- Benefits
- Self support
- Contributions

PBSS/IACA Colloquium Cancun 2017
Influence of ‘Longer life expectancy’ for public pensions

- Spending before active (Children)
- Earning while active
- Spending while active
- Earning while active
- Spending after active (Old age)
- Spending after active (Parents)
- Contributions
- Benefits
- Larger needs

Self support
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.
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

<table>
<thead>
<tr>
<th>Category</th>
<th>While active</th>
<th>After retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lump-sum</td>
<td>Designated benefit</td>
<td>(Realized return )</td>
</tr>
<tr>
<td>Traditional DB</td>
<td>Designated benefit</td>
<td>Guaranteed return</td>
</tr>
<tr>
<td>Cash Balance like</td>
<td>Designated benefit</td>
<td>Variable interests</td>
</tr>
<tr>
<td>Cash Balance</td>
<td>Variable interests</td>
<td>Variable interests</td>
</tr>
<tr>
<td>Pure DC</td>
<td>Realized return</td>
<td>Realized return</td>
</tr>
</tbody>
</table>
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.
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.

![Diagram showing the flow from earning while active, contributions, private pension, spending while active, and spending after active (Pension part).]
Influence of longer life expectancy for Traditional DB plans

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

- Earning while active
- Contributions
- Private Pension
- Guaranteed Benefits
- Spending while active
- Spending after active (Pension part)
Influence of longer life expectancy for Traditional DB plans

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

- **Earning while active**
- **Spending while active**
- **Spending after active (Pension part)**

**Private Pension**

- **Cost increase**
- **Guaranteed Benefits**
- **Risk of market fluctuations**

**Risk and additional cost should be financed by Earnings of younger participants, And ultimately under burden of share holders.**
Influence of longer life expectancy for pure DC plans

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

- Earning while active
- Contributions
- Private Pension
- Benefits fluctuated
- Spending after active (Pension part)
- Adjustment for market fluctuations

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.
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.
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.
Desirable adjustment of pensions under aging societies
Desirable adjustment for private pensions

Earning while active

Contributions

Spending while active

Retirement Saving system

Retirement Lump-sum

Commingled funds

Pension Benefits

Spending after active (Pension part)

Risk of market fluctuations

Shared by other members

PPO: Pension Payment Organization

Pure DC or Cash Balance

Retirement

Benefit

Transfer

PPO: Pension Payment Organization
Desirable burden sharing under aging societies

- Normal Retirement age
- While working = responsibility of Employers
- Before public pension = responsibility of Individuals
- Old age security = responsibility of Government

- Longer
- Private Pension
  - (Retirement saving + PPO)
  - Delayed Retirement age
  - Prolonged Pension age

- Public Pension (delayed)
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 private 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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THANK YOU FOR YOUR ATTENTION!