GLOBAL OVERVIEW OF SOCIAL SECURITY AND PRIVATE PENSION SYSTEMS

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PENSION POLICY OBJECTIVES

- adequate incomes in retirement
- social cohesion/social protection
- redistribution
- encouraging personal savings
- generating investment
- economic policy
THE FOUR PILLARS
(4 tiers)

• social security / social insurance
• complementary schemes
• personal savings
• income from continued employment
SOCIAL INSURANCE ALTERNATIVES

• targeted assistance
• guaranteed minimum income
• universal flat-rate pension
• contributory flat-rate pension
• flat-rate + earnings-related
• fully earnings related
COMPLEMENTARY SCHEMES

• associated with economic activity
• funded or pay-as-you-go
• voluntary or mandatory
• open or restricted
• contributory or non-contributory
• pension and/or lump sum
• benefits for different contingencies
FUNDING METHODS

- pay-as-you-go
- partial funding
- termination funding
- full funding
- funding with loan backs
- book reserves
SECURITY APPROACHES

• inter-generational solidarity
• externalised assets
• employer insolvency insurance
• credit insurance
• guarantee funds
• audit and actuarial monitoring
• regulation
SOCIAL SECURITY IN THE EU
EARNINGS-RELATED BENEFITS

Defined benefit
- Austria
- Belgium
- France
- Germany
- Greece
- Portugal
- Spain

Defined contribution
- Italy
- Sweden
SOCIAL SECURITY IN THE EU
FLAT-RATE BENEFITS

Just flat-rate benefits
• Denmark
• Ireland
• Netherlands
• Finland

Flat-rate & earnings-related
• Luxembourg
• United Kingdom
PENSION AS % OF FINAL PAY
retiring on national average earnings
TOTAL PERIOD FERTILITY RATES, 1960-2010
AVERAGE ACHIEVED FAMILY SIZE FOR UK COHORTS BORN 1945-1975
DEPENDENCY RATIOS, 1970-2030
(nos. 65 & over per 1000 aged 15-64)
## CONTRIBUTION GAP (IMF)

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PENSION REFORM TYPOLOGY

• contribution adjustment and reform
• benefit adjustment and reform
• structural reform
• reform of retirement age and structures
• new approaches to financing
• development of complementary pension funds
MANDATORY COMPLEMENTARY PLANS

- Finland
- Switzerland
- Denmark
- Poland
- Hungary

- Chile
- Argentina
- Mexico
- Australia
DEFINED CONTRIBUTION PLANS

- easier to implement
- expose members to investment risk
- important to address issues of
  - solvency
  - expense levels
  - appropriate investment profile
  - guarantees
  - annuitisation
- maintenance of real value
SOME DC ALTERNATIVES

• Central Provident Fund (Singapore)
• AFPs (Chile)
• Award Superannuation (Australia)
• 401K (USA)
• mandatory second pillar (Poland/Hungary)
• mandatory savings supplement (Sweden)
• Mandatory Provident Fund (Hong Kong)
• stakeholder pensions (UK)
ANNUITISATION

• should lump sum withdrawals be permitted?
• compulsory annuitisation? complete freedom?
• …or programmed withdrawal?
• concentration of longevity risk
• problems of investment risk
• need for suitable investments to immunise
• selection issues
SWEDEN - RECENT REFORMS

- notional defined contribution approach
- revalorisation of individual accounts
- automatic regulator (balancing ratio)
- responsive to improving mortality
- funded mini-pillar
- industry wide complementary plans
- credit insurance to cover underfunding
SWITZERLAND

- mixed flat-rate/earnings related PAYG scheme
- mandatory occupational pensions
- minimum requirement defined contribution
- payable as annuities at 7.2% of fund
- price indexed
- defined benefit also permitted
AUSTRALIA

• Award Superannuation from 1986
• Superannuation Guarantee Levy from 1992
• Industry Funds and Master Trusts
• mandatory employer contribution of 6%
• 9% employer/3% employee from 2002/03
• administrative problems at start
• 90% of administration now with two providers
SINGAPORE

• Central Provident Fund (from 1953)
• defined contribution
• deposit account style
• high contributions (varying from time to time)
• medical expenses, education, investment
• lump sum benefit
CHILE

- compulsory contributions to AFPs
- choice of AFP
- minimum pension guaranteed by state
- underpin on annual return
- recognition bonds for previous rights
- old scheme closed to new entrants
- high levels of transaction costs
SECOND GENERATION LATIN REFORMS

- Peru (1993)
- Colombia (1994)
- Argentina (1994)
- Uruguay (1995)
- Costa Rica (1996)
- Mexico (1997)
- Bolivia (1997)
- Ecuador
- Guatemala
- Paraguay
- Nicaragua
• future contributions into AFOREs
• ongoing costs paid from budget
• reinsurance of disability and survivorship
• index-linked annuities
• protected rights from old system
• guaranteed minimum pension
• pressures on annuity markets
POLAND

- notional defined contribution
- mandatory individual accounts
- 21 pension funds to choose from
- 7.3% of income into fund
- initial charges vary from 7.9% to 11%
- management charge of 0.6% of fund
- annuity to be purchased at retirement age
CENTRAL & EASTERN EUROPE

- Hungary
- Poland
- Kazakhstan
- Latvia
- Croatia

- Lithuania
- Romania
- Slovakia
- Russia
- Bulgaria
UNITED STATES

- earnings-related social security
- concerns over long-term stability
- widespread occupational plans
- trend towards defined contribution
- popularity of 401K savings plans
- Pension Benefit Guaranty Corporation
PENSION PROVISION IN THE UK

- flat-rate basic state pension
- mandatory earnings-related pension:
  * SERPS (to become State Second Pension)
  * salary-related pension plans (COSRS)
  * money purchase pension plans (COMPS)
  * appropriate personal pensions (APPs)
  * stakeholder pensions (from April 2001)
- voluntary additional provision
- Minimum Income Guarantee
POPULATION CONTRACTED-OUT IN UK

- APPs (3.7m)
- COMPS (0.3m)
- COSRS (8.1m)
- SERPS (8.1m)
GROWTH OF OCCUPATIONAL PENSION SCHEMES IN UK

[Bar chart showing the growth of occupational pension schemes in the UK from 1953 to 1995, with data for men, women, and all categories.]
PENSIONS IN FRANCE

- mandatory complementary schemes
- industry-wide or multi-employer
- pay-as-you-go
- notional defined contribution
- system of points
- some supplementary insured plans
- difficult tax and legislative environment
PENSIONS IN GERMANY

- defined benefit (long vesting period)
- employer-sponsored
- integrated with social security
- direct promises (Direktzusagen)
- pension funds (Pensionskassen)
- support funds (Unterstützungskassen)
- direct insurance (Direktversicherung)
- Pensions-Sicherungs-Verein (PSVaG)
SOME ISSUES FOR DEBATE

• do unfunded liabilities matter?
• are the promises unaffordable?
• investment freedom or regulation?
• controls on marketing and charges?
• lump sum/annuities/programmed withdrawal
• how best to provide security for members?
• early leavers and labour market issues
• should pensions in payment be revalued?