

# **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

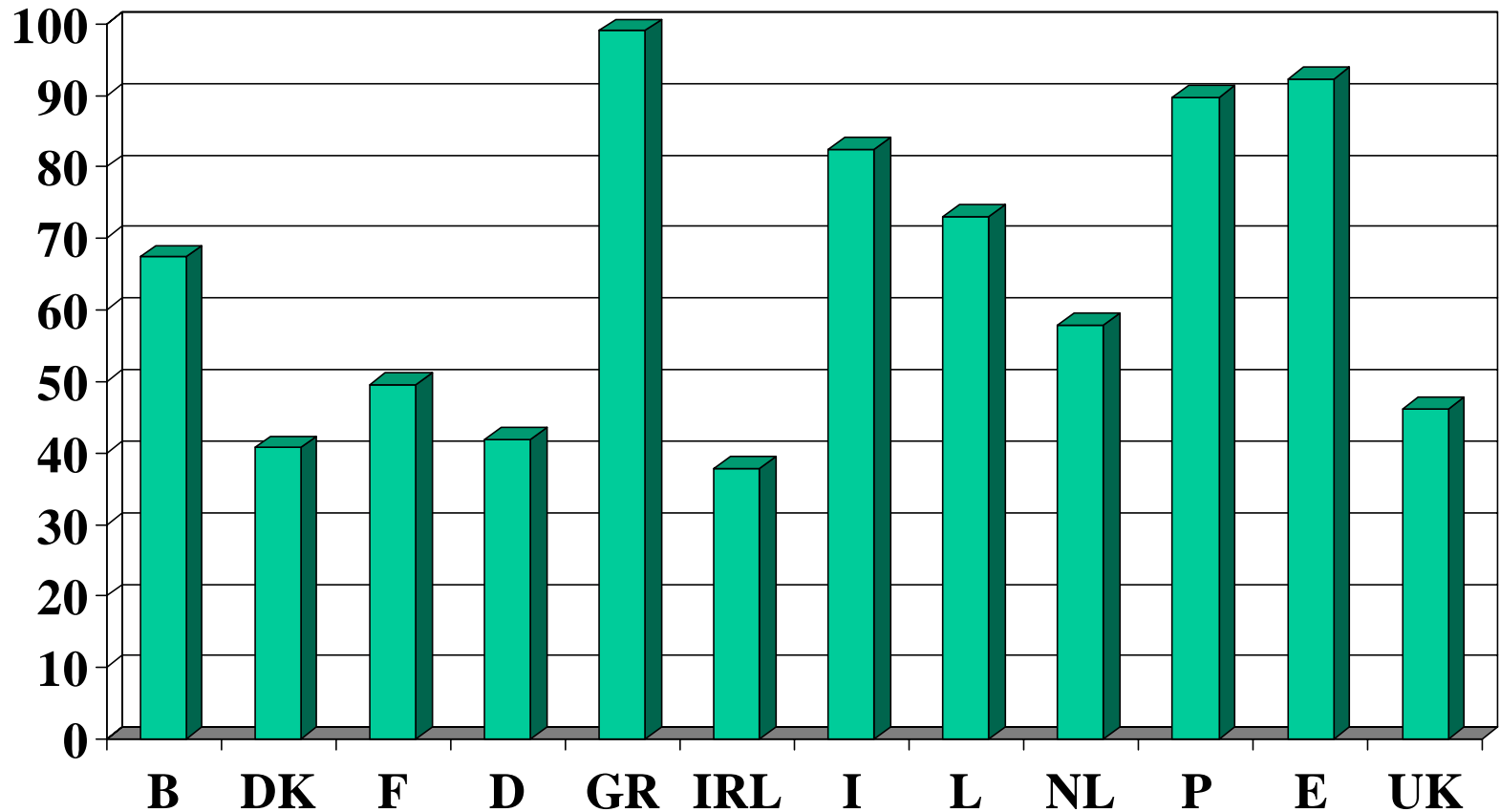
- Denmark
- Ireland
- Netherlands
- Finland

### Flat-rate & earnings-related

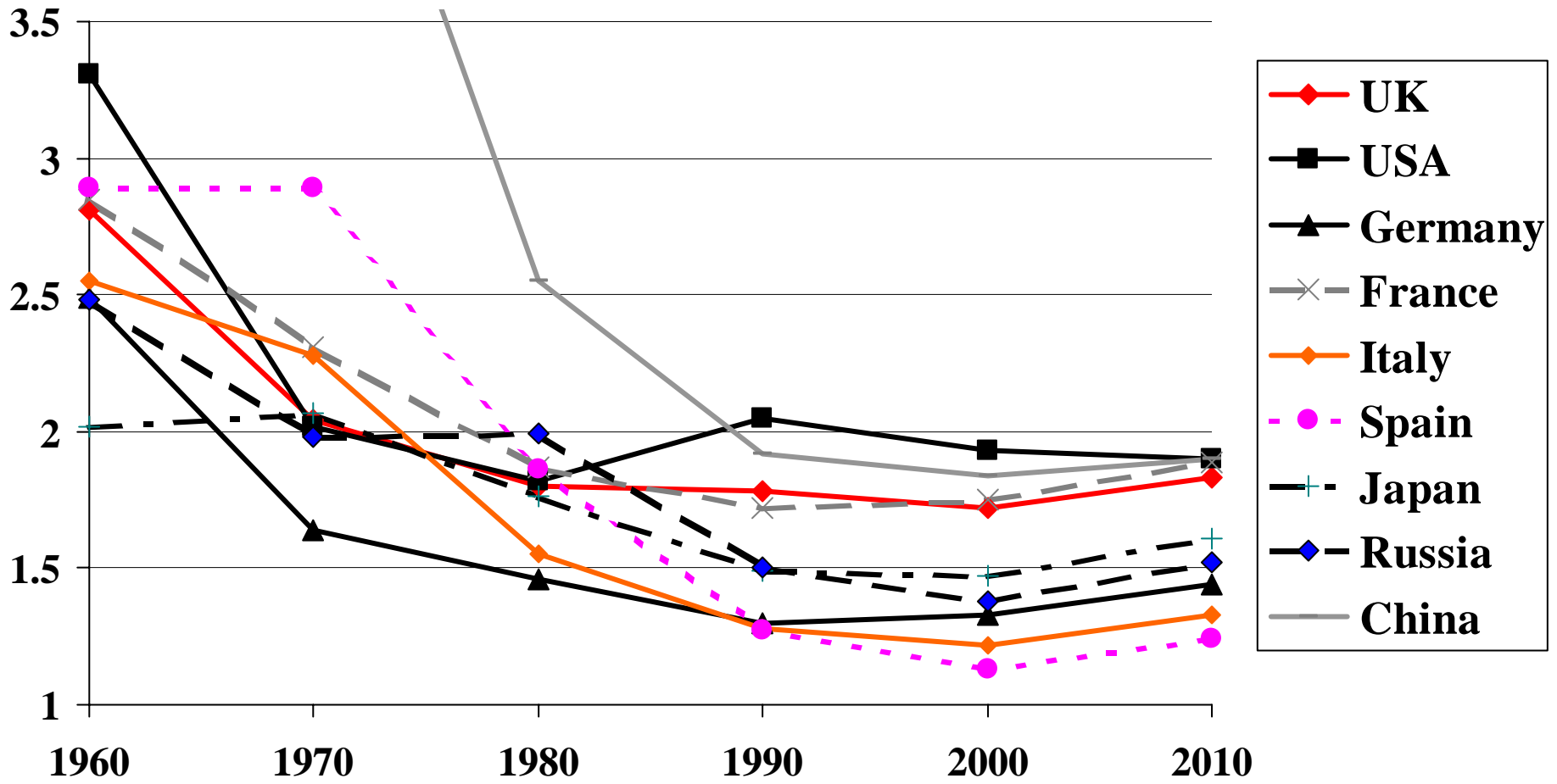
- Luxembourg
- United Kingdom

# PENSION AS % OF FINAL PAY

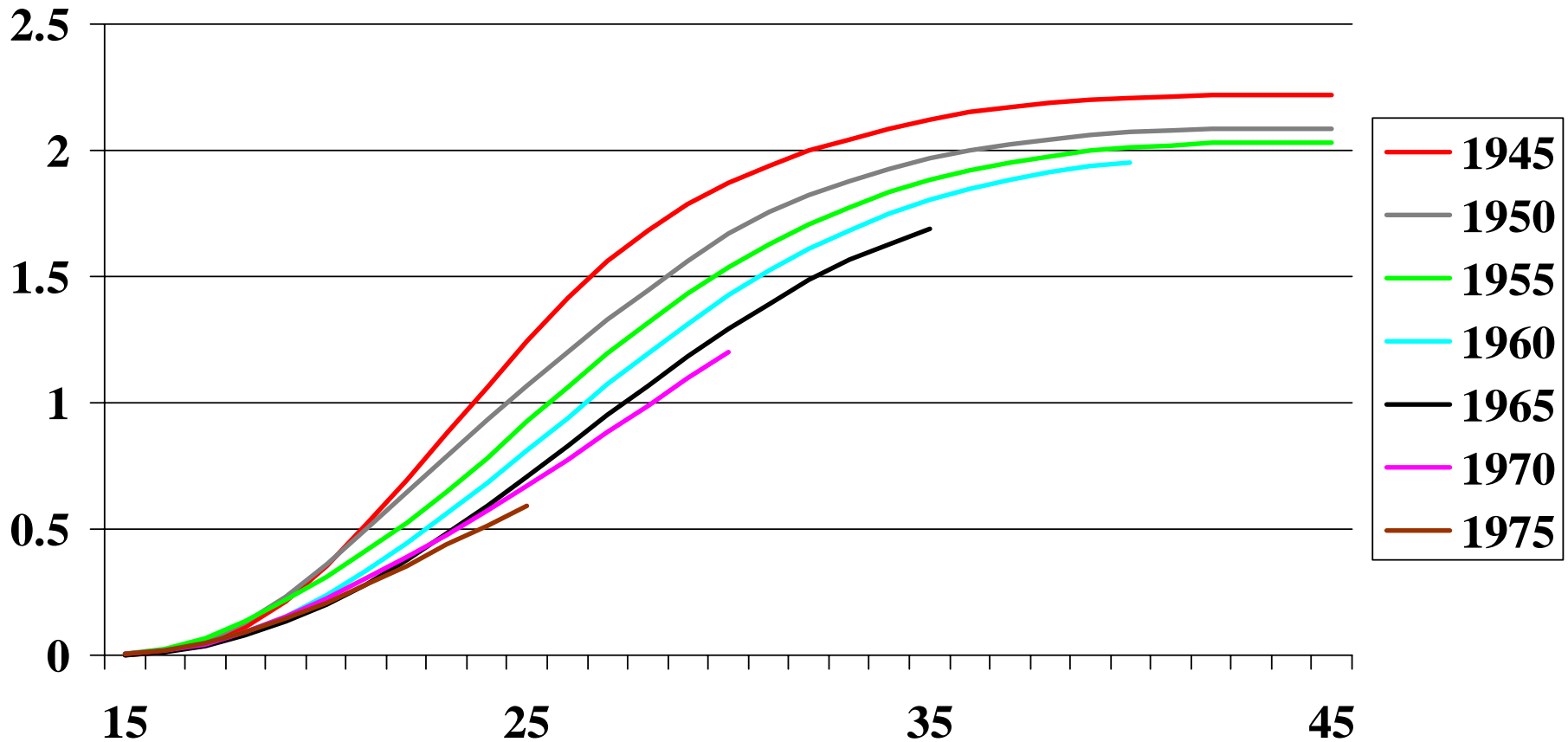
## retiring on national average earnings



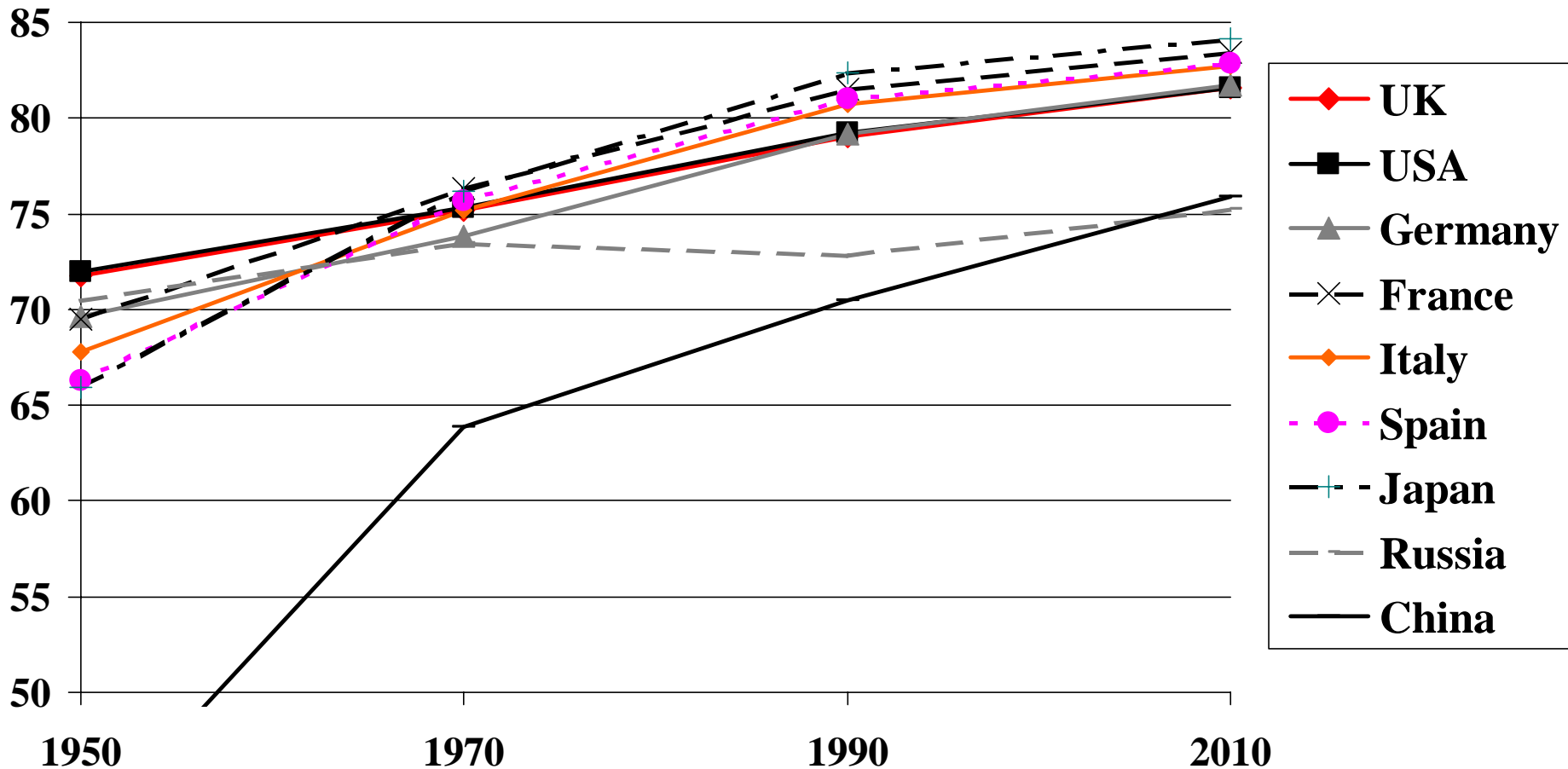
# TOTAL PERIOD FERTILITY RATES, 1960-2010



# AVERAGE ACHIEVED FAMILY SIZE FOR UK COHORTS BORN 1945-1975

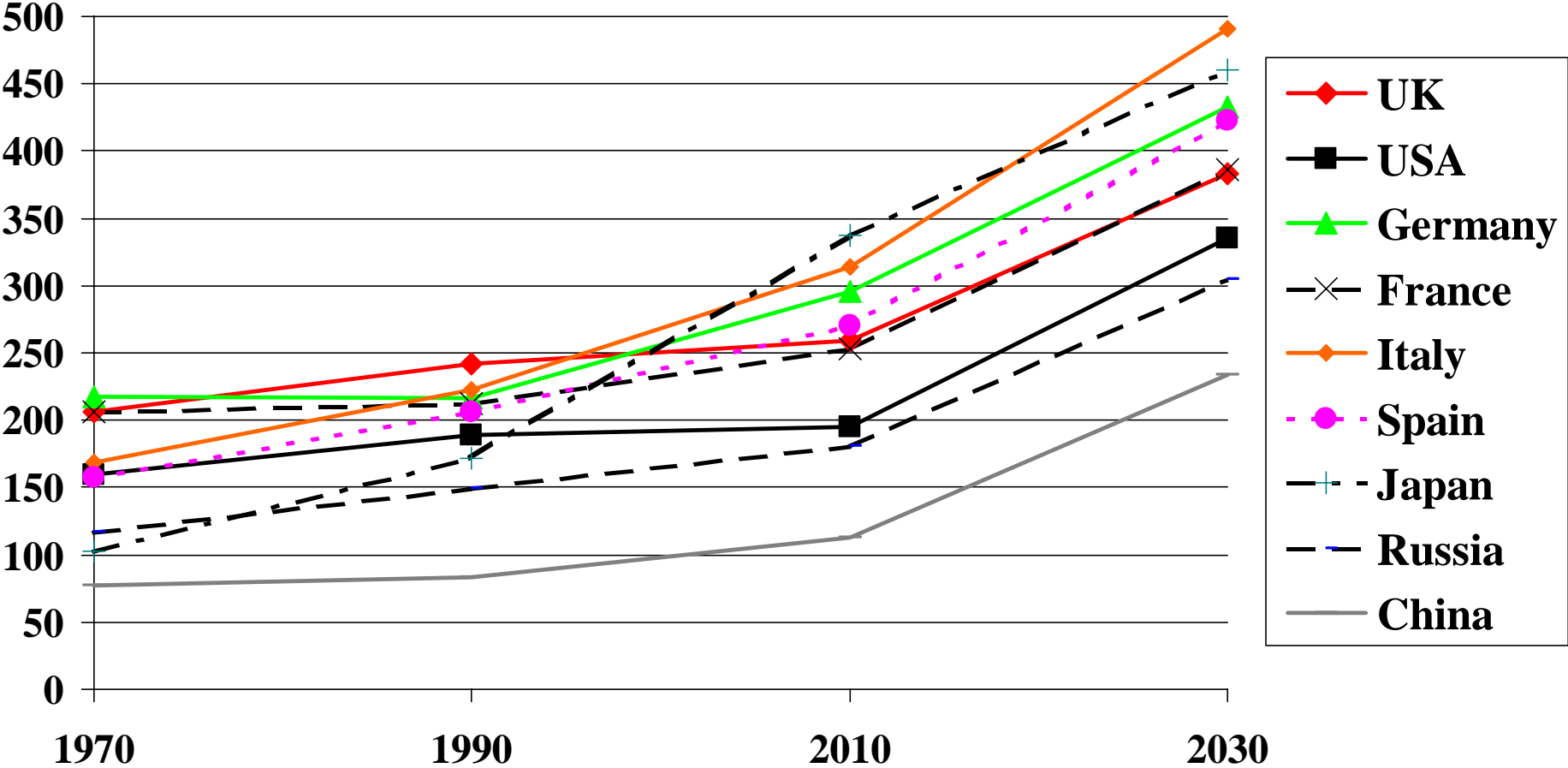


# EXPECTATION OF LIFE FOR FEMALES, 1950-2010



# DEPENDENCY RATIOS, 1970-2030

(nos. 65 & over per 1000 aged 15-64)



# CONTRIBUTION GAP (IMF)

	contributions in 1995 (% of GDP)	required 1995-2050 (% of GDP)
UK	4.2	4.3
France	12.1	15.4
Italy	16.0	18.5
Germany	10.3	13.7
Japan	3.9	7.2
USA	4.7	5.5

Reference: Chand S K and Jaeger A (1996) Occasional Paper No 147, IMF

# 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)
- El Salvador (1998)
- Ecuador
- Guatemala
- Paraguay
- Nicaragua

# MEXICO

- 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

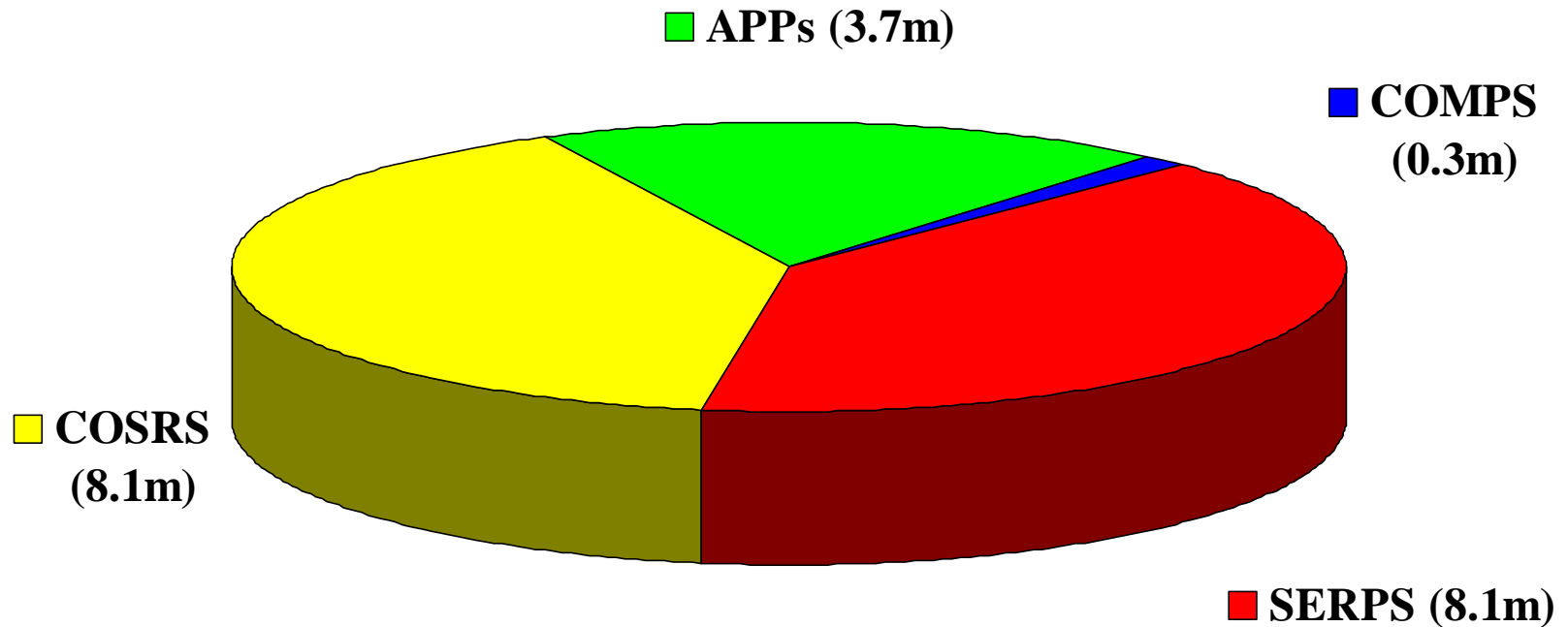
# UNITED STATES

- 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

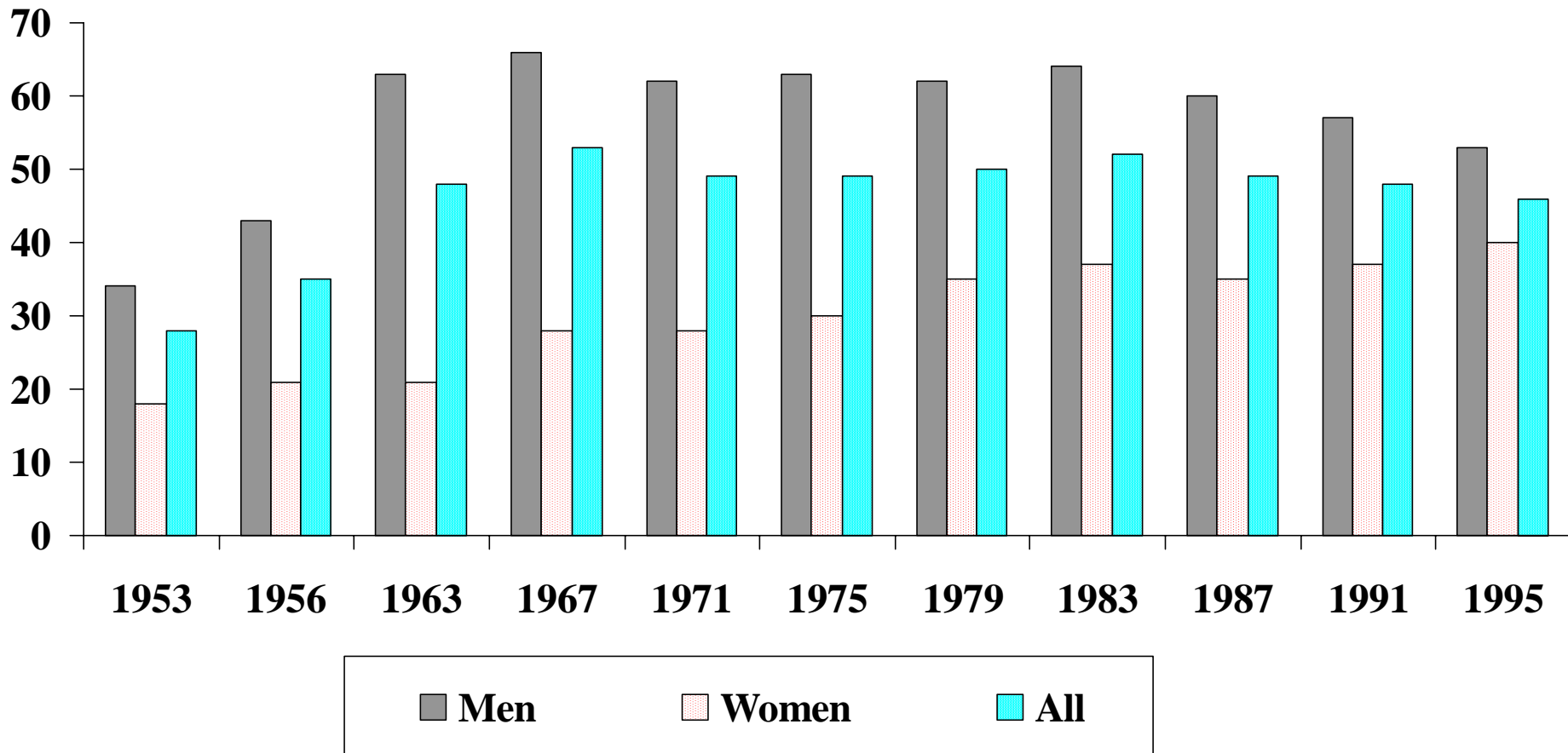
- flat-rate basic state pension
- mandatory earnings-related pension:
  - \* SERPS (to become State Second Pension)
  - \* salary-related pension plans (COSRS)
  - \* money purchase pension plans (COMPS)
  - \* appropriate personal pensions (APPs)
  - \* stakeholder pensions (from April 2001)
- voluntary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

# POPULATION CONTRACTED-OUT IN UK





# GROWTH OF OCCUPATIONAL PENSION SCHEMES IN UK



# 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?