



INTERNATIONAL SOCIAL SECURITY ASSOCIATION
ASSOCIATION INTERNATIONALE DE LA SÉCURITÉ SOCIALE
ASOCIACIÓN INTERNACIONAL DE LA SEGURIDAD SOCIAL
INTERNATIONALE VEREINIGUNG FÜR SOZIALE SICHERHEIT

Speech for Mr Stoové, Council Meeting of International Actuarial Association

The Hague, 26 May 2013

Ladies and Gentlemen, it gives me great pleasure to address such a large and influential audience here in my home town, The Hague. I would like to thank you for the invitation to present to you today which gives me the opportunity to reflect on the importance of collaboration between our association and yours on actuarial issues.

I have two key messages that I will share with you this morning. The first is that our members are increasingly telling us of the importance of actuarial issues, not only the day to day issues related to the management and operation of their schemes but also for strategic issues covering questions relating to the sustainability of social security systems, the question of intergenerational equity and the adequacy of benefits. The second message is that the ISSA secretariat together with our Technical Commissions on Statistical, Actuarial and Financial Studies is already responding effectively to these requests by a range of activities, often in close cooperation with the IAA. My speech this morning will therefore focus on concrete examples of these activities and the fruitful and longstanding cooperation between the ISSA and IAA. I will also highlight future activities and initiatives.

However before starting, I would first like to tell you more about our organisation - the International Social Security Association. We are the principal international institution bringing together social security agencies and organisations. Our aim is to promote dynamic social security as the social dimension in a globalising world by supporting excellence in social security administration.

We currently have 336 member organisations in some 158 countries and are financed by our members. We were founded in 1927 and so celebrated 85 years of existence last year. We are based in Geneva and headquartered at our sister organisation, the International Labour Organisation.

Clearly much has changed since we started in 1927. Social security has become a key policy area across the globe and over the years Social security systems have matured, and adapted to a significantly changed external environment.. As a result there is now greater recognition but also greater scrutiny of what social security does. But surprisingly, the goals of social security have stayed relatively constant – improving coverage, maintaining the sustainability of social security systems, improving administrative and operational practices and improving the adequacy of benefits and services – even if the means by which these goals are achieved have obviously changed with the times and tools available.

To underline the changes, let me tell you the story of the first person to retire under the US social security system in 1940. Mrs. Ida Fuller was born in 1875 at a time when average life expectancy at birth in the US was around 45 years. She was 52 years old when our organisation started and retired in 1940. It is interesting to note that retirement age for women in the US in 1940 – 65 years old – is the same



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today and higher than in many countries around the world which of course raises a number of issues relating to sustainability of systems.

Luckily for her but not so fortunate for social security finances, she lived to 100 years old – when life tables at the time of her retirement predicted a death around 80 - receiving in total some \$23,000 in pension payments up to her death in 1975. And during her working lifetime, she paid the grand total of ... \$25 in social security contributions.

Whilst clearly not entirely representative, her case highlights a number of key challenges facing social security. How do we finance retirement, and other benefits, in an ageing population? What is a fair share of burden both within and across generations? How should we reform retirement systems equitably and at the same time still provide adequate benefits that meet the population's evolving needs? These key questions are at the very heart of policy decisions that affect social security and require the input of the actuarial profession.

I don't need to tell you that as schemes mature, the question of the sustainability of all social security systems becomes key; not only for retirement systems of course but also health and disability schemes. Long term demographic changes can be predicted to a certain extent but often bring surprises – the significant increase in life expectancy has been systematically underestimated over the last few decades, but we also underestimated the significant falls in fertility rates in many countries. At the same time, there was an expectation that economic growth would formalise the informal sector – which has not happened – and that the majority of longevity gains would be 'healthy'; again, the reality has been somewhat different than expected.

Arguably, the environment in which social security operates today is more uncertain than ever. This uncertainty was highlighted during the ISSA's International Research Seminar held earlier this month in Norway on the theme "Providing adequate benefits and adapting to future megatrends". While labour market and demographic changes quickly come to mind in considering such issues, the increasingly significant trend of climate change adds another complex dimension to our efforts to anticipate change and put in place appropriate measures to mitigate their impact on social security. In fact the latter factor will be the focus of a second ISSA Megatrends report, on climate change that will be published in the lead up to the World Social Security Forum in Doha, Qatar this November.

Therefore this requirement to 'make financial sense of the future' to borrow a phrase of the actuarial profession in the UK is of outmost importance to our members and therefore requires actuarial input and expertise.

Therefore, it is natural that there has been a steadily increasing importance of actuarial work within the ISSA. This was already recognised in the 1940s and 1950s and was reflected in the first international Conference for Social Security Actuaries and Statisticians which took place in 1956. I am pleased to say that the 17th such conference took place last year in Berlin, Germany which I was delighted to attend



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and attracted over 220 participants from some 73 countries showing the importance and relevance of the actuarial issues discussed.

An essential element of what ISSA does is to encourage exchange of ideas, experiences and information and these conferences are an ideal environment for this.

But there are a range of other activities piloted by the ISSA Technical Commissions on Statistical, Actuarial and Financial Studies. This is one of the twelve different Technical Commissions at the ISSA and this commission, chaired by Jean Claude Menard from Canada is particularly active.

Their main activities for this triennium have included projects looking at the question of intergenerational Equity, Asset Liability Modelling and Health Care Financing. Reports and articles on valuation methodology and assumptions has also significantly assisted members in the management of their social security schemes.

Within the Secretariat, we have traditionally had strong actuarial resources – many of you knew Warren McGillivray and Alvaro Castro Gutierrez well – and we continue to develop these resources and capacities. Florian Leger, a qualified French actuary is responsible for the collaboration with the IAA as well as coordinating the work of the Actuarial Technical Commission. Simon Brimblecombe, a Fellow of the Institute of Actuaries is responsible for the policy analysis and research activities at the ISSA, including the adequacy and reserve fund monitor projects, and who, I am pleased to say is here in the Hague and was able to participate in a number of the committee meetings. We also have a trainee actuary who is currently studying towards the Society of Actuaries examinations. I believe this shows the commitment of the ISSA to the importance of our actuarial activities and improves the dialogue between our organisations.

Projects managed by ISSA staff with the input of other technical commissions and which involve actuarial input also include a project looking at a multivariable measure of adequacy, an annual review of reserve fund performance and the ISSA investment guidelines which benefited from the input of the IAA.

This activity requires increasing collaboration between the ISSA and the IAA. I am very pleased to say that this is recognised formally since 2011 with the signing of the memorandum of understanding between our two organisations. This Memorandum of Understanding is updated by regular work plans setting out a plan of activity for each year.

So what about the future? Well there are a number of exciting initiatives ahead. In our next triennium which runs from 2014 to 2016, the main strategic development will be the implementation of the ISSA Centre for Excellence in Social Security Administration. The Centre will be based on the broad range of ISSA guidelines currently under development for various areas of social security administration. Among these, the ISSA will publish actuarial guidelines which, as for the investment guidelines, we will look forward to the valuable input from the IAA, and hereby express our sincere appreciation for this



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assistance. This is an important project and will complement other ISSA guidelines as part of the ISSA Centre of excellence.

The Centre for Excellence, which is to be launched at the World Social Security Forum in Qatar this November, will provide a dynamic and comprehensive set of services for ISSA Members. The development of this Centre will be an important milestone in the history of the Association because it will establish the ISSA as the authoritative international organization for issuing professional standards in social security administration. The objective is to further develop and consolidate the capacity-building services of the ISSA for its Members to develop excellence in social security administration.

We also look forward to publication of the International Standard of Actuarial Practice 2: Valuation of Social Security Programmes (ISAP2) and to continue to mutually cooperate on other projects and attend each other's events.

Ladies and Gentlemen, the collaboration between the ISSA and IAA is a success. As social security is increasingly in the spotlight and faced with a range of challenges – demographic, financing and management amongst others – this relationship provides an excellent and mutually beneficial base for future work and ultimately, for strengthening the financial, social and political sustainability of social security systems around the world.

Thank you for your attention.