Commentary

AUGUST 2006

BUFFIN PARTNERS INC. ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

Global Economic and Social Security in Old-Age

In 2003 the International Social Security Association (ISSA) published a significant paper *Ageing and Social Security*. This paper identified the main challenges of ageing societies: Enhancing labor market opportunities; Reversing the trend towards early retirement; Meeting challenges of insecure employment; Limiting individual risks in preparing for retirement; Securing adequate income for old-age through the mix of public and private arrangements; The evolving role of the State in an ageing society; Ensuring gender equality in pension provision; Providing sustainable health and long-term care to an ageing population; Addressing the challenges of ageing in low-income and middle-income countries; and Social Security as a prerequisite for the active ageing.

In its report ISSA stated "Much of the discussion on old-age pension reform and cost containment in health care has revolved around the issue of economic sustainability in the face of ageing populations. The future viability of ageing societies will inevitably depend on whether the provision of social security is economically sustainable. Nevertheless, this is only one side of the coin. On the other side of the coin, and of equal importance, is the social sustainability of an ageing population. If greater emphasis is increasingly placed on individual choice and responsibility, how can it be ensured that this will not lead to a more pronounced segmentation, not to mention possible destabilization of society? How can Social Security systems be adapted to the challenges and opportunities of ageing societies around the world? How can the social security of the population be ensured in an efficient and equitable way? The future of ageing societies depends on the success with which economic and social sustainability can be combined in a comprehensive approach to social security."

In recent years the World Bank has published a number of influential reports on the topic of pension reform. *Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth* (1994) advocated a system of mandatory individual accounts as one of the principal pillars of a pension system. *Old-Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform* (2005) reviewed the experience with pension reforms over the previous decade and presented an updated and broader view of pension reform issues based on the lessons learned from experiences of the World Bank in implementing reforms in a number of countries. The World Bank's 21st century vision is less doctrinaire as to how pension reform issues should be addressed, but continues to place a particular emphasis on the concept of Notional Defined Contribution (NDC) arrangements. These are now referred to as Non-financial Defined Contribution arrangements, in order to clarify that NDC arrangements are artificial concepts with no corresponding financial backing. The International Actuarial Association presented a response from the global actuarial profession to the World Bank's 21st Century vision at the recent International Congress of Actuaries in Paris. This response commented on the problems and dangers associated with the NDC reform of the Swedish Social Security System and presented an objective assessment of the NDC arrangements that, to a great extent, the World Bank had advocated as a panacea for pension reform around the world.

Against this background, a welcome addition to the debate on the issues connected with ageing populations is a paper by Chris Daykin, UK Government Actuary *The Challenge of Ageing: Pension Reform, International Trends and Future Imperatives.* This paper provides a comprehensive analysis of the challenges presented by the demographic trends that are producing declining ratios of working-age populations to retired populations in many countries, due to increasing life expectancy and falling fertility rates. The paper argues the case for the "imperatives of pension reform" and considers a number of generic categories of reform including contribution adjustments, benefit adjustments, structural reform, retirement age, financing, and funded complementary arrangements. Of particular note in this paper are the comments on financing methods and sources of revenues. Concerns about future possible increases in Social Security payroll tax contribution rates have resulted in innovative ways to help strengthen the projected financial condition of systems in a number of countries. In Japan recent pension reforms call for a subsidy to contribution income from general revenue, reflecting a deliberate tripartite philosophy involving explicit contributions from the government. There is a rationale for general revenue financing where a Social Security system has an explicitly universal or redistributive intent. The paper points out that financing through other types of taxes may also provide an opportunity for lessening the adverse impact on employment costs. In Switzerland, for example, levying additional value added tax (VAT) to cover some of the growing costs of Social Security, demonstrates the potential for shifting the burden from tax on employment to tax on consumption. Norway is an example of using oil and gas revenues to assist in the financing of Social Security.

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