



International Association for the
Study of Insurance Economics

Études et Dossiers

Etudes et Dossiers No. 312

ACCE 2006

Amsterdam, 2-3 February 2006

&

VIVA 50 Plus

World Ageing & Generations Congress

St-Gallen, 29 September – 1 October 2005

April 2006

Working Paper Series of The Geneva Association

© Association Internationale pour l'Etude de l'Economie de l'Assurance

The Geneva Association - General Secretariat - 53, route de Malagnou - CH-1208 Geneva
Tel.: +41-22-707 66 00 - Fax: +41-22-736 75 36 - secretariat@genevaassociation.org - www.genevaassociation.org

The Geneva Association Working Paper Series “Études et Dossiers” appear at irregular intervals about 10 - 12 times per year. Distribution is limited.

The “Études et Dossiers” are the working paper series of The Geneva Association. These documents present intermediary or final results of conference proceedings, special reports and research done by The Geneva Association. As they contain work in progress or summaries of conference presentations, the material must not be cited without the express consent of the author in question.

Layout & Distribution: Pascal Clerc & Valéria Kozakova

Public Pension and Change: The Case for Confidence

Roland Sigg



What's the International Social Security Association (ISSA)?

- A non-profit international organization, founded in 1927
- A privileged forum for social security institutions and administrative bodies from all over the world
- An acknowledged partner for the improvement of social protection adapted to the genuine needs of populations
- A global institution and indispensable actor because of the network which it embodies and the resources it provides
- Headquarters in Geneva, at the International Labour Organisation (ILO)

For more information: WWW.ISSA.INT


ISSA • AISS • IVSS

International Social Security Association
Policy and Research Programme

The future of public pension: Is there a future for pension in the age of longevity?

- Crisis “doomsday” scenario (WB, UNDP)
- Sustainability “confidence” scenario (EC, ILO, ISSA)

“Population ageing is only a cause of concern if a society’s lifeblood, not least its productive activity, fails to expand”




ISSA • AISS • IVSS

3

International Social Security Association
Policy and Research Programme

“Social security is about offering people security over the course of their life”

- Are benefits large enough to provide security? (adequacy)
- Are benefits available to the population at large? (coverage)
- Does the system deliver? (governance)
- Is the system robust enough to offer security in the future? (sustainability and public confidence)



ISSA • AISS • IVSS

4

International Social Security Association
Policy and Research Programme




The case for confidence is based on:

- ✓ A fresh look at the myths surrounding population ageing
- ✓ The trust on public pension programme in fighting poverty and providing social cohesion in industrialized countries
- ✓ Current public pensions' reforms
- ✓ A commitment to provide universal basic income to the elderly
- ✓ The emergence of the “long-life society”

5

International Social Security Association
Policy and Research Programme



Myths surrounding ageing

Question: Is demographic ageing a major issue, as social security programme and policies are concerned?

Other factors, as globalization, labour market structure, family arrangements, are as important than the demographic factor, and may as well compensate or aggravate the effect of population ageing.

A number of myths and/or misconceptions frequently appear in debate on the effect of population ageing on social security and on policy measures to implement.

6

International Social Security Association
Policy and Research Programme


Myths surrounding ageing

Myth: Population ageing is a natural phenomenon

Implication: Population ageing cannot be altered

Fact: The definition of 'old' is socially defined, and changing

"The threshold for old age has steadily risen, from 60 for men and 65 for women in 1930, to 71 resp. 77 in the 1990's. According to this definition, the proportion of "elderly people" has actually declined from 10% in 1980 to 7% in the 1990's"



ISSA • AISS • IVSS

7


International Social Security Association
Policy and Research Programme

Myths surrounding ageing

Myth: Population ageing threatens economic growth

Implications: An ageing society implies a lower standard of living;
Pensions should be reduced

Facts: Ressources are sufficient to cope with the rising number of older persons:
0.5-0.8% of GDP per year to compensate for ageing (vs. 2.4% annual growth).



ISSA • AISS • IVSS


8

International Social Security Association
Policy and Research Programme

How relevant is the dependency ratios?

**Dependency and employment ratios,
Germany, 1995-2050**

| | 1995 | 2020 | 2050 |
|------------------------------------|------|------|------|
| Ratio of 15-64 to 65+ | 4.4 | 3.0 | 2.1 |
| Ratio of working pop. to 65+ | 3.1 | 2.2 | 1.5 |
| Ratio of pop. in employment to 65+ | 2.9 | 2.2 | 1.9 |




9

International Social Security Association
Policy and Research Programme

How relevant is the dependency ratios?

Cost of pension, Germany, 2000-2050, %GDP

| | 2000 | 2020 | 2050 |
|----------------------------------------------------------|------|------|------|
| Based on dependency ratio (UN population projections) | 10.2 | 14.6 | 21.5 |




10

International Social Security Association
Policy and Research Programme

How relevant is the dependency ratios?

Labour market optimisation:

- Participation of women in the labour market = men (in 2050)
- Participation of older worker in the labour market back to 1980 level (in 2050)
- Transfer of savings in unemployment benefits to pension
- Slight increase of immigration rate (1% more immigrants per year)




11

International Social Security Association
Policy and Research Programme

How relevant is the dependency ratios?

Cost of pension, Germany, 2000-2050, %GDP

| | 2000 | 2020 | 2050 |
|--------------------------------------------------|------|------|------|
| Based on dependency ratio | 10.2 | 14.6 | 21.5 |
| Based on “labour market optimisation” hypothesis | 10.2 | 12.2 | 12.1 |



12

International Social Security Association
Policy and Research Programme


Myths surrounding ageing

Myth: Population ageing will ruin existing pension programmes

Implication: Public schemes must be converted to private pension funds

Facts:

- Funded schemes are not less vulnerable than PAYG schemes to demographic pressure;
- Both arrangements require economic growth to be sustainable;
- Administrative costs and adequate regulation need to be taken into account.



ISSA • AISS • IVSS


13

International Social Security Association
Policy and Research Programme

Trusting social security: Did the Welfare State fail in industrial countries in providing social protection to the elderly?

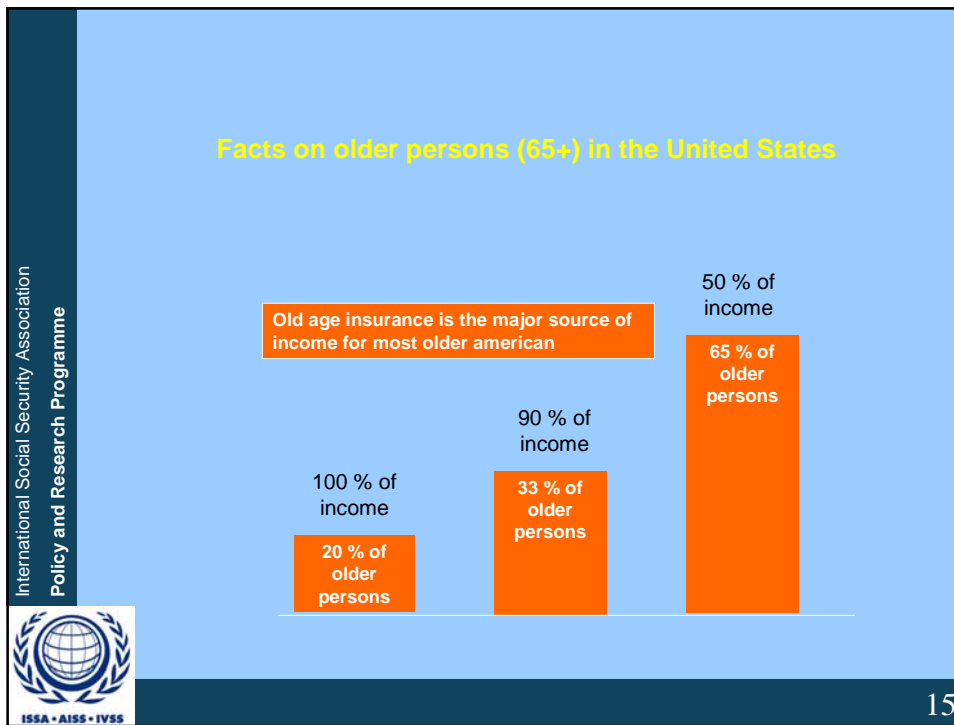
Facts on older persons (65+) in USA

- ✓ Official poverty rate fell from 15% in 1980 to 10% in 2000
- ✓ Real medium income increased by 32% between 1980 and 2000
- ✓ Proportion receiving public assistance declined from 11% to 5%



ISSA • AISS • IVSS

14



Trusting social security: Did the Welfare State fail in industrial countries in providing social protection to the elderly?

Did the Welfare State fail in industrial countries?

NO, it is closer from a success story.

“If everyone acted ideally, we would not need social security.

Some of the market-oriented approaches to social security are naïve when it comes to how people behave.

I think the system (PAYG pension programme) works better than many economists think. *It makes good sense.*”

Peter Diamond

International Social Security Association
Policy and Research Programme

ISSA • AISS • IVSS

16

International Social Security Association
Policy and Research Programme

How does social security adapt?

- ✓ Rearranging public/private mix
- ✓ Shift towards individual responsibility
- ✓ Reducing system “generosity”
- ✓ Active labour market policies
- ✓ Transition from work to retirement
- ✓ New family policies
- ✓ Improving administration
- ✓ Introducing universal coverage



ISSA • AISS • IVSS

17

International Social Security Association
Policy and Research Programme

Addressing the main challenges

- Friendly policies toward the labour market
- Making pension schemes sustainable
- Improving the efficiency of the administration
- Addressing the coverage gap



ISSA • AISS • IVSS

18

International Social Security Association
Policy and Research Programme


Filling the coverage gap

ILO:
25% of the world population access to adequate social security coverage

50% benefit from some social protection

Relation between the level of coverage and

- per capita GDP
- employment in agricultural sector
- % of GDP in informal sector
- occupational base only programmes
- low population ageing



19

International Social Security Association
Policy and Research Programme

Characteristics of the coverage gap

- Large diversity among countries and regions
- Differential between contingencies
- Specific groups more likely not to be covered:
 - Women
 - Migrants
 - Agricultural workers
 - Urban informal workers




20

International Social Security Association
Policy and Research Programme

Policies options to extending coverage

In debating over how to extend coverage, it will be expected to propose new and creative solutions for protecting those persons who until now are outside the social protection programmes.

- Tighten the link between benefits and contributions
- Modify the contributory principle
- Move beyond the contributory principle
- Universal entitlement




ISSA • AISS • IVSS

21

International Social Security Association
Policy and Research Programme

A case for universal pensions

- Taking profit of the demographic dividend to extend coverage of social protection to all the elderly
- Non-contributory universal pension system to tackle the issue of the coverage of rural and informal sector
- Cost: in Mauritius, universal pension of US\$56 (16% of GDP per capita) costs 2.0% of GDP
- Preferable to mean tested pensions:
 - Administrative cost of test and risk of corruption;
 - Disincentive saving for retirement;
 - Stigma of welfare, no political appeal.
- For poorest countries, international aid could finance such a scheme



ISSA • AISS • IVSS

22

International Social Security Association
Policy and Research Programme



The case for confidence is based on:

- ✓ A fresh look at the myths surrounding population ageing
- ✓ The trust on public pension programme in fighting poverty and providing social cohesion in industrialized countries
- ✓ Current public pensions' reforms
- ✓ A commitment to provide universal basic income to the elderly
- ✓ The emergence of the “long-life society”

23

International Social Security Association
Policy and Research Programme



The emergence of the “long-life society”


- ✓ New life cycle arrangements
- ✓ Diverse family arrangements
- ✓ Tougher labour market
- ✓ Growing income disparities
- ✓ Intergenerational contract under pressure

24

International Social Security Association
Policy and Research Programme

Conclusion: What opportunities? What policy?

- ✓ Multi-pillars system may be recommended for the formal sector;
- ✓ They should be based on a strong basic pension scheme; it makes sense to build them with a PAYG system (possibly partially funded);
- ✓ Pension funds should be adequately regulated to guarantee future pensions



ISSA • AISS • IVSS

25

International Social Security Association
Policy and Research Programme

Conclusion: What opportunities? What policy?

Pensions are about providing social protection to older persons
“The problem is not the lack of resources; the problem is distribution”

Good governance is essential to deliver adequate and sustainable pensions.

Think of the elderly as a resource, not as a burden

Trusting the future, for a society of all ages



ISSA • AISS • IVSS

26


International Social Security Association
Policy and Research Programme

Conclusion

**“It takes a long time to become young”
(Picasso)**

**It takes years to build a good pension
schemes and to reach public confidence –
but it is possible to break all that overnight!**

Thank you!



27