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Global Agenda Council on Social Security Systems

A Framework for Sustainable Security Systems

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Redesigning Long Life

Introduction

The latter half of the 20th century saw several disruptive demographic and economic shifts that have created an unprecedented challenge to the health of social security systems worldwide. Dramatic shifts in demographic aging have occurred in established and emerging economies as life expectancy increased and birthrates declined. Many retirement and social protection programs face financial challenges, and as a result, the balance of responsibility for insuring retirement security has moved away from the government and employers towards the individual.

These changes present a global dilemma. How can developed and developing nations provide financial security to their populations, including retirement security for aging populations and economic opportunity for younger generations? In the fall of 2012, The World Economic Forum convened a two-year term Global Agenda Council to address this issue and explore solutions. The Global Agenda Council on Sustainable Social Security Systems is a multi-stakeholder group with 15 members representing international government agencies, academia, and the public and private sectors. The Council had its initial meeting in November, 2012 and established the goal of developing a framework for creating sustainable social security systems. The result of their discussions is an eight point framework that is applicable to both developing and developed nations.

This compendium is organized around the eight points of the framework and provides further detail on each element. The articles, which reflect the discussions of the entire Council, were authored by and are in the voice of individual members of the Council and were edited by the Stanford Center on Longevity. The Council also discussed the wider political, legal, and social context that needs to be considered when evaluating social security systems. However, articles reflecting those conversations are not included in this volume.

For purposes of their work, the Council used a definition of "social security" that encompasses a broad interpretation of security in old age, including financial security, health care, and long- term care. Potential solutions or programs related to social security were classified into "pillars" and defined in the following manner:

- Pillar 0: Basic or social poverty reducing programs.
- Pillar 1: Compulsory pay as you go (PAYG) or partially funded state pension.
- Pillar 2: Supplementary occupational or individual pension.
- Pillar 3: Individual savings or other voluntary programs.
- Pillar 4: Individual assets (e.g., home ownership), other social programs (e.g., healthcare)

The authors' references to "Pillars" adhere to these definitions.

It is the Council's hope that the publication of this framework is just the first step in an ongoing conversation addressing the social security challenges presented by an aging society. The work of this Council continues and it is expected that additional voices and opinions will shape and further refine the framework. This is intended to be a living document and new articles will be included in future versions. The Council would like to thank the authors and we look forward to continuing the dialogue.

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Setting the Context

A Framework for Social Security Systems

by M. Michele Burns, Center Fellow, Stanford Center on Longevity & Richard Blewitt, Former Chief Executive Officer of HelpAge International, currently Resident Coordinator and Representative for Trinidad and Tobago and Suriname, United Nations

With policy reform, changes to workplace practices, and improvements in managing the cost of older workers, working longer could become the new normal. Under this model, "study/work/ retire" will become a thing of the past, and work will take on an elevated role in ensuring an individual's lifetime financial security.

Background

The World Economic Forum convened a Global Agenda Council (GAC) to discuss the development of sustainable social security systems around the world, with a strong focus on providing income security in old age. The GAC definition of "social security" is a broad interpretation that includes most of the sources that provide financial security in old age: social protection systems, social security programs, pensions, and personal savings. The GAC created a comprehensive framework to inform policy development in this critical area. This paper first identifies the key building blocks of the framework and then describes the broader environment within which the framework sits.

Introduction

When designing a social security system, every country has to find a realistic and appropriate balance between collective solidarity and individual responsibility. To achieve this balance, social security systems must be both sustainable and flexible. Demographic ageing presents one of the biggest sustainability challenges for well-established social security systems and newly established systems in rapidly ageing countries. Many countries with growing numbers of older people are looking to gradually increase retirement ages and thereby extend working lives. Government pension commitments also pose a challenge to fiscal sustainability, particularly when public expenditures on old-age pensions must be balanced against governmental responsibilities to support and invest in health, education, and employment, which are essential to the development of future generations. A core challenge here is to provide a strong financial environment and effective tools that incent individuals to contribute to a pension system and save for their own retirement beyond the minimum guaranteed by a social protection floor.

Eight Key Building Blocks of Sustainable Social Security

1. Role of work

New models of work are emerging across the lifecycle. Evidence suggests there is already a very different shape to working, studying, having families, and retiring than there was in years past. Countries need to support these changes by encouraging progressive, age-supportive employment practices that ensure decent work opportunities for older people. It is also important to promote best practices among employers, including increased workplace flexibility. In emerging economies, many older people work in the informal economy; it is critical not to crowd them out of such employment but rather to support decent work and shifts from informal work to the formal sector.

Governments can also implement progressive laws that enable employees to work longer. There is strong evidence that laws banning age discrimination are an important part of keeping older people in the workforce. Additionally, governments can address the cost barriers of hiring and employing older workers, such as health care costs and retirement plan costs. Providing increased opportunities for older people to remain economically active will help drive growth in many societies and allow them to remain competitive.

2. Financial literacy of population

There are a number of challenges involved with financial literacy norms around the world. First, there is the importance of literacy itself, which is not yet a universal norm. Second, there is a need for people to develop realistic expectations of their personal role in ensuring their financial security in old age. Very few people make the connection between the number of years they are likely to be retired, the number of years they will be working, and the amount they need to save out of their working wages to fund this retirement. Third, one very important prerequisite for financial literary is trust: the trust between stakeholders, the trust customers have in the state, and the trust customers have in private sector providers and regulators.

A number of actions can be taken to develop and underpin better financial literacy, including these:

- Make the pension system understandable and as simple as possible.
- Increase early education on financial literacy, including at school.
- Raise awareness of rights and obligations of citizens toward their own financial security.
- Have a policy agenda that involves “nudging” responsible behavior and embedding it in the culture.
- Strengthen transparency and access to information.
- Include literacy issues on physical wellness to help manage medical issues and enable citizens to continue working at older ages.

3. Private sector tools

The financial sector can produce strong products that incent long-term savings and create a climate of trust by supporting effective regulation. It can also make a real difference by supporting strong policy-making and innovative programs. Further, employers in any industry can facilitate saving among employees through the use of payroll deductions, group buying power, and direct advocacy. Countries might explore how to incent this behavior among employers.

At a global level, multinational firms need a better integration of financial flows for efficiency; this will enable global asset diversification. The financial sector already has a range of tools to support effective asset and risk management, life insurance provision, and occupational pensions. The private sector can support both governments and individuals with their long-term financial security, as well as support the efficient delivery of pensions.

4. Functioning capital market

Capital markets should ideally be deep, broad, transparent, and liquid in order to provide a full range of products that allow people to save effectively. This provides consumers with choices to secure better returns in support of their long-term financial planning. Strong capital markets also help mobilize national savings for a country’s own development. Additionally, an effective supervisory framework is necessary to build trust in the financial services industry.

5. Existence of minimum benefits for all and an adequate and reliable social security scheme

There is a broad and growing understanding around the world that a minimum public pension floor is a powerful, affordable way to close the coverage gap and promote economic growth by reducing poverty and inequality. A guaranteed floor is particularly important for women, who have far fewer opportunities to earn their own pension rights. National experience has demonstrated that there are a variety of ways to build a minimum public pension floor, including a mix of contributory and non-contributory approaches. In either case, governments play an essential role in funding and delivering this protection, and they must decide how the system is funded: either pay as you go or advanced funding.

Social pensions (also called "non-contributory pensions") are one of the simplest and most transparent ways to create a public floor and—where well-designed—their transparency communicates the need for additional public and private retirement savings. Evidence shows that a well-designed national retirement system enables the development of capital markets as well as privately managed pension schemes. Social pensions are especially relevant in low- and middle-income countries where high levels of poverty and informality mean that traditional contributory systems will have little impact on closing the coverage gap in the near future. Social pensions are a widely used approach. More than 100 countries around the world, from a wide variety of contexts, employ them within their pension systems.

6. Tools to manage demographic reality

Demography is not destiny. Policymaking can have a real impact on demographics, and understanding demography can help build strong societies for all. Some specific demographic dimensions that can impact the sustainability of social security systems include:

- Government tools, such as family policies, foresight of demographic reality and how to lever demographic patterns in the future, immigration policies, and understanding of transfer across generations
- Societal tools, especially facilitating immigration from poor countries with high population growth to rich countries with low population growth. This can help increase the retiree/dependency ratios that are low in developed nations.
- Investing in disease prevention and wellness
- Labor markets that ensure gender equality and a higher level of participation of women in the workforce
- Long-term care provision for older citizens
- Efficient and functioning health care delivery systems and medical insurance
- Access to affordable and nutritious food, clean water, and basic shelter

7. Mobility of security system

As people increasingly move across employers, across nations, and from rural to urban areas, being able to move with their entitlements is a challenge of rising importance. It is important to facilitate mobility from one employer to another within a country. Internationally, portability of social security entitlements is limited to a few regions, and in some countries, benefits aren't even portable between rural and urban areas. This issue is particularly relevant for regions and countries with large migrant populations.

8. Coherent and flexible social security system

Policymakers must work to create and support a coherent and flexible social security systems. A strong, cohesive relationship between the programs and their stakeholders is critical to supporting basic income security in old age. Political leaders have a crucial role to play in supporting visionary policies that address the challenges and opportunities of ageing populations as well as promote economic growth for all generations. In order to ensure

public acceptance, political leaders must also consider the perceived fairness of the system among its citizens in the context of their own culture.

Additionally, social security systems need to become flexible enough to adapt to major societal trends and changes, including population ageing, lifelong learning, and tying eligibility for benefits in with work incentives. They should also take into account how psychology and emotion influence individual financial decision-making, since research continues to show that social, cognitive, and emotional factors play a large role.

The Wider Environment Within Which Sustainable Social Security Operates

Political economy

The state of a nation's economy and the nature of its political agenda set the stage for its social security system. Countries that recently experienced a financial crisis need to adjust their social security systems as well as promote sustainable growth, more jobs, stable prices, and a tax system that provides for redistribution.

Additionally, fiscal policies and economic philosophies are integral to developing effective social security systems. These areas are currently undergoing a period of challenge and renewal. This is due in part to an increasingly multipolar world and the current fiscal crises. A critical ongoing challenge is how to make pensions sustainable and stable over the long term.

Rule of law

The rule of law is necessary for citizens to trust their governments and for businesses to work effectively. To create and maintain sustainable social security systems, the rule of law must be taken into account.
The balance between family, the state and society
Although states need to provide basic protection for older people, society, families, and individuals themselves all have their roles. A strong civil society, including family, volunteering, social engagement, and empowerment activities, has been found to support a strong social security system. Therefore, it is important that the state develop policies and laws that strengthen rather than undermine society, community, and family connections.

Fiscal system and philosophy

Sustainable social security systems are formed on the basis of several financial actors: 1) activity of citizens, 2) budget, 3) social insurance, 4) charity, including community self-organization, and 5) foreign and international humanitarian aid. The most effective combination of these five factors in each country is defined by its specific features (history, culture, the level of economic development, development of democratic institutions, etc.). Generally, underdeveloped countries, middle-developed countries, and developed countries balance these financial actors in different ways.

International institutional framework

A wide number of institutions are currently working to build a global social security system, including leading organizations such as the World Bank, the International Monetary Fund, the Organisation for Economic Co-operation and Development, the International Labour Organisation, the regional development banks, and some leading governments like Brazil and Sweden. There is also growing academic study and interest in sustainable social security systems. The International Social Security Association (ISSA) and other organisations (like HelpAge International) are working to strengthen the accountability of social security systems around the world.

The Role of Work

Work is the best form of social security, so people should be enabled to work longer as life expecantcy increases.

A Framework for Social Security Systems by M. Michele Burns, Center Fellow, Stanford Center on Longevity

The United States is currently in the midst of a retirement crisis. Current studies show that individuals' confidence in their ability to retire comfortably, or to retire at all, are at new lows. According to the Employee Benefit Research Institute's 2011 Retirement Confidence Survey, 27 percent of all American workers were "not confident at all" in their ability to retire, up 5 percent from the previous year. The same survey indicated that over the past ten years, the percentage of workers ages 55 and older feeling "very confident" that they will have enough money to retire comfortably has fallen from 31 percent to 15 percent.

Unfortunately, this trepidation reflects a troubling reality: Many Americans are not saving enough to support themselves in retirement. Fewer than 1 in 5 older Americans over the age of 50 has successfully created a retirement plan,[1] and in 2008, more than 1 in 3 workers had savings (retirement plus other) of less than $10,000.[2]

As government entitlement programs face an uncertain future, work is quickly becoming the best form of social security. In many ways, working longer is the ideal solution to America's retirement crisis. By any number of measures (life expectancy and/or mortality risk), people are living longer: A child born today in the United States can expect to live until age 78.[3] But although labor force participation rates for older people are increasing, the average retirement age still stands at 64 for men and 62 for women.[4] As a result, many Americans are facing longer retirements without sufficient financial resources. Working longer would address this dilemma by allowing individuals to increase their current income, contribute more to their 401(k) plans, delay the age at which they claim Social Security benefits, and shorten the period of time they spend in retirement.[5]

Notably, working longer might also benefit employers who are facing impending workforce gaps. From 2010-2020, for example, the health care and social assistance sector will gain 5.6 million jobs, and the professional and business services industry will add 3.8 million jobs.[6] The labor force participation rates for younger workers (ages 16-24) and prime age workers (ages 25-54), however, have been falling for the past ten years.[7] Consequently, older workers could be an attractive way for employers to fill these workforce gaps.

But while working longer presents opportunities for both employees and employers, it also raises a number of challenges. From the employee perspective, the workplace is often not designed to support the work-life balance that older workers desire. Many older workers prefer a flexible work arrangement (either part-time or part-year) that allows them to fulfill caretaking responsibilities, spend more time with family, or explore other interests. Yet only 16.9 percent of employers report that most or all of their employees have the option to reduce their hours while maintaining the same position.[8] Phased retirement programs are another popular option among older workers; a 2005 AARP survey of Americans ages 50 and over found that 38 percent of respondents would be interested in a phased retirement program, and many indicated that such a program would encourage them to delay their retirement.[9] But few employees have access to such programs.

From the employer perspective, working longer poses a very concrete challenge: cost. Although older workers bring valuable knowledge and experience, they are also very expensive. They generally have higher wages than their younger counterparts and their health insurance (both premiums and cost of claims) costs more.[10] Additionally, the cost of defined benefit pension plans rises as employees near retirement, making it more costly for businesses to employ older workers. Although the number of defined

benefit plans is declining, they are still a financial reality for many employers. Finally, employers often perceive labor pool stagnation in periods of slow economic growth, which can result in the loss of next generation, high potential talent.

It is important to address these challenges in order to make working longer a viable solution to America's retirement crisis. Policy reform could play an especially important role in doing so; indeed, the government has an opportunity to implement progressive laws that address employees' willingness and intent to work longer. For instance, the government could reform tax system to "favor" older workers by ending the payroll tax on wages earned after 35 years of employment. Currently, employees are subject to the payroll tax regardless of how long they have been working. But only the highest 35 years of an employee's earnings are used to calculate the employee's primary insurance amount (PIA). By ending the payroll tax for employees with 35 years of contributions, the government would encourage older people to work, as well as incentivize employers (who would also be exempt from the payroll tax on these workers' earnings) to hire older workers. This is merely one of the many ways that government policies could be changed to promote working longer.

With policy reform, changes to workplace practices, and improvements in managing the cost of older workers, working longer could become the new normal. Under this model, "study/work/retire" will become a thing of the past, and work will take on an elevated role in ensuring an individual's lifetime financial security.

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[2] Willet, "A New Model for Retirement Education and Counseling," 2008.
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[4] Boston College, "Average Retirement Age for Men," 2012.
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Financial Literacy of the Population

Individuals have begun to assume greater responsibility for their financial security, making financial literacy an imperative.

Financial Literacy of the Population

by Katrin Westling Palm, Director-General, Swedish Pensions Agency

What is financial literacy? *Scholars, policy officials, financial experts, and consumer advocates have used the phrase loosely to describe the knowledge, skills, confidence, and motivation necessary to effectively manage money.*[1]

In most developed countries, individuals are increasingly required to take responsibility for their financial affairs, so people need to be able to manage their money well. During a lifetime, there are some obvious phases/needs that can be met with education and information, and by using new tools as the Internet generation ages and computer accessibility and literacy mature. From basic math for the very young to understanding society, economics, and personal finance in one's teens. Young adults entering the labor market must be able to balance their finances and understand such issues as mortgages, insurance, savings, and pension/alternative investments, while new parents need to provide for dependents in the long term. Those approaching retirement need to prepare for and adjust to reduced income.

An example of the shift of responsibility from state to individual is the international trend of moving from defined benefit pension systems to defined contribution systems, which requires much more individual involvement, choices, and actions. Many financial institutions and advisors profit from making pension products seem more difficult than they are. As a consequence, paid counselling services are heavily promoted, although they often can be a bad deal for participants.

The investment choices available can be difficult to manage. Research shows that many people find it hard to make financial decisions. They also want more information about what the rules mean to them, for instance, how much will they get when they retire and how does that change with respect to the choices they make?

An individual's ability and/or willingness to embrace such information differs widely. People are generally badly equipped to deal with these new demands. Many do not have basic arithmetic skills. They don't want to be involved or make choices, and if they do make choices, they often make bad ones.

For some, there are two major financial decisions in life: buying a house and planning for retirement. For many, it is only the latter one. One possible reason for the lack of involvement and interest is that retirement income products are complex financial instruments and learning about retirement income and pensions is demanding. It is difficult to get the full picture of one's future retirement income from the different institutions and advisors involved and to keep track of one's entitlements. The complexity involved makes the costs of collecting information appear greater than the benefits of understanding the plans. The long-term horizon adds to the multiplicity and accounts for some of the low interest. Furthermore, the retirement process is something individuals only go through once; they do not have the benefit of learning by doing. In addition, old age is often viewed as something unpleasant and a cause for worry, so learning about pensions and retirement can involve psychological costs. Finally, participants may not appreciate the benefits of collecting information because they expect that the public pension system will provide adequate benefits.

The three most important financial literacy objectives are to trigger participants to think about and act on their choices; consider how their life choices affect benefits; and make informed choices regarding the need for additional savings.

Information and education alone are not enough to solve the problem of financial illiteracy, and expectations on what can be achieved need to be realistic. An important factor to consider is that systems need to be designed for the customers. Systems need to be simple on the outside, making it easy for participants to understand system drivers and their effects, or at least easy to communicate drivers and effects. Systems, and society, need to nudge responsible behavior, e.g. by offering built-in, well-designed, default solutions that produce competitive results for non-choosers, laws to protect consumers from biased or inappropriate advice, and so on.

The transparency that comes from relevant education and a system that's easy to understand, with easily available pertinent information and built-in nudges, creates trust in the system and what it will deliver. And ultimately, that makes participants act responsibly.

On an international level, both the Organisation for Economic Co-operation and Development (OECD) and the European Union (EU) have taken initiatives supporting financial education. In several countries, such as Australia, Canada, Japan, Sweden, UK, and USA, there are state-run programs.

Below are some thoughts that draw from the Swedish experience. Additional information is provided in three appendices.

Information and tools should be available in multiple channels and at different levels depending on an individual's knowledge, interests, and needs.
For those who want information, it should be available at each level and offer in-depth data and simulations/projections based on an individual's own situation using actual personal data (cf. Appendix 1). It should also be clear and direct and explain the drivers and the purpose of the system, such as the significance of increased longevity (cf. Appendix 2). Finally, it should emphasize not only an individual's opportunities and rights, but also their obligations.

Cooperated programs to develop the ability to absorb financial knowledge
Practice makes perfect, and the young should get relevant education starting in secondary school. To manifold the effects of training programs, a system of train-the-trainers can reach many more by ripple effect. A successful implementation of training programs should be horizontal and applied across agency boundaries.

The Swedish Financial Supervisory Authority has set up a network — "Gilla din ekonomi (Like your finances)" — for financial education in cooperation with stakeholders such as other authorities, agencies, organizations, and market companies, and initiated a program for financial education. A fundamental principle is that the information provided by the network must be independent from the different stakeholders. The aim of the network is to increase knowledge about personal finances to citizens of all ages. The goal is a population with a willingness to take responsibility for one's own financial situation, the knowledge to make rational decisions, and the motivation to be more involved and act in practice (cf. Appendix 3).

Preconditions
One success factor is to provide availability of information in many channels. People don't always ask for information, so it should be provided when and where they need it in the channels they prefer. Information should be available across the life cycles, not only when it is too late to influence the outcome, as is sometimes the case regarding pensions.

The information provided should be accessible and simple, but there should also be additional, in-depth information for those who want to know more.

By providing information automatically that is easily accessible, customer satisfaction is improved and the administrative burden is lessened.

Providing comparisons — for instance, about costs—creates clarity and transparency and helps develop confidence in people.

Governments, agencies, and international institutions need to support individuals by taking on a role as an impartial advisor to help guide their citizens through the maze of choices. (The EU has initiated steps to protect customers who invest in financial instruments.)

[1] Source: http://content.ebscohost.com/pdf23_24/pdf/2010/JCA/01Jun10/51126886.pdf.

Appendix 1

MinPension (My Pension) Background

The Swedish retirement income system consists of three parts.

The first part is the statutory and compulsory **public pension** scheme. The public pension scheme is a defined contribution plan based on life-time earnings up to a ceiling and is funded by employers' contributions. All wage-earners are covered.

The second part, the **occupational pension** schemes, is collectively agreed upon by the social partners and is funded by employers' contributions. Around 90 percent of the work force is covered by one of the four major occupational schemes. The schemes are shifting toward defined contribution plans, but there still are, and will be for a long time, defined benefit components in these schemes.

The final part is **private pensions**. Some 40 percent of the work force is covered by tax-deferred private pension insurance products.

In all three pillars, there are fully funded components for which the individual is responsible for choosing funds in which to invest his/her pension savings.

MinPension.se
The purpose of MinPension (MiP) is to provide a comprehensive picture of the total pension savings, including occupational, public, and private pensions, of individuals by collecting and using actual data from a person's different accounts with the different providers.

MiP is run as a public-private partnership. The company is a subsidiary of the Swedish Insurance Federation, the insurance trade association in Sweden, and is co-owned by the Swedish Pensions Agency and pension companies, authorities, and institutes of the private sector. The state holds 50 percent of the seats on the Board, and the private market holds the other 50 percent.

Since the start of MiP's first services in 2004, it has been a challenge, but today the partnership is one of the more interesting public-private partnerships in Sweden. At the onset, there was a great deal of uncertainty from the private sector about how MiP would change their business relationship with the customer, including fears that brands would be diluted.

Initially the delivery of the information was limited. But the content and products have been expanded, as have the number of participating pension companies. Today, all the major players are connected in regards to traditional pension products. There is only one player who does not want to deliver private pension products. There are also a number of smaller players that are not connected but those companies only offer smaller stocks.

Work is also underway to include banks that have retirement savings plans (IPS); more than five of these banks are planning to provide information in 2013.

The work has been of a "Catch 22" nature. Unless the service provides information from a sufficient number of pension companies, no users are interested, and if there are no users, no pension company is interested.

It was only when MiP passed the half million registered users mark that interest grew from pension companies that had initially been reluctant. Today, problems are mostly related to finding clear boundaries for future work.

The service
Available as an Internet-based e-service only, MiP provides individual, simple and comprehensive pension statements and forecasts to anyone earning a pension in Sweden. The program is funded by both the government and the private sector, and the MiP service is free of charge.

The target audience is people between the ages of 21 and 70.

The fully automated MiP e-service requires users to register using a personal identification number (PIN) or electronic ID before taking part in the services provided, such as simulation and forecasting. This PIN code is provided by the Swedish Pensions Agency, and the electronic ID is authorized by the banks. The PIN code can also be used to access the personalized e-services of the Pensions Agency at pensionsmyndigheten.se.

After a user registers at MinPension.se, the user's individual data is gathered partly from the Swedish Pensions Agency, partly from the Swedish Social Insurance Agency, and

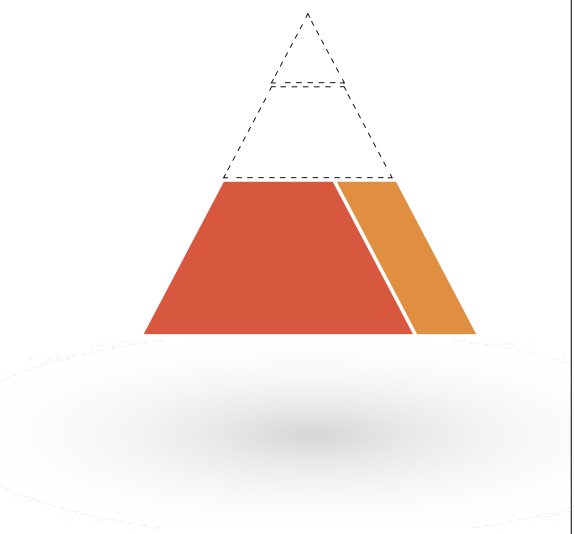
partly from one or several of the 30-plus participating pension institutes of the private sector. The data collection takes only a couple of minutes. Upon completion, the user is provided with a tool for making simulations and pension forecasts, based on his or her individual data.

Future development
Today, MinPension.se has one million registered users. MiP and its e-service are constantly evolving with new functionality and with more companies joining. One example is the iPhone app that provides mobile forecast.

Another example would be the possibility to use the MiP e-service as a distributed e-service along with single sign-on, which would take the MiP tool to a user's "e-location," such as an online banking service.

A clear challenge in the future is the need for more cross-border information services that include pension statements and forecasts. In line with the trend of growing cross-border labor mobility, this is something that will be an important step in the future, although it is not a simple issue. MiP's working hypothesis is that it is extremely difficult to deal with all countries, products and regulations in one common interface, and the aim has been to create some form of "tracking service" to provide individual help in order to trace pensions in each of our sister organizations' Web services. Being able to manage the exchange of information among sites and manage benefits is probably a long-term goal. In order to progress in the short term, a simpler solution, such as a tracking service, is needed.

Appendix 2



The Swedish public pension system consists of two parts: the pay-as-you-go **Income Pension**, and the fully funded **Premium Pension**. The public pension scheme is based on lifetime earnings (with a ceiling). The contribution is 18.5 percent; 16 percent is directed to the Income Pension, and 2.5 percent is directed to the Premium Pension to be invested in up to five different funds. There are 800 funds to choose from.

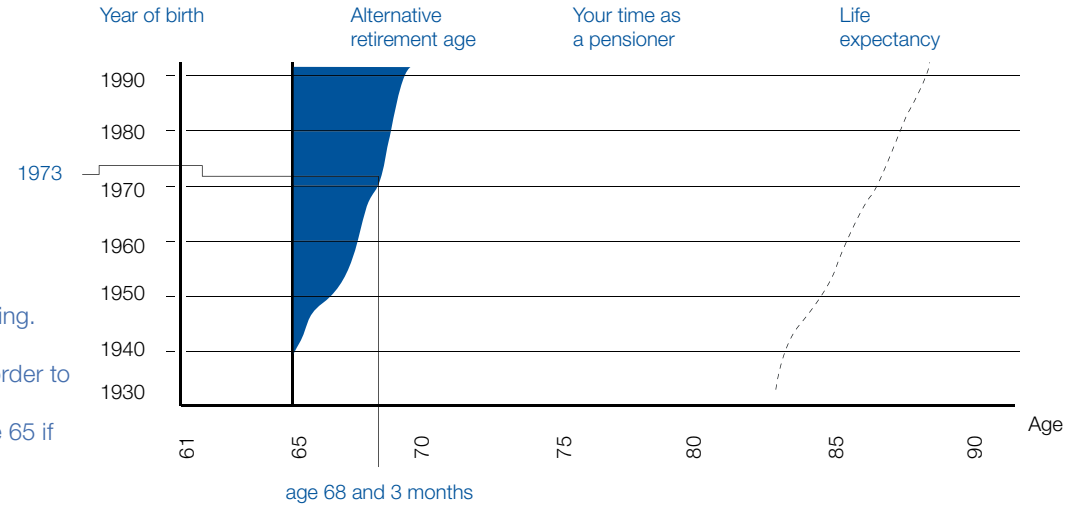
The Orange Envelope
All who are born in 1938 and later receive an "Orange Envelope" every year. This annual statement shows the balance on an individual's accounts for Income and Premium Pensions and how his or her Premium Pension funds developed during the year. The majority of people will also get a forecast of their future public pension benefits.

Cohort-specific retirement ages
Since 2012, the Orange Envelope has also included cohort-specific retirement ages. The purpose of introducing cohort-specific retirement ages in the benefit projections is to provide concise, understandable information about the effect of the increase in life expectancy on the public pension. The information shows the age to which each birth cohort must continue working in order to receive the same pension that they would have had at age 65 if life expectancy had not increased since the rules and contribution rate were enacted in 1994. Indirectly, this information also indicates the effect of increased life expectancy on pensions in monetary terms. This effect is evident in the difference between the projected pension amount at age 65 and the amount expected at the cohort-specific retirement age.

Through the introduction of a cohort-specific retirement age, information is provided on the significance of the development of life expectancy without including technical information for the insured about life spans and rules. Instead, information is provided on how the development of life expectancy affects the pensions of the insured and/or the retirement age.

SWEDISH
PENSIONS AGENCY

We live longer — that affects your pension
The life expectancy in Sweden is rising. You who were born in 1973 need to work until age 68 and 3 months in order to receive the same pension that you would have received at age 65 if life expectancy had remained unchanged.



Appendix 3

Background
As in most other Western countries, Swedes are increasingly required to take responsibility for their financial affairs – people need to be able to manage their money well. Financial education is an initiative from both the OECD and the EU.

During the past few years, the responsibility for personal finances has increasingly moved from the government to the individual, and the financial products on the market are more complicated. With more financial changes expected in terms of products, prices and conditions, there is a risk that consumers of financial products will be confused and might make decisions that do not best fit their circumstances. The Financial Supervisory Authority (FI) was ordered by the Swedish Ministry of Finance to encourage people to learn how to handle their finances.

The EU Commission has also requested that Member States produce a national strategy for financial education. EU principles for financial education are that projects should be:

- applicable to all stages in life
- adjustable to different targets
- provided to teachers
- taught in school
- increasing the awareness in financial matters
- independent information
- coordinated at a national and international level
- developed continuously

In response, The Swedish Financial Supervisory Authority set up a network — "*Gilla din ekonomi (Like your finances)*" — for financial education in cooperation with stakeholders such as other authorities, agencies, organizations, and market companies, and initiated a program for financial education. A fundamental principle is that the information provided by the network must be independent from the different stakeholders. The aim of the network is to increase knowledge on personal finances to citizens of all ages. The goal is a population with the:

- Willingness to take responsibility for one's own financial situation
- Knowledge to make rational decisions
- Motivation to be more involved and act in practice

Strategy

Target groups:

- Students
- Immigrants
- Young unemployed
- Employees
- Retirees

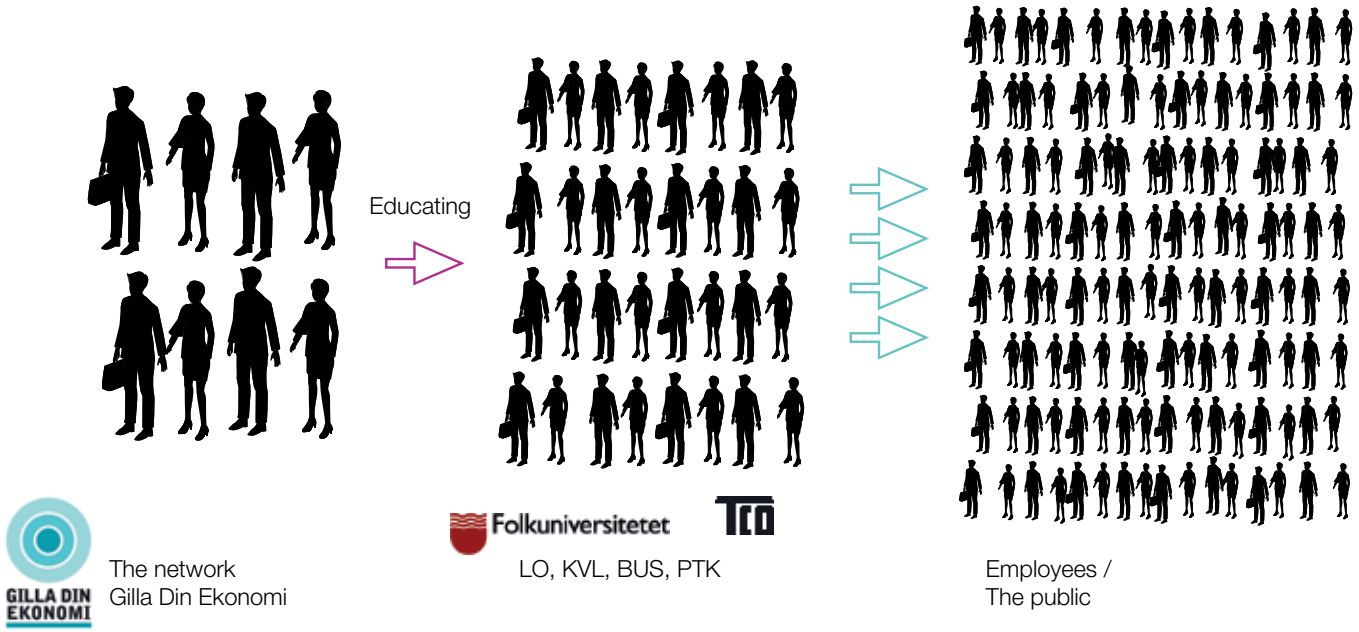
Cooperation:

- The Swedish Consumer Agency (Konsumentverket)
- The Swedish Financial Supervisory Authority (Finansinspektionen)
- The Swedish Pensions Agency (Pensionsmyndigheten)
- The Swedish Enforcement Authority (Kronofogdemyndigheten)
- The Swedish Public Employment Service (Arbetsförmedlingen)
- The Swedish Consumers' Banking and Finance Bureau (Konsumenternas Bank- och
- Finansbyrå)
- The Swedish Consumers Insurance Bureau (Konsumenternas Försäkringsbyrå)
- Financial organizations and market companies

Delivered through:

- Teachers in school
- Immigrant teachers
- Corporations and municipalities
- Trade unions
- Pensioner's organizations
- Adult educational associations

Why through ?



- Geographic and demographic spreads
- Efficient. Low cost.

Swedish projects in financial education

A series of projects
The Swedish Pensions Agency, together with other authorities, agencies, organizations and market companies, has initiated several projects for financial education. Each member participates with their knowledge and time. The educational programs are not trying to sell any products -- just provide the facts. No brand names are allowed in course materials.

Secure your financial future (Trygga din ekonomiska framtid) is one of the projects run by the network. It is a broad educational program for personal finance. The program is targeted to Swedish workplaces.

The goal is to give people financial self-confidence. With that confidence and a guideline to where you can find accurate, independent information, most people should be able to understand and handle their own finances, both short and long term, in a better way.

The basis that we used to create the program included a number of surveys, pilot meetings and in-depth interviews. All of the research demonstrated that there was a need to improve awareness about personal finance. But it also showed that a two-hour-lesson was enough to strengthen an individual's financial self-confidence and help people actually act to improve their finances.
To make the project cost-efficient and spread throughout the country, the project is based on a model originally developed in the UK in their "Financial Capability" program run by the Financial Services Authority.

The model works with trained communicators. Our strategy for education and effective communication channels is that members of the network will select individuals who, in their turn, will inform a wider audience (a train-the-trainers type of method). In turn, the certified personal finance instructors can, with support from the course material and experts from the network, spread this knowledge to workplaces across the entire country.

This model gives us an opportunity to reach out to all Swedish workplaces. We also believe that working with local communicators can improve the information. It is a person whom you trust who speaks the same language and to whom you feel comfortable asking questions.

Target group	Project	Focus	Web site
Students via teachers	"Life and money"	Personal finance, consumer rights and internet commerce.	www.konsumertverket.se
Students via teachers	"Watch the cash" (Koll på cashen)	Moving away from home	www.kollpacashen.se
Young unemployed	"Financially smart" (Ekonomismart)	Personal finance, avoid over-indeptedness	www.ekonomi-smart.se
Immigrants via teachers	"Your money and your finances" (Dina pengar och din ekonomi)	Personal finance, protection by society and the Swedish banking and payment system	www.sfiekonomi.se
Employees via trade unions and adult educational associations	"Secure your financial future" (Trygga din ekonomiska framtid)	Savings and pensions, consumer rights	www.gilladinekonomi.se
Employees via trade union LO	Film about your pension	Pension	
Pensioners	"Secure your finances in old age"	Budgets, making payments, savings, senior loans, online bankings, taxes, consumer rights and family law	www.gilladinekonomi.se

The communicator gets a two-day course taught by members of the network. The course contents:

- Budget, payment and insurance information
- Impartial advice is available and free of charge
- Reduce taxes and fees on your savings
- Risk and return
- Savings: banking, mutual funds, shares, endowment
- Public pension
- Occupational pension
- Private pension savings
- Calculate your retirement
- Communicators - how to proceed

After the course is complete, the communicators get a two-hour Power Point presentation with a speaker's script, so they can hold their own lectures. They also get material from the network and can then modify and add things to the lecture depending on the audience. The communicators have their own website, www.gilladinekonomi.se, where the material is updated, and they can contact the network for help and information.

Over the next three years, experts from the network will train representatives from the Swedish Confederation for Professionals employees and 15 trade unions as well as teachers from Folkuniversitetet, an independent adult educational association, to become certified personal finance instructors. The network has also given courses to municipal consumer advisors who work specifically with households with heavy debts.

Since September 2011, we have trained 250 teachers across the entire country reaching 50,000 people. Swedish television has recorded training and has broadcast it on three occasions, reaching 300,000 people.

The way to make this all work is to create a win-win situation, not only in money but in other values. That will help assure that the information work will be done. The representatives who have been trained should have their own, not-for-profit goals to spread the information. For the trade unions, this means to give their members value; for the adult educational association, this means to give lectures that are in demand.

The win for the market companies is that they can improve their brand as a responsible organization and that well-educated people will be better consumers who can buy and request products that are better aimed for their needs, and who hopefully will not be easy victims for telemarketers.

The participation in the network is on a non-profit basis.

Other sources and country experiences on financial literacy
UK (FSA): Financial capability (2003). The Money Advice Service (2011).
USA: Financial Literacy and Education Commission (2003)
Australia: National Consumer and Financial Literacy Taskforce (2004)
OECD: Improving Financial Literacy - Analysis of Issues and Policies (2005)

An Example of a National Financial Literacy Program – Germany

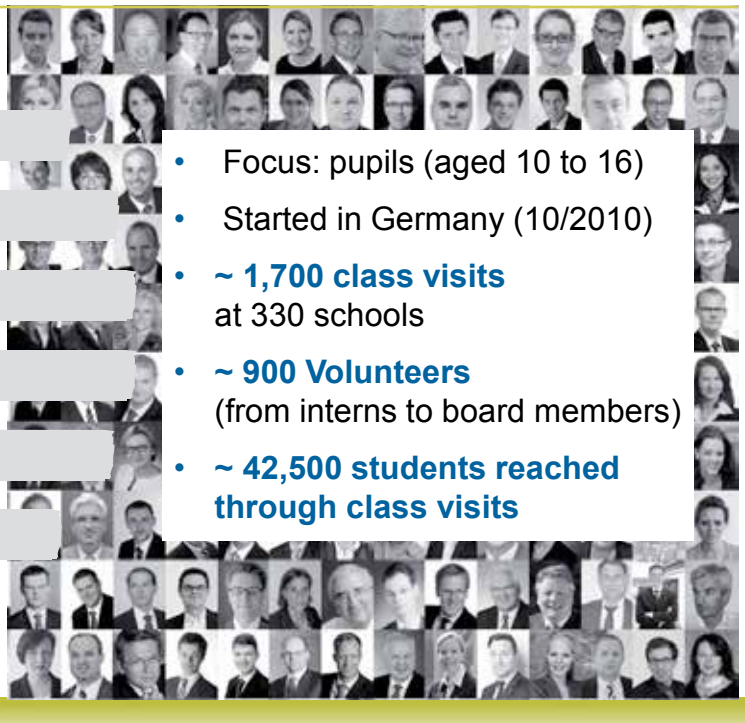
Presented by Volker DeVille, Executive Vice-President, Allianz SE

My Finance Coach is an independent, charitable initiative with strong partners that has reached 150,000 pupils since 2010

Characteristics of the initiative

Status quo (October 2012)

- Independent
- Charitable
- Holistic
- Pedagogical
- Prize-winning
- Evaluated
- International



- Focus: pupils (aged 10 to 16)
- Started in Germany (10/2010)
- **~ 1,700 class visits** at 330 schools
- **~ 900 Volunteers** (from interns to board members)
- **~ 42,500 students reached through class visits**

My Finance Coach is an independent, charitable initiative with strong partners and great ambitions

Characteristics of the initiative

- Status quo (October 2012)
- **Independent**
- Charitable
- Holistic
- Pedagogical
- Prize-winning
- Evaluated
- International

Driven by the three partners: Allianz, Grey and McKinsey; Further supporters: KPMG, Haniel and others

My Finance Coach is an independent, charitable initiative with strong partners and great ambitions

Characteristics of the initiative

- Status quo (October 2012)
- Independent
- **Charitable**
- Holistic
- Pedagogical
- Prize-winning
- Evaluated
- International

Charitable status achieved, **no sales and marketing activities** allowed

My Finance Coach is an independent, charitable initiative with strong partners and great ambitions

Characteristics of the initiative

- Status quo (October 2012)
- Independent
- Charitable
- **Holistic**
- Pedagogical
- Prize-winning
- Evaluated
- International

Students reached through **class visits** by volunteers, **teacher training** and **extra-curricular formats**

Class visit

Teacher Training

Extra-curricular activities

My Finance Coach is an independent, charitable initiative with strong partners and great ambitions

Characteristics of the initiative

- Status quo (October 2012)
- Independent
- Charitable
- Holistic
- **Pedagogical**
- Prize-winning
- Evaluated
- International

Learning material developed together with a **leading school book publisher** and reviewed by **renowned educational experts**

Role play & group work

Mind maps

Practical preparation

Understanding "the language of money" helps empower youth to become entrepreneurs

Klett MINT

My Finance Coach is an independent, charitable initiative with strong partners and great ambitions

Characteristics of the initiative

- Status quo (October 2012)
- Independent
- Charitable
- Holistic
- Pedagogical
- **Prize-winning**
- Evaluated
- International

Awarded as a project of the UN Decade **"Education for Sustainable Development"** by UNESCO and European Comenius medal

Nachhaltigkeit lernen
Weltdekade der Vereinten Nationen 2005-2014
Bildung für nachhaltige Entwicklung
UNESCO
Offizielles Projekt der Weltdekade 2011 / 2012

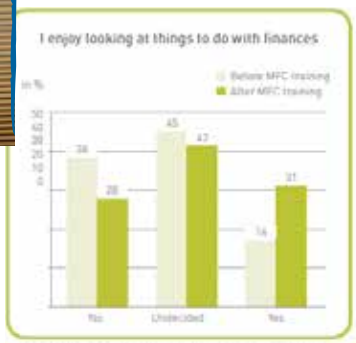
Comenius EduMedia Siegel 2012

My Finance Coach is an independent, charitable initiative with strong partners and great ambitions

Characteristics of the initiative

- Status quo (October 2012)
- Independent
- Charitable
- Holistic
- Pedagogical
- Prize-winning
- **Evaluated**
- International

Prof. Winter (LMU, Munich) and his team evaluated the efforts of My Finance Coach **- with positive results**!



Source: My Finance Coach evaluation, Prof Dr Joachim Winter

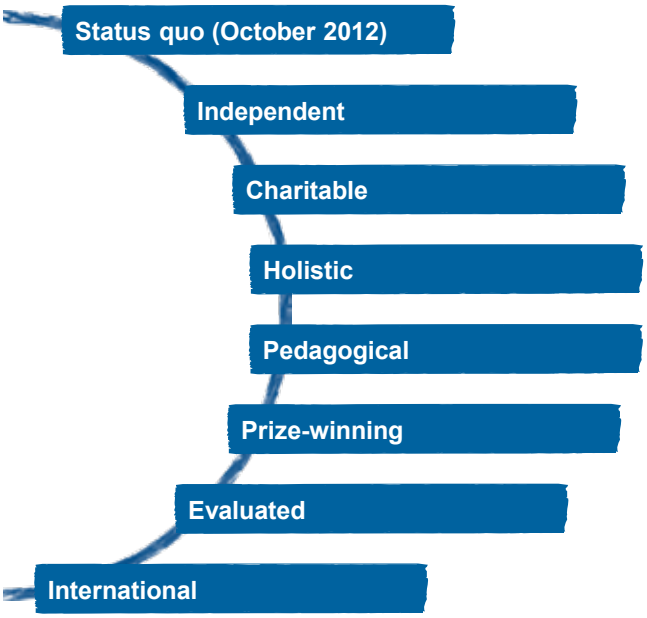
My Finance Coach is an independent, charitable initiative with strong partners and great ambitions

Characteristics of the initiative

- Status quo (October 2012)
- Independent
- Charitable
- Holistic
- Pedagogical
- Prize-winning
- Evaluated
- **International**

Currently active in **5 countries** (Argentina, Germany, Indonesia, Malaysia and Thailand) with further countries raring to go

Vision: Better future for children and youth through financial inclusion



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9

Private Sector Tools

Financial markets and employers should help manage the risks associated with retirement saving.

The Role of the Employer

by Kevin Hogan, Chief Executive Officer, AIG Global Consumer Insurance, American International Group (AIG)

The Background and Introduction
The World Economic Forum has established a Global Agenda Council (GAC) to progress thinking on developing sustainable social security systems around the world, with a strong focus on old age income security. The GAC has been working to develop a comprehensive framework to inform policy development in this critical area.

Within the proposed framework, the role of paid work is vital, since it provides an important form of social security, as well as the potential means with which to fund income in retirement. This paper outlines the contribution that is likely to be needed from employers in order to help create sustainable systems to provide for old age income security.

Employers have a number of opportunities to contribute solutions in a sustainable social security system, which can be grouped together under the heading of "responsible employment practices." When implemented effectively, these practices can significantly improve the availability and implementation of Pillar 2 pension arrangements, while more flexible employment practices can make a real difference to the ability of older people to access paid work as part of Pillar 4.

Responsible Employment Practices
Employment provides an opportunity for workers to earn an improved standard of living and accumulate savings. Employment also provides an essential bridge to participation in the taxation system and eligibility for social security benefits in retirement. Employers will continue to play a critical role in facilitating an individual's participation in pension systems. A core challenge here is to provide a positive environment for individuals to contribute to a Pillar 2 pension scheme in order to build savings for their own retirement that go beyond the minimum guaranteed by a social protection floor.

The performance of any pension system in terms of final pensions and sustainability will depend largely on the amount and frequency of contributions. In a defined contribution system, pensions depend on the contributions paid during the worker's active working life. If a worker contributes continuously on the basis of his or her real wage, the possibilities of obtaining an adequate pension increase significantly.

Especially in emerging countries, there is a large informal employment sector that is exempt from contributions, while in developed countries, more and more sectors are not obliged to contribute. But it is not only the continuity and amount of the contributions that matter--the time at which these are made is also important. In a funded defined contribution system, the contributions made during the early years of working life have a significant impact on the final benefit. This is due to the effect of compound interest on these savings over a long period of time. In a defined benefit scheme, individuals will often have to make a minimum number of contributions to have the right to receive a pension and the benefit depends on the final salary. The sustainability of a defined benefit scheme is therefore dependent on whether early funding is consistent with salary

increases and likely future life expectancy. So employers need to encourage their workers to start contributing early, to contribute sufficiently, and to contribute continuously.

As life expectancy has increased, the effective retirement age has not risen along with it. The average life expectancy for OECD countries has risen from 72.6 years in 1980 to 79.8 in 2010. However, the average effective retirement age for OECD countries has barely risen at all during the same period, and in 2010, was just 63.5 years. If this mismatch continues, workers will find themselves having to fund an average of 20 years of retirement out of a working career of between 40 and 50 years (and this average means that for some workers, the funding requirement will be 30 or more years of retirement) — in effect, approaching a 2:1 ratio. In economies where interest rates are low, it's likely that compound interest will not be sufficient to keep pace with inflation, leading to limited real growth in investments. In such environments, a dollar saved today will be required to fund a dollar of retirement benefits in the future. All these factors point to a need for workers to make changes to their saving patterns in order to adequately fund income in retirement.

This leads to several imperatives for responsible employers, namely to:

- ensure pension arrangements are available to the whole workforce on attractive terms (e.g., by matching employee contributions with an employer contribution up to appropriate limits),
- encourage younger workers to start contributing as early as possible, and
- educate employees to understand how their pension arrangements work and what contributions might be necessary to fund a decent income in retirement.

Employers will have a growing role in delivering financial awareness and education programs to employees. As a key funder of many supplementary pension systems, responsible employers should provide the whole workforce with the information and training required to make proper retirement saving decisions. Such information and training will need to be appropriately tailored to meet the varying needs of different employee segments.

Compulsion is not popular, but initiatives such as the UK's auto-enrollment, coupled with the responsible employment practices outlined in this paper, could provide the incentive needed to encourage workers to save more for their retirement.

As workers get older, joining a Pillar 2 pension scheme and making meaningful contributions will only partially resolve a shortfall in retirement income. In addition to contributing to a Pillar 2 pension scheme, many employees will need to extend their working lifetime in order to improve their retirement income. Raising the retirement age and working longer provides several benefits:

- individuals increase their current income,
- individuals delay the age of their entry into a retirement program,
- more time is allowed for money in defined contribution plans to accrue interest, and
- the length of time in retirement that individuals have to fund is shortened.

It is therefore recommended that employers adopt more flexible working arrangements for employees who are past formal retirement dates. This would include allowing employees who are past the formal retirement age to continue to belong to retirement saving arrangements and possibly contribute to those arrangements. Moreover, the linear process of "study, then work, then retire" is being replaced by new, less predictable life pathways; new life pathways are also being driven by increasing gender equality in many countries, coupled with technology advances that facilitate out-of-office working for some segments of the working population.

This leads to further imperatives for responsible employers to:

- ensure gender equality in work participation and in pensions availability for women,
- ensure age equality and work participation of older people, and
- offer flexible employment schemes that integrate full-time and part-time work, both before and after the regular retirement age.

Employers may require legislative support to enable continued membership of retirement plans by employees past retirement age. Progressive laws are needed that address the willingness of employers and employees to engage and support a more diverse, flexible workforce. Such laws will underpin a progressive approach toward our aging societies. There is strong evidence that laws that ban discrimination in terms of age are an important element of promoting a silver economy made up of older people who are willing and able to remain in the workplace. Only by addressing increased opportunities for older people to remain economically active will many societies be able to keep growing and remain competitive.

The Role of the Financial Services Industry

by Kevin Hogan, Chief Executive Officer, AIG Global Consumer Insurance,
American International Group (AIG)

Background and Introduction

The World Economic Forum has established a Global Agenda Council (GAC) to progress thinking on developing sustainable social security systems around the world, with a strong focus on old age income security. The GAC has been working to develop a comprehensive framework to inform policy development in this critical area. Among the many stakeholders, the financial services sector–primarily insurers, asset managers, and banks–has a vital contribution to make.

This paper outlines the nature of the contribution that is likely to be needed, beginning with the provision of suitable products, services, and tools. There is also a requirement to contribute to the general development of effective capital markets in order to provide a full range of investment options for long-term savings. Capital markets not only create efficient access to investment and operating capital for companies, they also give investors increased choices to secure better returns from an appropriately diversified asset mix in support of their long-term savings.

Moreover, the sector must also step up to some additional responsibilities that will be crucial to the development of more sustainable sources of income in old age. This will include:

- the creation of a climate of trust and a culture that treats consumers fairly,
- better solutions for the management of longevity risk, and
- improving the portability of retirement savings.

The Provision of Suitable Products, Services and Tools

The financial services industry has the responsibility of creating suitable products for Pillar 2 and Pillar 3 retirement savings. In addition, the financial services industry has an important role to play in providing asset and risk management services to employer-sponsored pension schemes offered by the private sector.

Further, the challenges that pension systems face are causing the financial services industry to be called upon to foster individual savings and provide more efficient, lower-cost delivery. Particularly in geographies where there is a strong reliance on a defined contribution approach to retirement provision, the industry faces a twin challenge of providing products that are simpler and cheaper for individuals while also providing customer experiences that are better, more engaging, and more supportive. This will require innovation at a product level as well as at an operating model level.

The financial services sector will need to respond flexibly, creatively, and responsibly to these challenges. The development of safe products and solutions that can support supplementary pension provision and diversify risks such as investment volatility and longevity, while providing a customer experience that is compelling, is required. Moreover, financial services providers have an important role to play supporting employers with asset and risk management services for their pension portfolios and group pension plans.

In addition to the Pillar 2 and Pillar 3 products themselves, customers need more help understanding the relationship between risk and return—in this regard, better access to attitude-to-risk profiling tools is required. This then leads customers to consider strategies that reduce risk through asset allocation and diversification, leading to requirements for better access to tools to assist with asset allocation and pooled investment funds to help with diversification.

The financial services industry is well placed to develop programs in partnership with employers to improve financial literacy, which forms part of the bedrock of effective and sustainable social security. There are a number of challenges to financial literacy around the world, but one of these is the need for people to have realistic expectations about their financial security in old age. There is a critical education opportunity when an employer invites an employee to enroll in a Pillar 2 pension scheme. Employer and pension provider should work together to ensure that each employee is given the necessary information, education, and tools to help them make the right choices.

The financial services industry will also face greater responsibility to educate and empower individuals through better disclosure of product information and costs, using easy-to-understand communication, improved customer experiences and engagement, cost-effective distribution of advice, and flexibility around channels of communication.

The Creation of a Climate of Trust

One very important pre-requisite is the issue of trust the stakeholders and, in particular, the customers have in private sector providers and regulators. Post-financial crisis, this trust has decreased and also varies significantly among banks, asset managers, and insurance companies.

The financial sector may be capable of producing excellent products that incentivize long-term savings. However, these products will not be widely taken up unless consumers have confidence that they are buying a suitable product at a

reasonable price from a provider that will still be there in 30 to 40 years time to pay out the pension benefits.

To ensure improvements in trust in the financial services industry, capacity building of an effective supervisory framework and related intellectual capital will be important.

This leads to imperatives for responsible financial services providers to:

- provide fair and trustworthy customer relations,
- ensure customers have access to high-quality advice,
- foster realistic expectations based on prudent investment strategies,
- meet high standards of fiduciary responsibility,
- maintain a prudent investment approach to protect the solvency of the retirement product promise (including financial discipline and ethical behavior), and
- support (and fund) effective regulation.

Without these steps, the industry will not be able to position itself as an ally of governments and employers in the provision of a sustainable pensions system. Many providers are already delivering in this regard, but more needs to be done post-financial crisis—particularly in the banking sector—to rebuild trust and confidence.

Management of Longevity Risk and Further Development of Effective Capital Markets

The private sector and insurance solutions in particular can make a major contribution to meeting the challenge of providing for retirement through the pooling and diversification of risks across populations and geographies. Such risks include asset protection and inflation risk, and also elements of longevity risk. However, the capacity of traditional insurance products will likely not be sufficient to meet all future needs. Hence, traditional insurance products may have to be supplemented by non-traditional, capital market-based solutions.

While a range of insurance products, including annuities, are available to households and pension funds, further innovation is required specifically to deal with longevity risk. (See the appendix at the end of this section for more information on annuities.) The potential financial impact of this longevity risk is enormous. Each additional year of life expectancy raises pension liabilities by about 4 to 5 percent. To enable the financial services sector to manage longevity risk more effectively, it may be important to encourage the transfer of longevity risk from the insurers to the capital markets. By increasing the scope of the capital markets and allowing securitization of longevity risk, greater diversification across geography and demography can be achieved. In addition, this will also enable more efficient pricing of longevity risk.

There is also growing demand for specific longevity insurance, where investment risk is retained by the policy-holders but they are insured against improvements in the mortality of pensioners. Longevity swaps allow an investor to transfer the financial impact of pensioners living longer than expected to an insurer.

Many of the above products will require greater support from the capital markets to be successful on a global scale.

More broadly, in order to support options for people to save effectively, it is important that capital markets be developed further. These developments should ideally be deep, broad, and liquid in order to provide a full range of opportunities to manage the balance between risk and reward through appropriate diversification, asset allocation, and product selection. Not all countries have access to such markets today. The development of effective international capital markets should facilitate risk reduction strategies through diversification, while national capital markets will help mobilize national savings for a nation's own development.

Improving the Portability of Retirement Savings

As people move across nations, and from rural to urban areas, being able to take their retirement savings and pension entitlements with them is becoming an increasingly important requirement. Internationally, portability of social security entitlements is limited to a few regions, and in some countries, benefits aren't even portable between rural and urban areas. This issue is particularly relevant for regions and countries with large migrant populations.
Pension portability within a country from one employer to another, and to facilitate consolidation of retirement savings with multiple providers, is also a major and growing issue. In some countries, there is a large proliferation of inactive or dormant accounts that members are either unable to legally claim or consolidate. Even where allowed, many fail to act due to inertia and lack of awareness or complexity. This can result in major administrative inefficiency and individuals who are not able to maximize their pension outcome. Australia has almost three accounts for every employee, with 6 million accounts lost and unclaimed; it is adopting auto-consolidation of inactive accounts. Regulatory change has recently occurred to permit two-way movement between Australia and New Zealand. The United Kingdom is also currently developing policy on multiple accounts consolidation. The issue is also being widely discussed in the European Union and in developing countries where their citizens are employed in other countries as temporary labor entrants. A common European pensions market would be a benefit for individuals, and bilateral agreements between countries are important to develop.

Accordingly, countries working in partnership with the financial services industry need to ensure that:

- transparent, easily understandable, reliable, cost efficient, and risk return-based products that are portable across firms and jurisdictions are developed,
- group pension plans that are portable across employers and jurisdictions are actively promoted, and
- there is effective portability both between fund providers within a country, as well as from one country to another. This should include not just the legal right of a member to exercise portability, but it should also establish an "auto" solution or default when they fail to make a decision.

Ultimately, global protocols will be required.

Appendix : Annuities

A strong annuity market is an important contributor to retirement security. Annuities allow the investor to purchase a defined income stream in exchange for an upfront premium. The annuity allows for the insurance of longevity risk, and to varying extents, depending on product design, it can also provide protection against inflation and investment risk, as described below.

Fixed annuities provide a payment that either remains level or increases in a predetermined way. In low inflation environments, a level annuity may provide reasonable protection, but it remains susceptible to erosion from inflation. This is a growing risk in an environment where pensioners are living longer. Another popular fixed annuity is one where the pension payment increases in line with a specified, national measure of consumer inflation. These annuities provide pensioners with protection from inflation and longevity, and thus can provide a high degree of certainty of retirement income. However, in environments where real interest rates are low, this level of protection can prove expensive. Variable annuities seek to share risks between policy-holders and the insurer in some way. Both investment risks and mortality risks can be shared, which reduces the cost of the insurance but also exposes pensioners to some level of inflation risk.

While defined benefit pension funds create their own pools for risk diversification, they, too, can benefit from annuities and other insurance products. A pension buy-out involves the pension fund transferring all or a portion of the existing pensions and accrued service of active members to an insurer. The insurer thus takes over the liability towards the pension fund member or pensioner, relieving the sponsoring employer of the impact of longevity or investment risks. A pension buy-in leaves the liability to pensioners and members in the fund, but it involves the pension fund re-insuring these benefits with an insurer. The pension fund then holds a policy that offsets the liabilities toward its members and pensioners. Some pension funds may wish to retain longevity risk but mitigate investment risks. Liability-driven investments allow funds to reduce investment risk through adopting an asset portfolio that closely matches the behavior of the benefit liability, particular to movements in interest rates.

Functioning Capital Markets

Deep, broad, and liquid capital markets are necessary to support strong financial retirement and social security systems.

The Financial Role in Promoting Sustainable Social Security Systems

by Daniel Hofmann, Adviser to the Chairman, Zurich Insurance Group

Demographic and fiscal challenges are increasingly pointing to financing limits of our social security and financial retirement systems. At risk are governmental pay-as-you-go (PAYG) systems (typically associated with the term "Pillar 1"), but also defined benefit (DB) pension or so-called Pillar 2 schemes. In a number of countries, a third pillar built on individual savings complements the first two pillars, thus broadening the support of current social security and financial retirement systems.

Although households (or taxpayers) have always been the ultimate holders of retirement funding risk, the emerging shift from Pillar 1 to Pillars 2 and 3 exposes them explicitly to financial market and longevity risks. This raises the question of how well-prepared households are to absorb and manage these risks. This paper proposes that financial markets can and should play an important role in the management of these risks and that policymakers should encourage an appropriate sharing of risk between the public, corporate, and household sectors.

Pillars 2 and 3 can only be viable complements to Pillar 1 if financial institutions are ready to assume and manage substantial parts or all of the risks accruing to households. Insurers, for example, manage longevity risk (the risk of policyholders living longer than expected) by assuming mortality risk (the risk of policyholders dying prematurely). In a diversified insurance portfolio, mortality risk mitigates longevity risk, reducing the insurer's overall risk to manageable proportions. To reduce investment risk, insurers and asset managers run large investment portfolios that are diversified over many financial asset classes and geographies.

Households can benefit from the financial sector's risk management expertise by acquiring appropriate financial products. Annuities, for example, allow an individual to purchase a defined income stream in exchange for an upfront premium. These products cover longevity risk and, to a varying extent and depending on product design, may provide protection against inflation and investment risks. Thus, a strong annuity market can be an important contributor to a household's financial security in retirement.

Insurance products designed to absorb and manage longevity and investment risks require deep and liquid capital markets. However, capital markets in many emerging market economies continue to be nascent, and the range of saving and investment instruments available to households and institutional investors is limited. Therefore, developing and expanding an emerging economy's capital markets would offer opportunities for better portfolio diversification, while improving asset returns and mitigating investment risk. Further market development may even be required in advanced economies where the policy goal should be to expand the current range of financial instruments to include protection against longevity risks, health care costs risks, and housing price risks.

And while strengthening financial markets is necessary, alone it is not a sufficient condition to transfer financial risk from households to insurers and banks. The current financial crisis has reminded us that markets are susceptible to periodic and severe disruptions. Markets need strong supervision with appropriate macroprudential tools to identify the build-up of systemic risk and the capability to prick emerging bubbles when appropriate. And because financial markets are interconnected, domestic regulation needs to be embedded in an international architecture that allows for the cross-border coordination and cooperation among national supervisors.

An integrated and well-supervised global financial market is also a prerequisite for the mitigation of market pressures arising from the differential in demographic developments between young and ageing economies. A number of commentators have suggested that when the baby boom generation eventually starts cashing in its investments to

pay for retirement consumption, the selling pressure may generate a sharp decline in the price of financial assets, because there will not be enough young investors to buy them.

Fortunately, the likelihood of a meltdown appears to be low for a number of reasons,[12] and it appears to be even lower in globally integrated financial markets where sellers can always find buyers. In a globally integrated market, demand for assets from investors in young economies with high propensities to save could alleviate the adverse price implications of large selling orders in ageing economies. But the beneficial effect of open capital markets may materialise only at the price of substantial financial flows from young economies to ageing ones.

A cursory reading of recent history is not assuring. Capital flows from emerging markets to advanced economies have often created political resistance, with direct investments denied on the basis of often spurious reasons. And the financial crisis appears to have stifled, if not entirely stopped, the globalisation process. In the current climate, defragmentation rather than financial market integration appears to be the mantra of policymakers keen to protect domestic industries. However, there can be no question that from a policy point of view, there is no alternative to promoting the development of more sophisticated and better integrated financial markets with strong regulation and efficient systems of corporate governance.

[12] Assumptions about the pattern of life-cycle saving matter greatly in this debate.

Existence of a Public Floor and Adequate Social Security Scheme

A public floor is an enabler, as it guarantees income security and access to basic services throughout the life course.security systems.

Existence of a Public Floor

by Katrin Westling Palm, Director-General, Swedish Pensions Agency

With policy reform, changes to workplace practices, and improvements in managing the cost of older workers, working longer could become the new normal. Under this model, "study/work/retire" will become a thing of the past, and work will take on an elevated role in ensuring an individual's lifetime financial security.

Public floor is an enabler

There are many benefits to expect from establishing a public floor, for society as well as for individuals. A floor can be an effective means of reducing poverty. It can also stimulate formal work and participation in the formal work force and thereby inclusion in the tax system. A public floor has an income-redistributive effect, from time spent working to time spent in retirement, and it provides savings for both individuals and state.

Closing the coverage gaps

An important structure for poverty reduction is some form of basic protection, such as Pillar 0. For a developing country, such basic coverage is most effective if it is general and is not means tested. Means testing is administratively expensive, and being on the receiving end of a means-tested benefit can be stigmatizing; both of these factors are counterproductive. Even a very small sum can generate significant results. For instance, it can provide the added means to buy a newspaper with the classifieds and help someone find a job. The International Labor Organization (ILO) recently adopted a recommendation on how social protection floors can be achieved.

Pillar 1 should be sustainable with flexibility and adjustment to longevity

Once a country has established Pillar 0, the road forward is usually an income-related scheme with a redistributive effect to provide income replacement in old age. This can be accomplished in a number of different ways, and there are some important building blocks to consider at the drawing board to ensure financial stability. Contributions to the system should determine the benefit level; a close link between benefits and contributions provides incentives to work and eliminates unsystematic redistribution. A pension system that covers a considerable part of working income and covers all working people creates strong support across groups. Financial stability can be achieved by including a built-in stabilizer, e.g., indexation to life expectancy, so that the system follows economic and demographic development. Pension systems should be neutral and pay men and women equally. Because men and women's labor market patterns differ, this could mean lower benefits for women, but the pension system should not be used to correct an unequal labor market, as this can result in unsystematic redistribution and disincentives to work that are not consistent with a stable system.

The Swedish welfare system is sometimes referred to as a model of a working Pillar 1. Some of the salient features may serve as inspiration to others setting up such systems. The entire Swedish population is covered under statutory and compulsory public social insurance schemes. The schemes are general, which facilitates free movement between different employers (compared to sector-specific solutions where a change of jobs can come at a cost, if workers are moving to one with a less-generous scheme). Most benefits are individual, and there are no gender-specific benefits. Benefits are income-related according to the income-loss principle—i.e., they cover a percentage of income from gainful activity—and financed via employer and employees' contributions. Income-related benefits are combined with basic security that is tax-financed and residence-based. The pension system is automatically flexible with changes in longevity, labor market, and economy/wages. Pension benefits are based on life expectancy at retirement and are indexed yearly with average wage growth. To maintain financial stability, the financial position of the pension system is calculated each year by a ratio of assets and liabilities. This balance ratio affects how benefits are indexed and makes the system respond automatically in case of shocks in demography and economy. Social assistance is not part of social insurance but is separately administered by the municipalities (local government).

Framing and sequencing are critical

Before establishing a pension system, some supporting administrative structures, prerequisites for efficient administration, need to be in place. These include a computerized system for national registration and personal identification numbers, preferably one common system across all uses. There should also be a computerized tax system of some sophistication, along with computerized systems for the collection of contributions and enforcement services, both preferably equally centralized. A secure payout administration via the banking system should be in place, as well as a choice of means of communication (online, text messaging, paper) with participants.

Centralized supporting structures are more efficient and effective, and help keep administration costs down. Centralizing systems can also create a necessary divide from system administrators and thereby reduce the risk of corruption and looting, or funds being used for purposes other than intended, and can more easily be monitored by international institutions.

The Swedish experience

The Swedish model is an example of a sustainable social security system with a public/tax financed first pillar system, an example that requires a well-developed public administration.

System Ingredients. The earnings-related public pension is a defined contribution scheme with a contribution rate of 18.5 percent: 16 percent of earnings are credited to a notional account (NDC, pay-as-you-go), and the remaining 2.5 percent is contributed to an individual account (fully funded). The retirement age is flexible; benefits can be paid out starting at age 61, and at retirement, the account balance will be converted to an annuity.

For individuals with no or low pensions, the pension system provides a guaranteed pension that is means-tested and offset by the income pension.

The long-term financial stability in the system is ensured by linking earned pension rights to economic growth and by linking benefits to life expectancy.

At the time of retirement, the accumulated balance on an individual's earnings-related pension account is divided by an annuity divisor. Divisors are specific for each birth cohort and reflect remaining life expectancy when the pension benefit is first withdrawn.

Benefits are recalculated annually. The earnings-related pension is indexed according to changes in wages (an income index). The guarantee pension is indexed to the consumer price index.

The system creates a clear link between contributions and benefits. However, for workers in the lower half of the wage distributions, the link between contributions and benefits is blurred because of the offset between the earnings-related pension and the guaranteed pension.

The system redistributes income from high earners by putting a ceiling on earnings used in determining benefits but levying the employer payroll tax on the full earnings.

System Pros. The system is tied to economic growth and has a built-in stabilizer—an automatic balance mechanism—that makes it financially stable in the long run. The calculation of benefits is indexed to life expectancy.

System Challenges. This type of system puts more responsibility on individuals to plan and prepare for retirement. Pension benefits in the NDC plan are determined by how much is contributed over the lifetime of the individual. The focus on contributions makes the benefit side less transparent. Benefits are indexed to life expectancy, and as individuals live longer, annual benefits will be lower for a given retirement age. This means that individuals will have to work longer and save more on their own to provide for retirement. Information and education are therefore important components of the system.

SWEDISH
PENSIONS AGENCY

Main features of the public pension system

- Compulsory system
- Lifetime earnings
- Contribution = 18.5 %
  - 16 % to NDC (pay-as-you-go)
  - 2.5 % to FDC (funded)
- Rate of return
  - NDC: wage index
  - FDC: financial market
- Income ceiling = 7.5 base amounts (= SEK 409,500 for 2012)
- No age limits
- Benefits based on life expectancy at retirement
- NDC – automatic balancing
- Guarantee pension
  - basic protection (general tax financed)

SWEDISH
PENSIONS AGENCY

The Swedish retirement income system

First pillar	Second pillar	Third pillar
Income Pension NDC, PAYG	Occupational schemes (90% coverage)	Tax deferred individual pensions
Premium Pension DC, Funded		
Guaranteed Pension		

The Existence and Sustainability of a Public Floor: A Development Perspective

by Richard Blewitt, Resident Coordinator and Representative for Trinidad and Tobago and Suriname, United Nations

The past decade has seen growing recognition of the role of social protection in developing countries. Despite strong economic growth in many nations, poverty has remained stubbornly high while inequality has been on the rise. Yet a number of countries have bucked this trend and begun to extend social protection to their citizens. These experiences have shown two things. First, social protection is essential for tackling poverty and inequality and making growth inclusive and, second, rather than being the reserve of richer economies, meaningful and effective social protection policies are affordable in relatively low-income contexts. Countries such as Brazil and South Africa have been hailed as pioneers in this respect, but they have also been joined by the likes of Bolivia, Nepal, and Timor-Leste, which have started to implement pieces of a social protection system. In the meantime, the global economic crisis has demonstrated the important role of social protection systems in underpinning growth. Social protection systems were a key tool in countries rich and poor alike, and countries with strong social protection systems were better able to deal with the crisis.

The concept of "social protection floors" is gaining increasing currency as a way to prioritise the extension and reform of social protection systems. A social protection floor is a way of describing a social protection system that guarantees income security and access to basic services throughout the course of a person's life. The concept was originally developed by the International Labour Organisation but has gained significant recognition from such organisations' as the IMF, G20, EU, OECD and processes around the Millennium Development Goals and a post-2015 framework.[1] In June 2012, over 150 countries endorsed a Recommendation on social protection floors at the International Labour Conference in Geneva.[2] For developing countries, the concept is particularly valuable for prioritising the extension of social protection from a rights-based perspective. Social protection and social security systems relate to a whole a range of instruments, many of which relate to individual saving, rather than issues of poverty, inequality and social injustice. The concept of a floor puts focus on the question of how to assure that no person should live in poverty. Yet the concept is also relevant for more developed countries. Despite significant investment in social protection systems in richer nations, the lens of a social protection floor can help reveal the coverage gaps that often still persist. Similarly, in the context of increasing austerity measures, a social protection floor approach supports identification of elements within a system that a country can afford to sacrifice, and what constitute the foundations of a minimum floor.

Assuring a social protection floor in old age is central to the question of pensions systems and income in old age. Old age is one of the biggest challenges that people face throughout their lives and its inevitability makes it a universal human concern. A lack of income security in old age has consequences for the dignity and autonomy of older people, as well as the wellbeing of others within their families and networks who provide financial support. It also has wider development implications. Emerging economies are ageing much faster than countries that are more developed, while other trends such as labour migration and the proliferation of HIV, have left older people as pillars of economic support. Yet the world is still far from a achieving a minimum floor of social protection in old age. Just one in five older people currently receive a pension, and if countries simply stick to current systems, the situation will change little.[3]

A floor in old age also has a distinct role in the path to a more comprehensive floor. History tells us that extending a minimum floor of social protection in old age is commonly the first major step in the development of a comprehensive social protection system. For example, the introduction of the universal pension in Sweden in 1913 marked the start of a process to extend social protection programmes that eventually covered the whole life course.[4] In Brazil, the inclusion of social security in the 1988 constitution and the subsequent extension of the rural pension system was a key moment in the expansion of a social protection system that has made a major contribution to reducing poverty and inequality in that country.[5]

There are various options for implementing a social protection floor within the pension system. As with a wider social protection floor, a floor for old age can be achieved in a variety of ways that combine contributory and non-contributory approaches. Some more developed countries have been able to build a floor by relying primarily on an expansive social insurance system based on contributory payroll taxes, with a small non-contributory (or "social") pension for those who are left out.[6] France is one example of this. In these systems, insured workers with low incomes are usually supported via redistribution within the system and sometimes with a subsidy from the government budget. At the other end of the spectrum, countries such as the Netherlands, New Zealand and those in Scandinavia have a non-contributory pension that covers most people in old age, with contributory savings as a supplement above this floor—usually with a closer contribution-benefit link than social insurance schemes. Some of these systems also include some kind of affluence test for the social pension to reduce benefits for those with other savings (or exclude them altogether). Varying design options can have a range of implications for issues such as perverse incentives and the political economy of systems, but all of these options can deliver on providing a minimum floor of social protection in old age. The figures below give a stylistic representation of the two models described above.

For most developing countries, the model of a non-contributory floor will likely be most appropriate. Social security systems based on high-coverage contributory social insurance have developed in the context of large formal economies, which simply do not exist in most developing countries, even in middle-income emerging economies. Many of these countries also continue to face high poverty levels that rule out the possibility of individuals making regular contributions for old age. Many developing countries over the past 50 years have attempted to implement a model of social security based on contributory systems, and most have failed to extend coverage beyond a minority. This suggests that a non-contributory floor of social protection, upon which contributory benefits can rest, will be a more practical model in these contexts. This is being recognised by an increasingly number of developing countries that have put in place non-contributory floors, such as Bolivia, Chile, Kosovo, Nepal, Thailand, and Timor-Leste.[7]

Implementing a non-contributory floor may also be relevant for some more developed countries looking at issues of sustainability. A key factor in the sustainability of pension systems is the expectations people have of the system, and one major issue has been what happens when contributory benefits for certain individuals or sectors go well beyond what they have actually contributed, leaving governments to foot the bill. Well-publicised issues of pension sustainability in countries such as Brazil and Greece are more related to the high benefits for privileged sectors than spending on a social floor.[8] As a result, there are certain benefits to a non-contributory floor within the pension system (accompanied by individual savings options) as it provides a clear picture of what an individual can and cannot expect. The UK is in a process of reforming the state pension, which was previously based heavily on a history of national insurance contributions, toward a universal flat-rate benefit. As well as improving the gender outcomes of the system (where women have historically received much lower state pensions), the new flat-rate pension aims to provide a clear message to the public about the support that can be expected from the government and where individuals should save to secure higher pension income. Such a system can therefore provide "a firm foundation for saving for retirement."[9]

Population ageing clearly provides a challenge to the sustainability of pension systems. However, a non-contributory floor has the potential to adapt well to this changing context. First, a non-contributory floor appears to be an affordable component of a pension system. Within the OECD, New Zealand has a universal non-contributory pension and some of the lowest old-age poverty rates, yet the cost of the pension system is also lower than average.[10] The picture is similar with poorer countries. Financial analyses prepared by HelpAge International have found that a universal pension for those over the age of 65 could be implemented for between 0.4 and 1.7 of gross domestic product in 50 of the low- and middle-income countries surveyed, including rapidly ageing countries such as China and Thailand.[11] Second, there are a number of effective approaches to containing costs over time, including gradually and predictably increasing pension ages in line with life expectancy, which can create significant saving. For developing countries, it also may be premature to talk about cost reduction. Social protection expenditure is low in most developing economies, and arguably the focus needs to be on expanding investments in a social protection floor in a fair, progressive, and sustainable way in order to tackle poverty and inequality.

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[2] ILO Newsroom (June 2012) New ILO Recommendation calls for Social Protection Floor for all at http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_183286/lang--en/index.htm.
[3] A. Forteza, L. Lucchetti, and M. Pallares-Miralles, "Measuring the coverage gap," in Robert Holzmann, David A.Robalino, and Noriyuki Takayama, eds. (2009) Closing the Coverage Gap: The Role of Social Pension and Other Retirement Income Transfers, Washington, D.C., World Bank.
[4] Ari Kokko (2010) "The Swedish Model" Working Paper No. 2010/88, http://www.wider.unu.edu/publications/working-papers/2010/en_GB/wp2010-88/_files/84053644136415348/default/wp2010-88.pdf.
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[6] A social pension is defined as a regular non-contributory income transfer to older people.
[7] See Social Pensions Database at www.pension-watch.net.
[8] See, for example, The Economist, "Tick tock: Brazil's pension system", http://www.economist.com/node/21551093.
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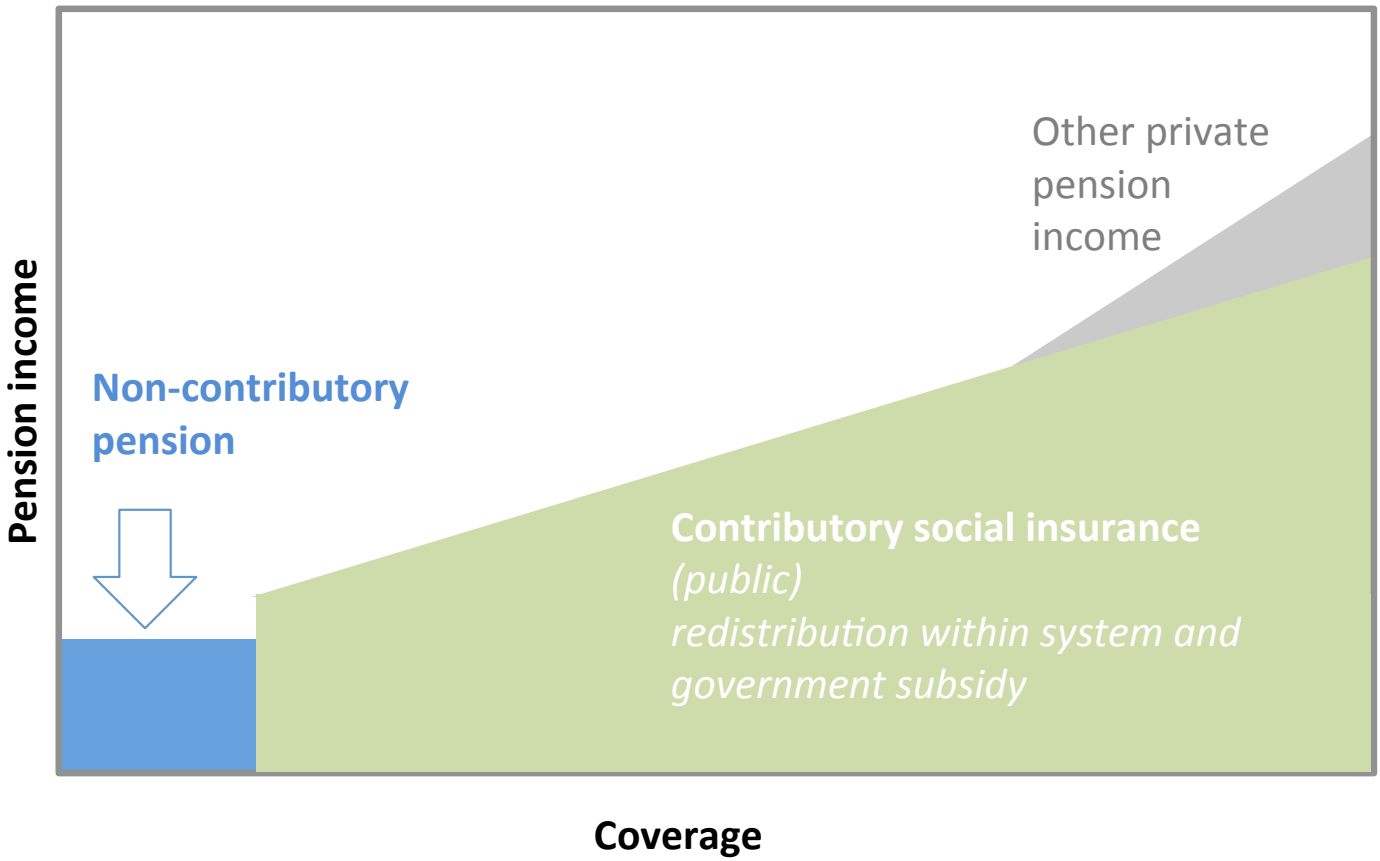
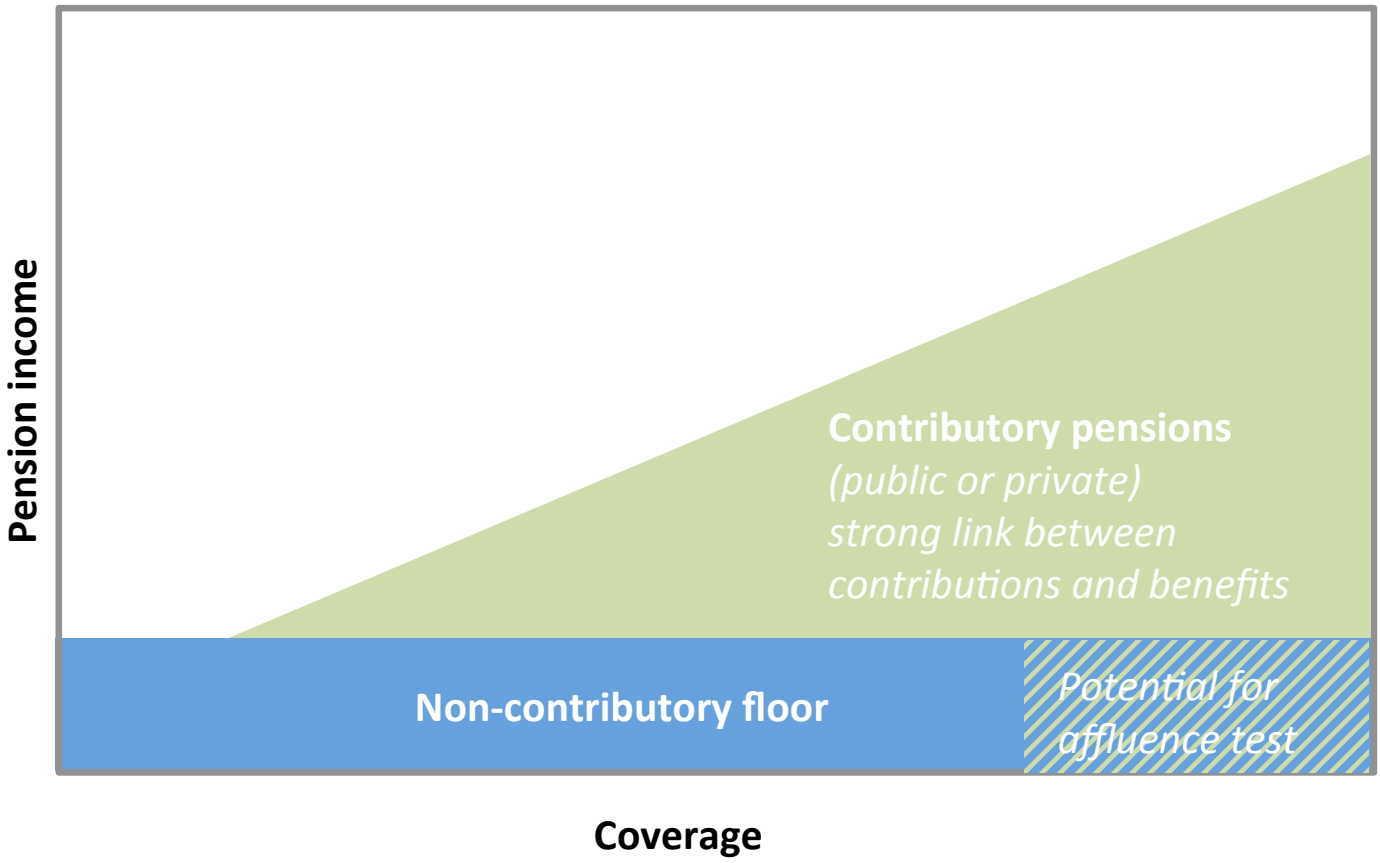
High coverage social insurance with small social pension



Non-contributory floor with supplementary contributory benefits



A Two-Dimension Strategy to Develop and Strengthen Social Protection Systems in a Globalized Economy

by Claire Courteille, Director, Equality, International Trade Union Confederation (ITUC)

The fact that 80 percent of the world's population has inadequate access to social protection marks the weakness of the global economic agenda. The current model of global competition has eroded the capacity of states to provide the guarantees and protection that people need throughout their lives, the poor and most vulnerable being the first victims. The absence of efficient redistribution mechanisms among and within countries took the world to unprecedented levels of inequalities.

At a time when the world is shaken by a deep financial crisis and characterized by high levels of uncertainty, finding a new balance between economic and social policies to achieve sustainable development is probably the biggest challenge of our times, and there is no doubt that social protection is at the heart of the responses that people want.

It is in this context that the G-20 and the U.N. General Assembly have recognized the importance of establishing nationally defined social protection floors and have urged international organizations to help develop them at national levels.

Growing with equity is necessary and is financially feasible. In essence, this is the message of the International Labour Organization (ILO), which is represented by governments, workers' organisations, and employers' organisations that agreed in 2012 that social protection floors are affordable and can be introduced everywhere in accordance with national circumstances. The three ILO constituencies have committed to a two-dimensional strategy for the extension of social security which can be applied at any stage of development.

This double-extension strategy has been inspired by several emerging countries, including Brazil, China, Namibia, South Africa, and Thailand, which have developed their social protection systems in a substantial way, including the implementation of a floor—or the elements thereof.

A key point of this double-extension strategy is that it should support the growth of formal employment and the reduction of informal employment and should be complemented by appropriate active labour market policies.

The double-extension strategy comprises:

A horizontal dimension. The objective is to establish a nationally defined universal social protection floor containing basic social security guarantees that ensure, over the life cycle, all in need can afford and have access to essential health care and have income security at least at a nationally defined minimum level.

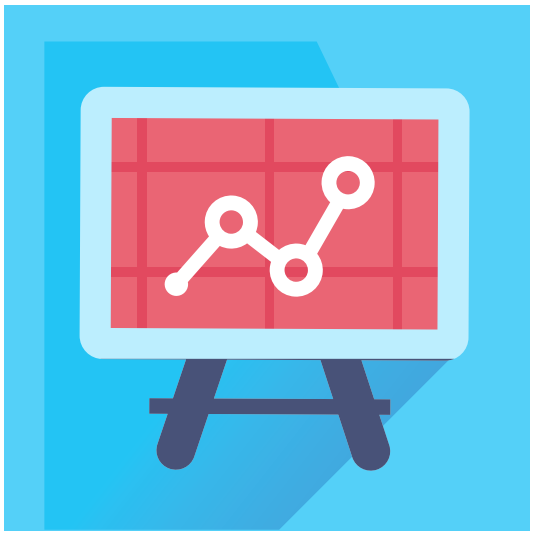
ILO Recommendation No. 202, adopted in June 2012, on social protection floors outlined four social security guarantees: (1) access to essential health care including maternity care, (2) basic income security for children, (3) basic income security for persons of active age who are unable to earn sufficient income, in particular due to sickness, unemployment, maternity, or disability, and (4) basic income security for older persons.

ILO Recommendation No 202 further emphasises the overall and primary responsibility of the state. This is not an ideological position: Experience shows that it is impossible to cover the poor, the elderly, and children through voluntary schemes or through private insurance. Furthermore, an overarching principle to be applied to both dimensions is the full participation of social partners in the design, implementation, and monitoring of the system.

A vertical dimension. This strategy includes pursuing comprehensive policies to ensure higher levels of protection for as many people as possible in line with the economic and fiscal capacities of each country and to follow the principles provided for in ILO Convention No. 102. Higher levels of protection can include a broader range of benefits, a wider scope of personal coverage, or a higher level of benefits.

ILO Convention No. 102 provides useful guidance for the design and implementation of social security law. It offers a comprehensive definition of social security that covers nine branches[1] and sets minimum standards for each branch, including the minimum level of benefits to be paid, the minimum percentage of the population to be covered, the conditions for entitlement to benefits, and the duration of benefits. ILO Convention No. 102 includes flexibility clauses that provide for a step-by-step extension of social security coverage by ratifying countries. The driving principles include states' responsibility; pooling of risks between men and women, rich and poor, and generations; representation of covered persons in administration of schemes; and collective financing of benefits through contributions, taxation, or both. An interesting principle is the adjustment of pensions in order to keep the purchasing power of beneficiaries in line with the cost of living and level of earnings.

The double-extension strategy opens a new chapter in social security: It reaffirms the centrality of social protection in building a sustainable future. The world is rich enough to provide protection to all those in need. What is required now is the political will to move forward rapidly, to collect the necessary taxes and revenues, to create a transparent, efficient, and accountable social security administration, and to build social security not only for the people but with the people.



[1] The nine branches are access to medical care, sickness, unemployment, old age benefit, employment injury, family benefit, maternity benefit, invalidity benefit, and survivor's benefit.

Tools to Manage Demographic Reality

Both we ll-established and ne wly cre ated social security systems must confront challenges of demographic aging and fiscal instability by strengthening proactive and preventive social security measures.

Tools to Manage Demographic Reality

by Volker DeVille, Executive Vice-President, Allianz SE

Policymakers have a wide range of tools available to influence demographic developments in their societies and to prepare for certain effects of demographic change. However, many instruments are not cheap, and even worse, it is often not known ex-ante how effective a specific tool will be in a certain country at a certain time. For instance, comparable family policies in comparable European countries sometimes show quite different results. Following is a long but by no means complete selection of demographic tools.

Low birth rates can be tackled by increased support of parents and children.

1. Parental leave: Allow working parents—especially mothers—to take some free months after delivery, with partial continued income and the guarantee that they will be able to continue with their job after the parental leave has ended.
2. Direct subsidies: Transfer public funds for every child to their parents at birth, at a given age, and/or as regular payments.
3. Tax incentives: Reduce the taxes for families.
4. Day nurseries: Provide affordable facilities so parents can leave their babies (under the age of three years) under professional care for some hours (or during working hours).
5. Kindergarten: Provide affordable facilities so parents can leave their children (3 to 6 years old) under professional care for some hours (or during working hours).
6. Social benefits: Provide advantages such as free medical treatment for children, free rides in public transportation, or preferential treatment for parents with small children.

Aging societies face specific needs for financing old age.

7. Sustainable "pay-as-you-go" (PAYG) system: Keeping a PAYG pension system funded in times of increasing longevity, lower birth rates, and with fewer people entering the system needs several levers. For example, increase the (nominal) retirement age, abolish a retirement age, restrict "beneficial times" (e.g. years in university that are added to working years), increase individual contributions while employed, and/or introduce a "demographic factor" that limits annual pension increases.
8. Obligatory funded systems: Introduce a system in which employees are obliged by law to pay part of the payroll in a fund for later retirement payments. Sweden and Australia both do this now.
9. Occupational pensions: Introduce or strengthen a system where pension and related benefits for employees are provided, often with contributions from both employers and employees, such as the use of 401(k) accounts in the United States.
10. Private, old-age provisions: Encourage private savings. This can target different instruments like fixed annuities (which removes longevity and investment risks from the individual), variable annuities, saving plans, and several mixed forms. Mostly, individuals are incentivized through tax deductions or tax deferrals. The German Riester-Rente is one example of this.

Aging societies require adjustments in their infrastructure.

11. Old-age care: Build up trained social workers to provide old-age care, and construct places in old-age care facilities, both at affordable prices, sufficient quantity, and sufficient quality.
12. Mobility and activity: Develop programs at a community level to keep the elderly physically active, mentally agile, and integrated in society.
13. Accessibility: Enable with planning and technical means easy access into public places, buildings, and transportation.

Lowering high birth and death rates are key targets in least developed countries.

14. Family planning: Educate (especially) girls and young women on birth control and contraception. Provide contraceptives.
15. Family size: There is the (highly controversial) targeted policy to limit the number of births, such as the Chinese law and its enforcement of having one child as maximum.
16. Health system: Invest in the medical infrastructure, training of local physicians and medical staff, and access to hospitals and medicine.
17. Vaccination: Implement the World Health Organization's vaccination programs for the whole population.
18. Awareness: Inform and train the population on factors that improve life expectancy, such as hygiene, prevention of sexual infections and other diseases, and healthy nutrition.

Migration may significantly contribute to demographic change.

19. Search for immigrants: Identify and advertise the skills most needed, then encourage and welcome immigrants.

20. Administrative policies: Build up a sophisticated assessment system to allow targeted immigration only, and fend off unwanted immigration. This is currently being done in the U.S. and Australia.
21. Integration: Integrate immigrants quickly and effectively, including language, for the benefit of social inclusion and economic welfare.
22. Re-immigration: Encourage citizens who had emigrated to return home by offering special incentives. Examples of such programs exist in China and India.
23. Emigration: This is not usually a policy option. Emigration policies do not seem to work well (like political campaigns), or they violate basic human rights (like expelling people from their own country or locking them in).

Health and care systems are always squeezed between performance and affordability.

24. Prevention: Promote healthier lifestyles of the population by supporting sports, regular medical check-ups, nutrition, and anti-addiction programs.
25. Limit the use of hospitals: Strengthen ambulant networks for medical treatments at home.
26. Geriatrics: In aging societies, encourage the supply of geriatric medical services by treating several physical and mental diseases simultaneously.
27. Health innovations: Forster the introduction of those health innovations that are especially relevant to the age and morbidity of the population.

Education is a corner stone for a society to cope with any demographic change.

28. Basic education: Ensure obligatory education in elementary and secondary schools for all children.
29. Professional training: Furnish a tailor-made educational model that empowers young people to be specifically trained for a determined profession. Push training for those professions particularly needed in the future due to demographic changes.
30. Knowledge society: Provide and make accessible an appropriate density and quality of universities and similar higher education facilities.

Several other levers impact demographic change.

31. Participation: Enable citizens to participate more in their community by delegating authority and project decisions. Especially encourage rural or elderly populations.
32. Traffic, transportation, and urban infrastructure: Prepare for further population growth, for population aging, for population decrease, and/or for further urbanisation.
33. Basic resources: Secure additional, alternative, and/or renewable sources of energy as well as water and food for a changing population. Make people aware of the scarcity of resources.

Mobility of Social Security Systems

As people increasingly move across employers, across nations and from rural to urban areas, it is important to develop portable social security systems.

Mobility of Social Security Systems

by Hans-Horst Konkolwesky, Secretary-General, International Social Security Association (ISSA)

Population movements
In itself, the act of migrating is a social protection mechanism for migrants and their families: It offers heightened potential for earnings, remittances, and social protection. And given population ageing and worsening system dependency ratios in higher-income countries in particular, migrant workers help address labour shortages and support the financial stability of social security systems.

The total global migrant stock is currently estimated at 214 million people, or approximately 3 percent of the world's population. Approximately 98 percent of the world's projected population growth in the next 40 years will be concentrated in less-developed regions, in particular in sub-Saharan Africa and South Asia. It is predominantly North-North migrants who enjoy access to, and the portability of, social protection, accounting for 23 percent of all migrants worldwide. The most disadvantaged migrants are those moving within low-income regions where formal social protection is less developed and migration is typically irregular.

Internal and cross-border migrant flows are likely to significantly increase in the future due to the impacts of a growing globalization of education and training, an increasingly fragmented labour market, and the impact of climate change on migrant flows.

Access to social protection does not only support individual mobility geographically, but it also facilitates social mobility. By providing income security and as a means to invest in health, training, and education, social security can help vulnerable populations sustainably move out of informal work and poverty. As such, social security is a key instrument in promoting social cohesion and inclusion.

Bilateral and multilateral agreements
Bilateral social security agreements usually include provisions on non-discrimination between nationals and migrants with respect to social security and rules of cooperation between the social security bodies of the signatory countries. Such agreements coordinate the aggregation of the periods of contributions that accrue to migrant workers in the two countries and regulate the transfer and payment of acquired social security entitlements. Most agreements refer to long-term benefits, such as pensions.

Almost all migrants moving among high-income OECD countries are covered by bilateral agreements. Yet the top migrant-sending countries (Bangladesh, India, Mexico, China, the Russian Federation, and Ukraine) have

concluded very few such arrangements. Nevertheless, some developing countries (Algeria, Morocco, and Turkey) have successfully managed to protect a majority of their migrants in this manner.

Multilateral social security agreements covering groups of countries already operate in the EU, the Gulf Cooperation Council, the Caribbean Community, MERCOSUR, and, in the future, through the Ibero-American Social Security Convention. The EU is also leading efforts to enhance social security cooperation within the Euro-Mediterranean Partnership. Another important regional effort is the 2007 Cebu Declaration on the Protection and Promotion of the Rights of Migrant Workers made by ASEAN. Among multilateral institutions, the active work of the ILO to promote a fairer deal for migrant workers through its conventions and recommendations offers a framework in support of all these initiatives.

In many respects, social security administration efforts to facilitate and respond to the challenges of increasing migrant flows are ahead of equivalent initiatives in respect of second-pillar pensions. In the European Union, there is a preservation of accrued rights and continuing accrual of service. Despite legislative efforts around pan-European pensions for employer-sponsored arrangements, the number of such schemes remains marginal.

Formal social protection for migrants
Access to formal social protection is crucial for migrants as it impacts their level of vulnerability. Migrants and their

families often do not benefit fully from social protection, either because access is granted only after an extended waiting period or because family members are spread across various countries. If migrants fail to generate sufficient income to cover all their needs—and those of their dependents—their vulnerability will increase, especially if they have no access to social assistance.

The portability of social security rights is the ability to preserve, maintain, and transfer vested social security rights or rights in the process of being vested, independent of nationality and country of residence. In the absence of portability, migrants run the risk of financial loss when leaving their host or home country. Conversely, they might benefit from the social security or health care system of their country of origin, despite having spent most of their productive life abroad. This outcome could have fiscal implications for social protection systems in origin countries.

In the absence of portability for migrants, the labour market activity of migrants may change. If migrants cannot benefit fully from the social security contributions they pay—because the long-term benefits financed by these contributions are not accessible or not portable—this may lead to contribution evasion or encourage informal employment. Some employers may even collude in such decisions.

In instances where migrants have paid contributions, they may choose not to return home and instead stay in the host country to avoid the loss of expected future pensions. Remittance flows aside, such decisions deprive origin countries—many of them developing nations—of important beneficial development effects. Of course, eligibility can also be residence-based. Yet, in these cases, legislation usually excludes individuals when they are absent from the national territory.

Coverage options for migrants from the South

Three main reasons explain why countries in less-developed regions are not engaged more in bilateral or multilateral social security negotiations: 1) the weak domestic development of social security provisions, 2) low coverage levels of the domestic population, and 3) a lack of national administrative capacity.

It is possible for the origin country to take increased responsibility for their migrants' social protection even in the absence of receiving-country commitments, either by creating dedicated funds for overseas workers and their families (Philippines) or by permitting voluntary contributions to programmes in the home country (Sri Lanka).

Given the limited scope of social security coverage in many developing countries, concerns about the lack of portability of benefits may be premature. A more effective policy initiative may be to first better manage migration in lower-income regions, in particular undocumented migration; to focus on improving the social protection of the most vulnerable migrant groups; and to develop standards on how to coordinate social security systems in the future to ensure the portability of acquired rights.

Also required are more effective policies to create social protection floors that offer protection to the most vulnerable in particular. Tax-financed cash transfers are one approach. Examples include Brazil's *Bolsa Família* program or social "old age" pensions in Bolivia, Lesotho, and Nepal. A necessary complementary approach is through state-subsidized contributions to help extend coverage under contributory programmes, as found in rural China.

Strengthening social protection for migrants

It is often assumed that enhancing social protection for migrants comes at a cost for host countries. This is not necessarily so. For instance, by analysing the net contribution of migrants to social protection and tax systems, most studies conclude that migrants and their families appear to be net contributors–i.e., migrant workers can support the financial stability of social security systems. Enhancing the portability of benefits, in contrast, could result in a net loss for host countries, albeit on a minor scale. For migrants, however, enhanced portability could significantly enhance income security across the life course and especially so in old age.

To conclude, regular migrants benefit from legal provisions, employment-related benefits, state assistance, and the portability of earned rights. In contrast, irregular/informal migrants, including those moving from rural to urban environments, typically remain excluded. The policy challenge is to reduce vulnerabilities and strengthen social protection for all, including mitigating the downside-risks associated with the mobility of workers within and beyond frontiers.

Coherence and Flexibility of Social Security Systems

How the dif ferent pillars work and fit t ogether is critical to underpinning basic income security in old age.

Coherence and Flexibility of Social Security Systems

by Hans-Horst Konkolwesky, Secretary-General, International Social Security Association (ISSA)

The double objective of coherence and flexibility in old-age pension provision

For most countries, the evolving socioeconomic and demographic context is heightening the demand for greater flexibility in old-age pension system design. More than ever, pension system "outcomes," rather than earlier concerns about what an ideal pension system should actually look like in its institutional make up, are being pushed to the fore. This "flexibility" in outlook among policy-deciders—to promote innovation in pension system design—presents new risks, not least of which is that the overall coherence of the pension system may be undermined by competing incentives and disincentives that are inherent to the component parts of the system's design.

In practice, there is a widening international consensus that for national pension systems to be more efficient and effective, they should include multiple "pillars." This means that different pillars need to be designed, to a greater or lesser degree, to fulfill the different objectives inherent in the pension system, i.e. insurance, consumption smoothing, poverty relief, income redistribution, and savings. And each respective pillar is expected to have a comparatively greater or lesser degree of importance to individuals, depending on their level of personal income and the nature of their relationship with the formal labour market. For those with low and irregular income and who are most marginal to formal labour markets, for instance, the poverty relief role of the "zero pillar" or "social protection floor" is likely to be the most important. In contrast, for middle-income earners in stable employment, the insurance and consumption smoothing roles of the pension system may be more prized.

For more developed economies in particular, pension systems comprised of several "pillars" seek to offer a necessary element of flexibility to more adequately and simultaneously address all pension system objectives and to cater to the different needs and priorities of individuals. However, this flexibility may only be achievable through a complex marriage of different institutions and policies. Accordingly, ensuring the coherent design of pension systems is a basic challenge for all countries and is one that is typically magnified by the system's increasing complexity. With this in mind, what follows is a discussion of a number of important technical design issues that must be taken into account. These issues are currently most critical for the pension systems of more developed economies. Looking to the future, however, these issues will become important for populations and policy makers in developing economies as they expand social security and formalize a weak or unregulated system.

Design issues

Pension systems are experiencing a huge transformation. While recent reforms have often been made in response to short-term financial and fiscal pressures, there is recognition in many countries of the need to fundamentally transform the way social security systems respond to the current and future needs of the elderly population.

Pension systems, which may have been appropriate for the labour market and the social and demographic environment 20 or 30 years ago, are often not able to effectively respond to changing factors such as new family patterns, employment conditions, ageing populations, etc. and do not appropriately reflect the new realities in these areas. This can result in objectives being missed (such as a reduction in pensioner poverty and support of labour market policies), which in turn can lead to a reduction in public and political support for the roles played by social security systems.

Social security pension systems must evolve–failure to do so risks creating inappropriate incentives, jeopardizing future sustainability, and muddying the waters of who pays and who benefits from social security.

Social security systems are increasingly responding to many of the challenges linked to employment market changes, the use of technology, and change in lifestyles. Yet in most countries, some of the biggest challenges are related to the ageing of the population. This raises two fundamental challenges: 1) ensuring long-term financial sustainability and 2) addressing the issues relating to intergenerational equity.

The question of intergenerational equity is a value judgement by society. Every pension system implies subsidies from one group to another, not only from young to old but often from the better off to the less well off, across different employment groups and often between the private and public sectors. Indeed, a number of other cross subsidies, often complex, also exist. For example, traditional final salary type arrangements involve a subsidy from those with a slower salary growth to those with a more rapid one.

As populations age, the issue of cross subsidies is becoming increasingly important and politically sensitive. Many systems are not sustainable in their current form, which raises questions of who should pay, and how much, and what benefits should be received and when. One area where this is being addressed concerns terms for special groups of workers—such as enhanced benefits or early retirement privileges—which may have existed for decades despite a significant change in working conditions over the intervening period. In such situations, a significant

distortion to the cost of labour in certain professions has developed. Changes often require long transition periods, but innovative pre-financing of early retirement schemes has developed. Workers in physically demanding professions still need appropriate protection, and there has often been an adaptation of such schemes rather than an end to them.

Although reforms have often focused on an increase in retirement ages, some pension systems have moved to a system where part of the benefit is based on a defined contribution (DC) or notional defined contribution (NDC) system. Although this closely links the benefits received to contributions paid and is transparent in the roll-up phase, a number of questions remain regarding the pay-out phase and the choice of indexing rates. Such systems also lose an important redistributive impact, which maybe be particularly significant in times of economic downturn.
Many reforms have incorporated automatic adjustment mechanisms which link benefits, contributions, or eligibility requirements to changes in the external environment. Such mechanisms have attempted to link benefits to sustainability by reducing benefits when the financial situation of a system worsens. However, such measures often reduce benefits when the need is highest and increase benefits when economic conditions are better; for this reason, they are often overridden by political decisions. Where such adjustments work by adjusting systems over the long term—for example, by linking contribution requirements to life expectancy—these can be effective.

A trend observed is thus an increasing flexibility in what social security systems are doing. For example, benefits and conditions tailored to the self-employed and those in the informal sector have been modified to become more appropriate. Importantly, simplified documentation requirements and affiliation procedures have helped to increase coverage. Transformations in the management of institutions and the intelligent use of information and communication technologies have further contributed to a more targeted approach to benefit and service provision.

Looking ahead, the challenge for social security old-age pension provision is not only to find the correct balance between a universal and easy-to-understand system and a tailoring of benefits and contribution requirements to the situation of the individual covered. At the systemic level, there is a further need for such flexibility in pension provision to remain coherent.
One area where this is most visible is the introduction of flexible retirement in some countries. A standard normal retirement age no longer exists; instead, there is a window of retirement ages possible—typically on an actuarially neutral basis, although incentives for late retirement may exist—that allows the individual to retire when their personal situation allows it or when they desire to. Such systems also incorporate partial retirement where part of the pension can be taken, which is useful when the individual wishes to continue working on a part-time basis. Such systems also require accompanying health and employment policies to ensure that workplaces are appropriate for older workers and that employers are encouraged to retain such workers in the workplace. And clear and understandable information about future pension income from all sources, such as social security basic pension and earning-related benefits, occupational pensions, and private retirement savings, has to be provided to the beneficiary well in advance of retirement.

Notes on the Coherence and Flexibility of Social Security Systems

by Axel Börsch-Supan, Director, Munich Center for the Economics of Aging (MEA)

The following information describes a framework that can minimize the incoherence and inflexibility typical of real-world pension systems that is created by the political process and its unpleasant trade-offs between short-term costs and long-term benefits.

Pension systems have potentially contradictory aims, which can create, among other, three major design challenges:

1. Pension systems should provide adequate income support for the older generation yet still be affordable for the younger generation.
2. Workers should be given a reliable indication of future benefits. At the same time, the pension system needs to be sustainable even under adverse demographic conditions.
3. Fiscal deadweight costs should be minimized by aligning pension benefits to the contributions paid. At the same time, a pension system should provide absolute poverty prevention for all individuals with low incomes.

The challenge is to create a design that makes pension systems flexible vis-à-vis economic and demographic shocks, and to resolve the above potential contradictions in a coherent and transparent fashion which survives the political process. There are some design principles that can help.

Principle #1: The Pillar Principle. The goal of this principle is to strictly distinguish the pension system's program that provides poverty prevention from the program that provides normal benefits to normal earners. The design logic for poverty prevention cannot be the same as for the average earner—poverty prevention has to be redistributive. For the average earner, however, minimizing redistribution (in the extreme: having strict equivalence between life-time benefits and life-time contributions) helps to increase acceptance, raises formal labor supply, and prevents black market activities/informality.

One real world examples of principle #1 is a program that combines a flat minimum pension with a national defined contribution system.

Principle #2: Flexibility. A flexible design would include rule-bound adjustment mechanisms for retirement age and benefits rather than a never-ending sequence of discretionary pension reforms. A simple rule for retirement age is that for a reasonable replacement rate (66%) and a reasonable contribution burden (33%), a worker would need to work twice as many years as they spend in retirement. So for every three years of additional life expectancy, a worker would need to increase their retirement age by two years and would receive one additional year of retirement pension. This holds for pay-as-you-go and fully funded systems alike.

Principle #3: Sustainability. A similar rule to the flexibility principle holds for demographic shocks (such as the baby boom/baby bust shock in the U.S. and Europe, or the two demographic shocks in China) in pay-as-you-go systems. Benefits are usually adjusted for inflation, sometimes to wages (workers' productivity) or for a combination of the two. To be flexible to demographic shocks, the system would need to adjust for the ratio of contributors to beneficiaries (the "system dependency ratio"). Similar to the retirement age rule, this additional adjustment factor would automatically provide financial stability and sustainability for pay-as-you go systems. Note that a fully funded system is sustainable by definition, since the beneficiary generation pays its own contribution. It may, however, suffer from secular rate of return shocks.

Principle #4: Coherence. The set of the three principles described above together with an agreement on the "reasonable" replacement and contribution rates, which addresses the first design challenge, plus an agreement on the level of the minimum pension, which needs to be adjusted over time for inflation and/or wages, provides a coherent and rational pension system. This internal coherence with the self-stabilizing mechanisms outlined in principles #2 and #3 that flexibly react to economic and demographic changes minimizes the need for discretionary policy decisions that almost always create adverse reactions in the populace, then produce promises of short-term benefits at the expense of long-term stability, thus creating a system that is incoherent and undermines sustainability.

Communicating the Framework

To help disseminate the framework to policymakers, business leaders, and thought leaders around the world, the GAC created a presentation that summarizes the eight building blocks of sustainable social security systems. The presentation also includes information about the wider environment within which social security operates, as well as questions to stimulate discusison about the framework. The presentation is included below as a resource for individuals who would like to share the framework with others. It is also available online: http://longevity.stanford.edu/gac-sustainable-social-security-systems/.

Rising Global Challenge to Provide Sustainable Social Security Systems

Defining Social Security: The GAC definition of social security encompasses a broad interpretation of security in old age, including financial security, health care, and long-term care. Potential solutions include government-sponsored, employer, and private sector programs, as well as more individual savings and different attitudes towards life-time employment.

Global Dilemma: How can developed and developing nations provide financial security for their populations, including retirement security for aging populations and economic opportunity for younger generations?

Current challenges:

- Increase in life expectancy
- Fiscal unsustainability of many retirement and social protection programs
- Decline of social protection programs and employer-provided defined benefit programs
- Increased role of individual responsibility – but many individuals have limited ability to make informed financial decisions

2

GAC Process

- *Timeline:* The World Economic Forum convened the GAC in the fall of 2012. The GAC will exist for two years.

- *Members:* The GAC has 15 members from corporations, academic institutions, and government agencies from around the world.

- *Meetings:* The group met at the Summit on the Global Agenda 2012 from November 12-14th in Dubai, United Arab Emirates. Since the conference, the group has held bi-monthly virtual meetings.

- *Goal:* To develop a framework for creating sustainable social security systems that is applicable to both developing and developed nations.

3

Members

Name	Title	Organization
M. Michele Burns, Chair	Chief Executive Officer, Retirement Policy Center; Center Fellow, Stanford Center on Longevity	Marsh & McLennan Companies
Kevin T. Hogan, Co-Chair	Chief Executive Officer, Global Life	Zurich Insurance Company
Donald P. Kanak, Co-Chair	Chairman	Prudential Corporation Asia
Daniel Balaban	Director	United Nations World Food Programme (WFP)
Richard Blewitt	Chief Executive	HelpAge International
Axel Börsch-Supan	Director	Munich Center for the Economics of Aging (MEA)
Gail K. Boudreaux	Executive Vice-President	UnitedHealth Group
Claire Courteille	Director, Equality	International Trade Union Confederation (ITUC)
Volker Deville	Executive Vice-President	Allianz SE
Evgeny Gontmakher	Deputy Director	Institute of World Economy and International Relations (IMEMO)
Daniel M. Hofmann	Economic Counsellor	International Association of Insurance Supervisors (IAIS)
Hans-Horst Konkolewsky	Secretary-General	International Social Security Administration (ISSA)
Robert Palacios	Senior Pension Economist and Director, Social Protection Department	World Bank
Katrin Westling Palm	Director-General	Swedish Pensions Agency
Yiyong Yang	Vice-President, Senior Research Fellow	Institute of Social Research Development

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Setting the Context

Since every economy is different, there is no single solution for creating a sustainable social security system. However, there is a common series of considerations that all economies should take into account when evaluating their individual system.

Setting the Context

- Political economy
  - One size policy solutions will not fit all economies. The state of a nation's economy and the nature of its political agenda set the stage for its social security system.
  - Countries recovering from the financial crisis face particular challenges.
  - A critical ongoing challenge is how to make pensions sustainable over the long term.
- Rule of law
  - Strong rule of law is necessary for citizens to trust their governments and for businesses to operate effectively.
- Balance between family, the state, and society
  - A strong civil society supports a strong social security system.
  - The state can develop policies and laws that strengthen society, family, and community connections rather than weaken them.

Setting the Context

- Fiscal system and philosophy
  - Sustainable society security systems are formed on the basis of five actors:
    - Activity of citizens
    - Budget
    - Social insurance
    - Charity, including community self-organizing
    - Foreign and international humanitarian aid
  - Underdeveloped countries, middle developed countries, and developed countries generally balance these financial actors in different ways.
- International institutional framework
  - A wide number of global institutions are currently working to build global social security.
  - There is growing academic study and interest in sustainable social security systems.

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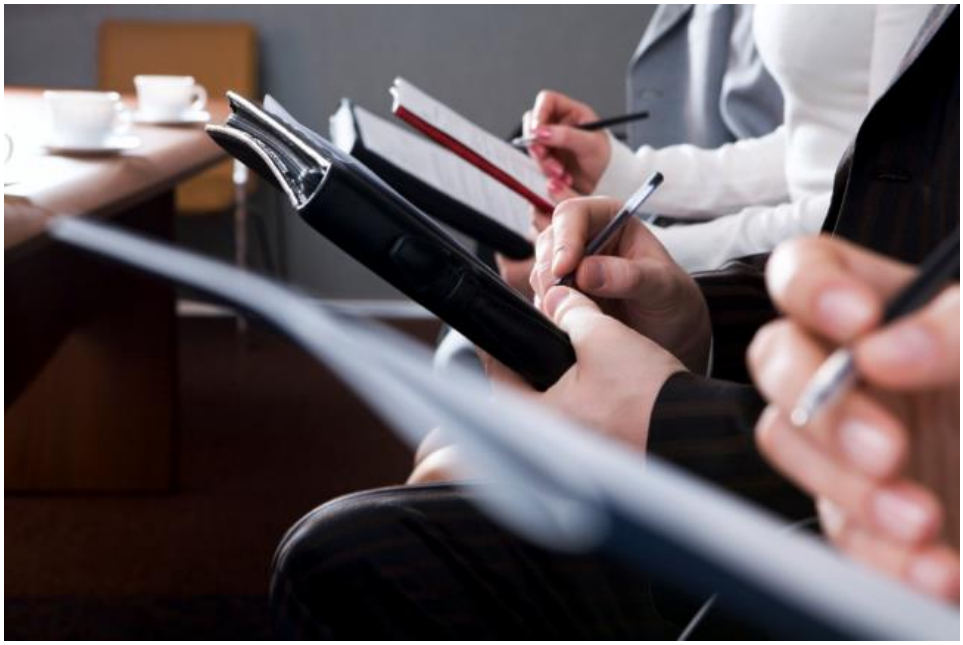
A Framework for Sustainable Social Security Systems

1. Role of work
2. Financial literacy of the population
3. Private sector tools
4. Functioning capital market
5. Existence of a public floor and adequate social security scheme
6. Tools to manage demographic reality
7. Mobility of social security system
8. Coherence and flexibility of social security system

8

1. Role of Work

Work is the best form of social security, so people should be enabled to work longer as life expectancy increases.



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Role of Work

Why important:

• Working longer provides several benefits:

- Individuals increase current income
- Individuals delay enrollment in entitlement programs
- More time for money in defined contribution plans to accrue interest
- Shortens the length of time that individuals spend in retirement

How to strengthen:

• Increased workplace flexibility and enabling workplace practices

• Address cost barriers of hiring/ employing older workers (such as health care costs and retirement program costs)

• Implement progressive laws that enable employees to work longer

• Ensure gender equality and workplace participation of women

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2. Financial Literacy of the Population

Individuals have begun to assume greater responsibility for their financial security, making financial literacy an imperative.

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Financial Literacy of Population

Why important:

- Pensions are complex and difficult to understand
- Individuals do not have the benefit of "learning by doing" because they go through retirement only once
- Individuals may have unrealistic expectations of the public pension system
- Very few people make the connection between the number of years they are likely to be retired, the number of years they will be working, and the amount they need to save out of their working wages to fund this retirement

How to strengthen:

- Develop realistic expectations of what people can do
- Design a simple system with customers in mind
- Nudge responsible behavior through well-designed defaults and laws to protect customers
- Government/agencies support individuals by taking on the role of an impartial actor
- Create programs to teach financial literacy from young ages

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3. Private Sector Tools

Financial markets and employers should help manage the risks associated with retirement saving.

13

Private Sector Tools

Why important:

- Employers play a critical role in facilitating an individual's participation in pension systems
- The shift away from government pay-as-you-go systems (pillar 1) to pillar 2 (defined benefit/defined contribution plans) and pillar 3 (individual savings) exposes individuals to substantial risk
  - Financial market risk
  - Longevity risk
  - Inflation risk
  - Business cycle risk
  - Risk of fraud and mistakes

How to strengthen:

- Ensure that attractive pensions are available to the whole workforce
- Develop asset and risk management tools
- Ensure appropriate regulation to protect interests of customers and build trust in financial institutions
- Embed domestic regulation in international architecture to allow for cross-border cooperation
- Incentivize long-term saving
- Pool and diversify risk across populations and geography
- Enable efficient use of home equity

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4. Functioning Capital Market

Deep, broad, and liquid capital markets are necessary to support strong financial retirement and social security systems.

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Functioning Capital Market

Why important:

- Financial stability is necessary for the sustainability of retirement programs
  - In advanced market economies, stability rekindles growth
  - In developing economies, stability induces/sustains financial growth
- A functioning market will prevent or mitigate future financial crises
- Deep liquid capital markets allow the private sector to develop tools to enable asset-liability matching and to hedge risks, which in turn can lead to more investment choices for institutional and retail investor, thus improving long-run retirement saving opportunities

How to strengthen:

- Regulatory framework to ensure competition in all sectors and enforcement of legal/property rights
- Policy to create deep liquid government bond markets on which private bond markets can be based; policies to encourage private equity, IPOs, and well-regulated stock markets
- A deep and liquid national capital market (in addition to banks) to help mobilize national savings for the nation's development needs
- Better economic policy coordination to detect and reduce macroeconomic imbalances that threaten the health of the global economy

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5. Existence of a Public Floor and Adequate Social Security Scheme

A public floor is an enabler, as it guarantees income security and access to basic services throughout the life course.

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Existence of a Public Floor and Adequate Social Security Scheme

Why important:

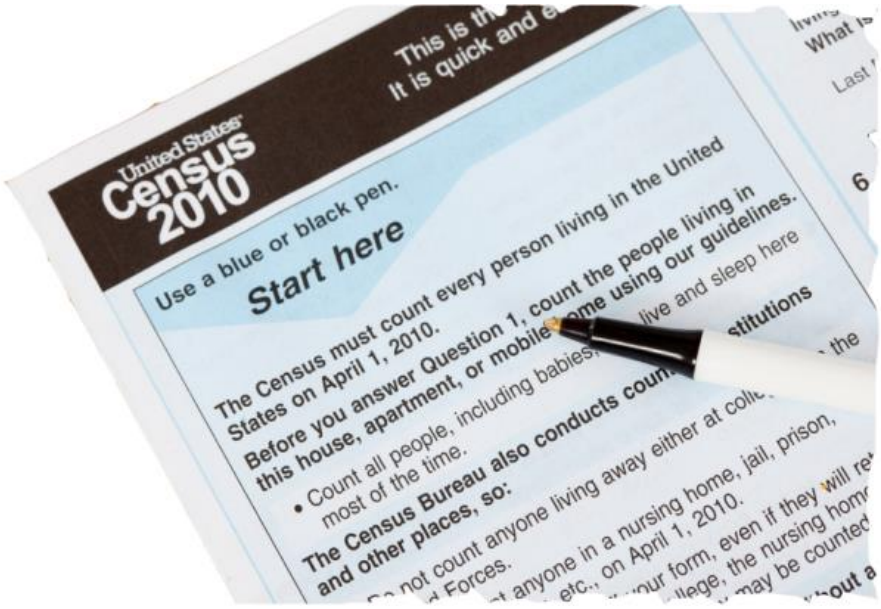
- Effective method to reduce poverty and inequality
- Stimulates formal workforce participation and inclusion in the tax system
- Has an income-redistributive effect from time spent working to time spent in retirement
- Provides savings for the individual and the state
- Low administrative costs compared to private sector schemes

How to strengthen:

- Close coverage gap by providing a form of basic protection for all
- Ensure adequate income replacement rate in the future
- Decide where to position social security benefits in relation to the minimum living wage
- Built-in stabilizers (e.g., indexation to longevity) to ensure that the system will follow economic and demographic developments
- Centralized, transparent, and efficient administrative and funding structures

6. Tools to Manage Demographic Reality

Both well-established and newly created social security systems must confront challenges of demographic aging and fiscal instability by strengthening proactive and preventive social security measures.



Tools to Manage Demographic Reality

Why important:

- Dependency ratios (the number of retirees to the number of workers) are rising
- Rising public expenditures on old-age pensions put stress on other government responsibilities, including health and education
- Countries with a growing number of older people are looking to gradually increase retirement age and extend time spent working
- Migration and birth rates also contribute significantly to demographic change

How to strengthen:

- Infrastructure adjustments
  - Affordable old age care, including disease prevention and wellness
  - Accessible public spaces and transportation
- Migration policies
  - Search for immigrants with needed skills
  - Integrate immigrants quickly and effectively
- Family policy that increases support of parents and children
- Labor market that ensures gender equality and work participation of women and increases lifetime

7. Mobility of Social Security System

As people increasingly move across employers, across nations and from rural to urban areas, it is important to develop portable social security systems.

Mobility of Social Security System

Why important:

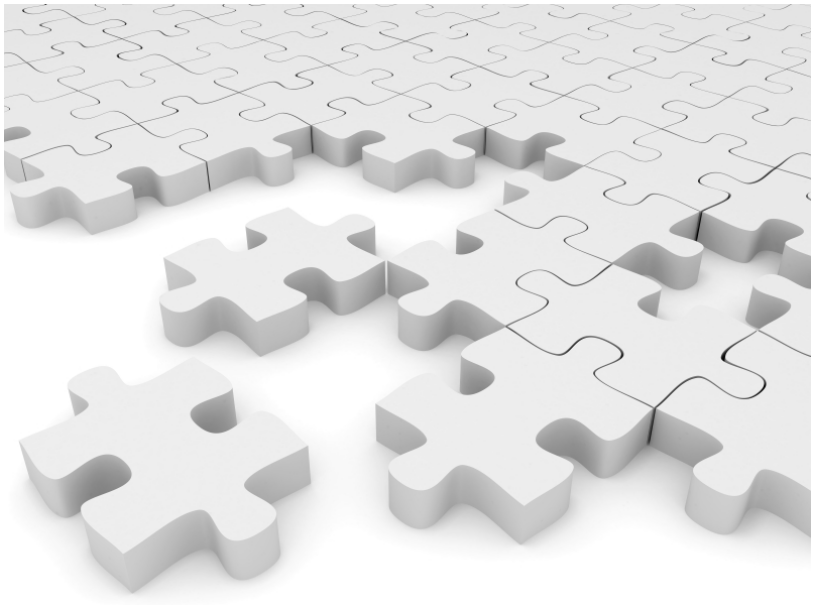
- People are increasingly moving
  - across employers
  - across nations
  - from rural to urban areas
- Portability of entitlements is currently limited to a few regions and is not even portable between urban/rural environments in some countries

How to strengthen:

- Facilitate mobility from one employer to another within a country
- Develop mobility across nations to enhance human migration
- Consider mobility within and to the middle class
- Address mobility from rural to urban areas and tie to formal/informal social security systems

8. Coherence and Flexibility of Security System

How the different pillars work and fit together is critical to underpinning basic income security in old age.



Questions for Discussion

1. What are appropriate retirement ages -- minimum, targeted, and maximum -- given representative lifespans and health spans and desired productivity of the population?
2. What are the advantages/disadvantages of advanced funding vs. pay-as-you-go systems?
3. What is the desired level of total financial support (income) for retirees?
4. What is the desired proportion of the total income that is funded by individuals, employers, and the government?
5. What needs can be met by family and society? What solutions benefit citizens of all ages, not just the elderly?
6. How can we transition from the current state to the desired state?
7. What are the risks associated with various pillars for retirement funding?
8. What are the pros and cons of employer-based pension systems?
9. How much should countries spend on the elderly relative to children?

Multi-Pillar Approach to Financial Retirement Systems

By Daniel M. Hofmann, Senior Advisor to the Chairman of the Board, Zurich Insurance Group, Hans-Horst Konkolewsky, Secretary General, International Social Security Association, Alan Murray, Senior Investment Manager , Aberdeen Asset Management PLC, Anne Richards, Global Chief Investment Officer, Aberdeen Asset Management PLC, and Silvia Stefanoni, Deputy CEO, Director of Programme and Policy, HelpAge International.

Financial retirement systems have many competing goals. Barr and Diamond define the major objectives of social security systems as consumption smoothing and insurance from the individual's perspective, and poverty relief and redistribution from the state's viewpoint. The original motivation behind employer-sponsored pension schemes was to attract new employees and retain existing ones, although subsequent regulation and statutory requirements have eroded their ability to do so. All these objectives face major challenges from demographic changes, economic business cycles and financial market volatility.

Each country has developed its own financial retirement system, taking into account its particular economic, social and cultural circumstances. All countries have opted to combine a variety of different measures to try to meet their populations' retirement income needs. These different measures can be grouped into "pillars", as first proposed by the World Bank in 1994 and refined in 2005 , and analysed in terms of how well they currently meet their objectives and how they are placed to meet future challenges. All systems are subject to policy trade-offs in terms of fiscal sustainability, coverage and income adequacy. Targeting any one of these factors will inevitably lead to concessions being made in respect of the other two.

This chapter presents a summary of the financial retirement systems of nine countries, three from each of the advanced market economies, emerging market economies and less developed market economies, highlighting particular features that might be considered best practice in system design. It also addresses the different approaches to managing the various policy trade-offs and how these approaches differ across the three larger economic groups.

Advanced Market Economies

While not wholly by design, the selected countries (Australia, Canada and the Netherlands) have very similar levels of wealth. They rank 10th, 9th and 12th respectively in gross domestic product (GDP) per capita on a purchasing-power-parity basis, according to the International Monetary Fund (IMF). They have, however, developed very different retirement income systems. Canada has a well-developed state pension system while Australia and the Netherlands, by contrast, have strong private provision. In Australia, this has been driven by mandatory defined contribution (DC) schemes for all workers, which have been in place for over 20 years. The private provision of the Netherlands is largely through long-established, industry-based defined benefit (DB) schemes.

In terms of the current state of the respective financial retirement systems, the mandatory nature of the Australian Pillar 2 ensures a reasonable coverage score, and the emphasis on private provision limits the impact on fiscal sustainability. The DC nature of that private provision places the investment risk, as well as the consequent risks in terms of income adequacy, squarely with the individual.

The Canadian system rates well on coverage; however, a balance needs to be struck between income adequacy and fiscal sustainability. The relatively underdeveloped private provision, no doubt a result of the extensive public schemes, means the burden of ensuring continuing income adequacy will fall on the public purse.

The system in the Netherlands has a good current balance between coverage, fiscal sustainability and income adequacy, with its mixture of a comprehensive Pillar 1 and largely DB Pillar 2. Both pillars, however, are under significant pressure from demographic changes occurring now and forecasted for the future. While the responses to these pressures – rising retirement ages for Pillar 1 and a shift from DB to DC for Pillar 2 – are intended to shift the balance towards greater fiscal sustainability, they will come at the expense of income adequacy.

One attempt to measure the policy trade-offs in a more future-oriented way is the Center for Strategic and International Studies' Global Aging Preparedness (GAP) Index. It considers fiscal sustainability and income adequacy, which are captured in two indices and which, in turn, are made up of several subindices to provide a full impression of the issues at hand. As the latest report (2013) states, "many countries that do well on one dimension of aging preparedness do poorly on the other, meaning that there is often a stark trade-off between fiscal sustainability and income adequacy."

This point is illustrated by the Netherlands which, out of the 20 countries included in the report, ranks 1st on the income adequacy index but 17th on the fiscal sustainability index. The low score on fiscal sustainability resulted from the perceived lack of space to increase either taxes or debt in response to demographic pressures. In contrast, Canada and Australia are two of only four countries ranking in the top ten of both indices. The two countries achieved this result in very different ways. On nearly all of the 14 building-block subindices considered in the report, Canada was ranked mid-table. The Australian scores, on the other hand, were well above average for all categories except benefit dependency and family support. This supports the report's findings that the best performers "tend to have modest pay-

as-you-go state pension systems, which helps to ensure fiscal sustainability, and large funded pension systems and high rates of elderly labor-force participation, which helps to ensure income adequacy". In the case of Australia, the main driver of the high income-adequacy score was the relatively high level of Pillar 2 funding, driven by the early adoption of mandatory contributions. Despite Australia scoring well on practically every measure, it ranks second to last for benefit cuts (the percentage of elderly households that would be pushed into poverty by an immediate 10% cut in public benefits), illustrating that all systems are far from perfect.

Emerging Market Economies

Brazil, South Africa and China have been chosen as examples of pension provision in emerging market economies. Part of the BRICS countries group, they have been characterized by significantly above-average growth rates in the last two decades. During this time, these countries have shown considerable commitment to extending social security coverage, which has been facilitated by increased fiscal capacity. This commitment has been based on the realization that social security is an indispensable element of sustainable growth strategies; this is especially relevant in response to the economic and financial crisis of 2008.

While cultural, institutional and demographic factors differ significantly among the three countries, they have a common starting point for extension efforts, namely, limited formal-sector coverage by old-age pension arrangements and a large self-employed, informal sector – rural and migrant populations with little or no access to social security. The current old-age pension systems are, therefore, the result of efforts to ensure that the entire population has access to at least one pillar, rather than building and balancing different pillars of old-age income security.

A variety of different strategies have been applied; for example, China's strategy to build contributory systems with various subsidies tailored to the characteristics of different population groups, and South Africa's approach to reach universal coverage through non-contributory minimum benefits. The important factor for success is appropriate investment in building administrative capacities, information technology and front-line services, irrespective of the approach chosen.

China has now been able to cover over 850 million people with an old-pension system through the use of schemes tailored towards the characteristics of different population groups. The existing systems for civil servants, public workers and urban workers were complemented by a rural pension scheme in 2009, and a further urban pension scheme was introduced in 2011 for those not yet covered by the existing system. In view of the relatively recent and largely contributory nature of the public systems, private complementary pension plans currently do not play a significant role. China also provides an example of good practice for overcoming implementation challenges, as the significant size of the general, and particularly the rural, population required important infrastructure investments. The nature of these challenges is illustrated by the distribution of social security cards to 530 million people in 2013. These cards cover all social security benefits and are equipped with financial functions.

Realizing its constitutional commitment to universal social security coverage, South Africa has adopted a different approach. The focus has been on achieving coverage through non-contributory and means-tested benefits, rather than the gradual extension of a contributory public system. This has allowed the development of important employer-based occupational pension plan provisions. Access to these plans is voluntary and mainly restricted to government employees and workers in the formal sector, leaving large parts of the population without a more adequate old-age pension provision. As a response, the government is currently considering introducing a mandatory retirement plan for low-income earners, and making participation in private occupational plans compulsory for higher-income earners.

South Africa and China have made significant progress in extending coverage. The current pension system in Brazil also addresses some of the remaining challenges, including the need to better coordinate fragmented systems, improve access and benefit adequacy for rural and informal sector workers, and ensure financial sustainability in the context of ageing societies.

Brazil's old-age dependency ratio is expected to double between 2010 and 2020, and will exceed that of the United States by 2050. The social security systems for civil servants and salaried employees in the formal sector are well developed and relatively generous, often supplemented through employer-sponsored plans. The right to social security was included in the constitution in 1988 and, since then, significant efforts have been made to extend coverage to previously uncovered parts of the population. However, coverage and benefit levels still differ significantly between the public and private, rural and urban as well as the formal and informal sectors. Coordination between different social security arrangements remains a challenge at both policy and administrative levels. At the same time, changing demographics are challenging the financial sustainability of civil servant and salaried employee pension systems. Further reforms are expected to follow a pension reform from 2012 that reduced benefits in the civil servants' scheme.

In summary, while extension remains an important policy objective, the focus of old-age pension systems in Brazil, China and South Africa, as well as other emerging economies, will increasingly be determined by the impact of ageing societies, the need to build more coherent systems and the demand to complement basic coverage with more adequate benefits. Under these circumstances, the development of balanced and coordinated multi-pillar systems, including the expansion of second- and third-pillar arrangements, is expected to be an important policy agenda item in the coming years.

Less Developed Countries

The selected less developed market economies (Bangladesh, Bolivia and Kenya) face the same policy trade-offs of coverage, income adequacy and fiscal sustainability as emerging market and advanced market economies. However, the structure of the labour markets, with high levels of informality, low tax revenue and revenue productivity, create additional challenges. Of the three countries, Kenya and Bangladesh have relatively similar GDP per capita on a purchasing-power-parity basis, according to the IMF ($1,812 and $2,080, respectively); Bolivia's GDP per capita is more than twice as large at $5,364. Income distribution is extremely unequal in all three countries, presenting a further challenge in the development of comprehensive financial retirement systems.

Bangladesh, Bolivia and Kenya have very different coverage rates (40%, 100% and 8%, respectively), but the Zero Pillar plays by far the largest role in all of them. Bolivia has the highest coverage of Pillar 2, at 14% of the population above retirement. Current contributions to pension schemes are also low, with only 22% of the working-age population contributing in Bolivia and 11.3% in Kenya.

Kenya has been undergoing significant reforms in an attempt to improve Pillar 1 coverage. A change in the law means that, in the near future, the National Social Security Fund (NSSF) will be compulsory for all formal-sector workers (with opt-out possible after two months). However, employees and employers have serious concerns about the affordability of the NSSF. These concerns highlight the difficult trade-off between ensuring an adequate income in old age and making schemes feasible and affordable for those contributing. Those in the formal sector also represent a small amount of the overall working-age population. Recent attempts to expand coverage in the informal sector included the NSSF being made available to people working in the informal sector, and the Mbao pension scheme created explicitly for those in the informal sector. However, the majority of these workers are on low and irregular incomes and would therefore be unable to contribute to these schemes.

In Bolivia, the Pillar 2 "solidarity pension" was introduced as part of the country's 2010 pension reform, enabling people to receive a pension with much lower contributions and a much shorter contribution history, with the aim of improving both income adequacy and coverage. However, critics have expressed concerns about its sustainability over the long term. In Bangladesh, no provision exists for informal workers, and Pillar 2 and 3 are only available to a minority working in civil service or a few other sectors.

Adequacy is a major issue in the three countries. Adequacy of the Zero Pillar, which provides the majority of coverage, remains low in all three, with current levels set at 18% of GDP per capita in Kenya, 15% in Bolivia and 5% in Bangladesh. In such circumstances, the Zero Pillar provides at best a regular, predictable income where coverage is high. At worst, it serves as relief only for those who are extremely poor, leaving a coverage gap of those who are neither wealthy enough to benefit from contributory pensions, nor poor enough to be eligible for the Zero Pillar. Either way, the Zero Pillar is not sufficient for older people to rely on as their sole source of income, much less to finance retirement from the workforce.

Data from the three countries is generally limited compared to that of advanced market economies, which presents challenges in providing an overview of the pension systems. While policy trade-offs exist between the important areas of fiscal sustainability, coverage and income adequacy, they are also present between the pension system pillars. Many contributory systems in less developed economies, for example, are not purely self-funding, and often include tax-financed subsidies and guarantees to support low-income earners. In Bangladesh, the government budget for civil service pensions is BDT 25,000 million and reaches approximately 250,000 beneficiaries, while the budget for the Zero Pillar pension is BDT 7,500 million and reaches approximately 2.25 million beneficiaries. Such unequal distribution of funds and benefits, which is common in such countries, presents particular challenges for fiscal sustainability, coverage and income adequacy.

Pension Provision: Australia

Key Metrics[1]

Population (2010)	22.4 million	**GDP per capita (2013 estimate)[2]**	$43,000	**Dependency ratio (<15 and 65+)/(15-64)**	47.9%
Life expectancy at birth (1950-1955), in years	66.8 (male) 72.3 (female)	**Life expectancy at birth (2010-2015), in years**	80.2 (male) 84.7 (female)	**Proportion of population over 65 (2010)**	13.4%

Pension Provision

	Description	Benefit structure	Funding	Coverage	Retirement age
Pillar 0 Basic pension from public finances that may be universal or means-tested	Age pension Pension supplement	AUD 751.70 every two weeks (26% of average wage)[3] Increases age pension to maximum AUD 827.10 every two weeks (29% of average wage)[4]	General taxation	Universal	Statutory pension age (SPA): 65 male, 64.5 female
Pillar 1 Mandated public pension, publicly managed with contributions and, in some cases, financial assets	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Pillar 2 Mandated and fully funded occupational or personal pension plans with financial assets	Mandatory occupational pension (Superannuation)	Defined contribution Benefits can be taken as pension from the fund, an annuity from a life insurance company or (most commonly) as a lump sum	Employer contribution 9.25% Employee contributions are voluntary, but may attract co-contributions from the government Average annual member contribution AUD 3,1475	11.6 million members (71% of all Australians over 15 years of age)[6]	Benefits available from 55 (not as a lump sum) Can defer benefits until after SPA – employer contributions remain mandatory
Pillar 3 Voluntary and fully funded occupational or personal pension plans with financial assets	Retirement savings accounts	Low-cost savings accounts operated by deposit-taking institutions and life insurance companies	Member contributions only, but benefit from same tax status as superannuation funds	Very low take-up, AUD 1.9 billion in assets*	Not applicable

Notes

SPA – rising for females to 65 by 2014 and for both sexes to 67 by 2023.
The age that benefits are available from superannuation is also set to rise from 55 to 60 by 2025.
Both age pension and pension supplement are means-tested for income and assets. Benefits reduced for 41% of pensioners (59% have the income tested concession; 41% as a result of the assets test).
Superannuation mandatory contribution rate set to increase to 12% by 2022.
Superannuation assets of AUD 1.6 trillion (52% equities, 15% bonds, 9% property, 16% other and 8% cash).
Asset split*: 31% self-managed super funds, 26% retail, 20% industry, 16% public sector, 4% corporate schemes and 3% other.
Private savings (liquid assets and directly held equities) of AUD 1.5 trillion (AUD 92,000 per adult).[7]

Risks

Lack of DB Pillar 2 provision exposes the individual to both market and longevity risk.
Full benefit of Pillar 2 will not be felt for a decade or more because of low initial contribution rates.

Specific areas of interest/best practice

Mandatory Pillar 2 provision since 1990 has led to one of the highest levels of savings of all advanced market economies.

Pension Provision: Canada

Key Metrics[1]

Population (2010)	34.1 million	**GDP per capita (2013 estimate)[2]**	$43,100	**Dependency ratio (<15 and 65+)/(15-64)**	44.1%
Life expectancy at birth (1950-1955), in years	66.6 (male) 71.5 (female)	**Life expectancy at birth (2010-2015), in years**	79.3 (male) 83.5 (female)	**Proportion of population over 65 (2010)**	14.2%

Pension Provision

	Description	Benefit structure	Funding	Coverage	Retirement age
Pillar 0 Basic pension from public finances that may be universal or means-tested	Universal pension (Old Age Security [OAS]) Means-tested low-income supplement	CAD 6,599 per year (14% of average wage)[3] Increases OAS to maximum CAD 15,000 (32% of average wage)	General taxation General taxation	Universal	OAS payable from 65; retirement from employment not necessary
Pillar 1 Mandated public pension, publicly managed with contributions and, in some cases, financial assets	Canada Pension Plan (CPP)	25% average lifetime salary after 40 years' service	9.9% contribution split between employer and employee	Universal	Early retirement possible in CPP from 60, with benefit reductions Late retirement also available
Pillar 2 Mandated and fully funded occupational or personal pension plans with financial assets	Employer-sponsored plans	96% are DB schemes DC schemes often integrated with CPP	Employer and employee contributions Average DC employee contributions 5% of earnings; often matched by employer	38% of workers have registered plans[4] Total assets CAD 1.4 trillion[5]	Not applicable
Pillar 3 Voluntary and fully funded occupational or personal pension plans with financial assets	Personal pensions; Registered Retirement Savings Plans (RRSPs)	Benefits can be taken at any time as cash (taxed as income), an annuity or through a drawdown vehicle	Contributions limited to CAD 23,820 per year	Total assets CAD 928 billion6	By 71, RRSP must be cashed in or switched to a drawdown vehicle

Notes

OAS: retirement age set to increase from 65 in 2023 to 67 in 2029.
Guaranteed income supplement: reduced against income other than OAS, at a 50% rate.
Employer-sponsored DB plans generally based on final average earnings with an accrual rate of 2% per year in the public sector, and a lower accrual rate in the private sector.
Private savings (liquid assets and directly held equities) of CAD 2.9 trillion or CAD 108,000 per adult.[7]

Risks

Relatively poor coverage of private pensions. Approximately half of all Canadians rely solely on Pillar 1 provision.

Specific areas of interest/best practice

Strong Pillar 1 provision.

Pension Provision: The Netherlands

Key Metrics[8]

Population (2010)	16.6 million	**GDP per capita (2013 estimate)[9]**	$41,400	**Dependency ratio (<15 and 65+)/(15-64)**	49.1%
Life expectancy at birth (1950-1955), in years	70.6 (male) 73.2 (female)	**Life expectancy at birth (2010-2015), in years**	78.9 (male) 82.8 (female)	**Proportion of population over 65 (2010)**	15.4%

Pension Provision

	Description	Benefit structure	Funding	Coverage	Retirement age
Pillar 0 Basic pension from public finances that may be universal or means-tested	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Pillar 1 Mandated public pension, publicly managed with contributions and, in some cases, financial assets	State pension Algemene Ouderdomswet (AOW)	€12,555 per year (30% of average wage)[10]	Pay-as-you-go system funded by compulsory insurance (at a rate of 17.9% of earnings)	Universal	Statutory pension age (SPA) at 65
Pillar 2 Mandated and fully funded occupational or personal pension plans with financial assets	Quasi-mandatory occupational pension	Almost entirely DB (94% of all schemes) Commutation to lump sum not permitted Mandatory purchase of annuities for DC schemes	Employees contribute 4-8% of salary; employers' rates vary according to actuarial assumptions DC-scheme contributions generally split 1:2 between employee:employer	90% of all employees	Early/late retirement possible, but benefits adjusted by actuarial assumptions
Pillar 3 Voluntary and fully funded occupational or personal pension plans with financial assets	Personal pensions	Annuity or endowment insurance	Funded by individual, but eligible for limited tax relief	Not applicable	Not applicable

Notes

SPA: rising to 66 in 2020 and 67 in 2025.
Occupational schemes now primarily based on average earnings over lifetime. Typical benefit is 1.75% of final salary per year of service (i.e. 70% after 40 years' service) or from 1.75% to 2.25% of average earnings.
Pension assets of €1.97 trillion (50% equities, 33% bonds, 14% other, 3% cash). 88% of assets in private-sector schemes; 12% in public sector.[11]
Private savings (liquid assets and directly held equities) of €616 billion (€48,000 per adult).[12]

Risks

Lack of Pillar 1 funding exposes claimants to the risk of benefit reductions as demographics reduce their affordability.
Major shift in occupational provision from final salary to average salary benefits may lead to greater reliance on state pension.
Relatively low level of personal savings.

Specific areas of interest/best practice

High coverage of funded Pillar 2 provision largely through industry-wide schemes.

Pension Provision: Brazil 

Key Metrics[13]

Population (2010)	195.2 million	**GDP per capita (2013 estimate)[14]**	$12,100	**Dependency ratio (<15 and 65+)/(15-64)**	47.9%
Life expectancy at birth (1950-1955), in years	49.3 (male) 52.8 (female)	**Life expectancy at birth (2010-2015), in years**	70.2 (male) 77.5 (female)	**Proportion of population over 65 (2010)**	6.9%

Pension Provision

	Description	Benefit structure	Funding	Coverage	Retirement age
Pillar 0 Basic pension from public finances that may be universal or means-tested	Means-tested benefit paid to the handicapped and elderly	Minimum monthly benefit equals one month's minimum wage (about $240 in December 2011)[15]	National fund plus state and municipal funds	All rural and urban residents	65, male and female
Pillar 1 Mandated public pension, publicly managed with contributions and, in some cases, financial assets	RPPS: civil servant system (pay-as-you-go before 2012, and fully funded pillar added since 2012) RGPS: basic social security system for the private sector	RPPS: average of 80% pre-retirement salary; single pillar for old members plus two pillars for new ones as of 2012 RGPS: 70% of the insured's average earnings plus 1% of the insured's average earnings for each year of contribution	RPPS: same as RGPS since 2012 for new entrants RGPS: 20% of covered payroll from employer and 8% of covered earnings from employees	RPPS: less than 3 million people, disbursing 2.1% of GDP RGPS: 24 million people (2010), disbursing 6.8% of GDP	65 male, 60 female in urban areas 60 male, 55 female in rural areas
Pillar 2 Mandated and fully funded occupational or personal pension plans with financial assets	Complimentary DC scheme (RPPS), closed and open occupational voluntary pension plans	Most closed pension plans are DB schemes (accrual rate of 1.5-2% per year); DC plan benefits depend on accumulation and investment returns	Matched employer contributions of up to 8.5% (RPPS) Employer contributions tax deductible up to 20% of payroll, and employee contributions tax deductible up to 12%	327 pension funds (15.2% of GDP) comprising 1,088 pension plans of 2,083 companies (2012)[16]	65 male, 60 female
Pillar 3 Voluntary and fully funded occupational or personal pension plans with financial assets	Personal pension plans	Annuity or endowment insurance	See Pillar 2; employees could contribute to a personal pension plan, and individuals could participate in the occupational pension plan offered by employer	Not applicable	65 male, 60 female

Notes

As a result of the 2012 reform, benefits and contributions for new civil servants are subject to the same ceiling as those in the RGPS, while participants have the option to enrol in the complimentary DC scheme.

Risks

The IMF pointed out in 2012 that both RGPS and RPPS ran a deficit – 1% and 1.4%, respectively, in 2010, owing to a relatively generous replacement rate, a low average effective retirement age and indexation rules (regarding minimum pension and minimum wage). The Brazilian pension system's funding gap might reach 25% of GDP over the next 20 years.[17]

Specific areas of interest/best practice

2012 reform of civil servant pension scheme.

Pension Provision: People's Republic of China

Key Metrics[18]

Population (2010)	1.36 billion	**GDP per capita (2013 estimate)[19]**	$9,800	**Dependency ratio (<15 and 65+)/(15-64)**	36.0%
Life expectancy at birth (1950-1955), in years	44.6 (male) 44.6 (female)	**Life expectancy at birth (2010-2015), in years**	74.0 (male) 76.6 (female)	**Proportion of population over 65 (2010)**	8.4%

Pension Provision

	Description	Benefit structure	Funding	Coverage	Retirement age
Pillar 0 Basic pension from public finances that may be universal or means-tested	Minimum subsistence[20] allowance based on means test	Difference of local minimum living standard and per-capita family income	Local government	All rural and urban residents	No age limit
Pillar 1 Mandated public pension, publicly managed with contributions and, in some cases, financial assets 1) Residents' pension 2) Urban employees' pension 3) Non-contributory pension for civil servants and employees of public institutions (to be converted into contributory pensions)	1) Budget-funded social pension, plus individual account with 12 optional scales of contributions 2) Social pooling plus individual account 3) Generous pension based on seniority and pre-retirement income	1) Minimum social pension CNY 55, funded either 100% or 50% by the central government 2) Central government has declared an average 10% annual pension hike for the past 10 years 3) 80-90% of pre-retirement income	1) Local government in developed areas funds 50% of social pension and those above age 55 2) Local government covers deficit (with possible help from social transfer from central budget) 3) Local government covers the full cost from the budget	1) 498 million rural and non-employed urban residents (2013) 2) 3.12 million urban employees (2013) 3) 40 million staff of government organizations and public institutions (2013)	1) 60 male and female 2) 60 male; 55 for female white-collar workers, 50 for female blue-collar workers 3) 60 male, 55 female
Pillar 2 Mandated and fully funded occupational or personal pension plans with financial assets	Tax-deferred voluntary pension scheme	Individual accounts with payments from both employers and employees	Employer contribution up to one-twelfth of payroll, and employee contribution up to 4%, free of tax; benefits taxable upon retirement	About 20 million urban employees	Same as for urban employees
Pillar 3 Voluntary and fully funded occupational or personal pension plans with financial assets	Personal pensions	Annuity or endowment insurance	Funded by individual, with no tax relief	Total old-age savings CNY 122.7 billion in 2012	Not applicable

Notes

The government integrated the new rural pension and the pension for non-employed urban residents in early 2014; it is also working on a package of pension reforms, including the implementation of a contributory pension for civil servants and public-institution employees, and the gradual increase in retirement age and years of contributions eligible for pension (currently 15 years only).

Participation in the enterprise annuity schemes is mainly confined to employees from large state-owned enterprises.

Risks

Large pension gap among different pension schemes.

Growing criticism of dualism in pension system (i.e. non-contributory pension for civil servants).

Narrow channels of investment, making it difficult to maintain the value of contributory pension funds.

Excessive reliance on Pillar 1 (hence a need to promote the development of Pillars 2 and 3).

Specific areas of interest/best practice

Rapid pension coverage over the past few years (currently for over 850 million people, with a coverage of about 85%).

Introduction of comprehensive and modern social security cards (covering all social insurance branches and equipped with financial functions); distributed to 540 million people by the end of 2013.

Pension Provision: South Africa 

Key Metrics[21]

Population (2010)	51.5 million	**GDP per capita (2013 estimate)[22]**	$11,500	**Dependency ratio (<15 and 65+)/(15-64)**	53.7%
Life expectancy at birth (1950-1955), in years	44.0 (male) 46.0 (female)	**Life expectancy at birth (2010-2015), in years**	54.9 (male) 59.1 (female)	**Proportion of population over 65 (2010)**	5.2%

Pension Provision

	Description	Benefit structure	Funding	Coverage	Retirement age
Pillar 0 Basic pension from public finances that may be universal or means-tested	Various social grants (mostly based on means test and age criteria)[23]	Old-age grant and war-veterans grant	Central government	Over 75% of elderly population in retirement	60, male and female
Pillar 1 Mandated public pension, publicly managed with contributions and, in some cases, financial assets	Government employees DB pension fund	Lump-sum gratuity for members with less than 10 years of service; gratuity plus monthly pension for members with 10 or more years of service	7.5% from employees, 13% from employers (16% for defence force and intelligence units)	1.275 million active members; 376,000 pensioners and beneficiaries[24]	60, male and female
Pillar 2 Mandated and fully funded occupational or personal pension plans with financial assets	Employer-based occupational pensions, DB (70-80% of final 2 year's salary) or DC, based on accumulated employer and employee contributions	A certain % of final salary based on seniority; or, annuity/lump sum derived from individual accounts, with payments from both employers and employees	Average contribution rate for occupational schemes is around 15% of earnings, divided between employers and employees (both contributions are tax-deductible, with a limit)	Estimated two-thirds of those employed in the formal sector (full-time and permanent employment)[25]	60-65, to be determined by the employer
Pillar 3 Voluntary and fully funded occupational or personal pension plans with financial assets	Personal pensions	Annuity or endowment insurance	Government is considering tax-preferred savings vehicles	Not applicable	Not applicable

Notes

Current degree of retirement coverage depends on the industry and its degree of unionization. According to the International Social Security Association (ISSA) BRICS report, the government is considering: the introduction of mandatory retirement contributions for people earning below a specific threshold; additional mandatory participation in private occupational or individual retirement funds for those earning above the threshold; and supplementary voluntary savings. Over 2,700 retirement funds exist, and this fragmentation adds significantly to costs.

Risks

The high unemployment rate (24.1% by the end of 2013) and a large informal sector (about one-third of the labour force); in addition, over half of the formally employed fell below the tax income threshold in 2012.
The Human Sciences Research Council, a South African institution, estimates 10.9% of all South Africans have HIV/AIDS. In 2010, an estimated 280,000 South Africans died of the disease, and it is estimated that between 42% and 47% of all deaths among South Africans were caused by HIV/AIDS.

Specific areas of interest/best practice

Well-developed social assistance schemes with comprehensive coverage.

Pension Provision: Bangladesh

Key Metrics[26]

Population (2010)	151.1 million	**GDP per capita (2013 estimate)[27]**	$2,100	**Dependency ratio (<15 and 65+)/(15-64)**	56.9%
Life expectancy at birth (1950-1955), in years	44.5 (male) 42.6 (female)	**Life expectancy at birth (2010-2015), in years**	69.8 (male) 71.3 (female)	**Proportion of population over 65 (2010)**	4.6%

Pension Provision

	Description	Benefit structure	Funding	Coverage	Retirement age
Pillar 0 Basic pension from public finances that may be universal or means-tested	Old-age allowance	Means-tested pension of BDT 300 ($4) per month	General government revenue	31% of people over eligibility (retirement) age	65 male, 62 female
Pillar 1 Mandated public pension, publicly managed with contributions and, in some cases, financial assets	Civil service pension	DC or DB; the government allows gratuity of up to 80% of salary after completion of 25 years of pensionable service	General government revenue	Not applicable	55-60, male and female
Pillar 2 Mandated and fully funded occupational or personal pension plans with financial assets	Occupational schemes	DB or DC; plan must provide regular pension payments	Employee and employer contributions; plan rules specify levels	Not applicable	Not applicable
Pillar 3 Voluntary and fully funded occupational or personal pension plans with financial assets	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

Risks

Low coverage; overall coverage of people over retirement age is 39.5%.[28]

Pension Provision: Bolivia

Key Metrics[29]

Population (2010)	10.2 million	**GDP per capita (2013 estimate)[30]**	$5,400	**Dependency ratio (<15 and 65+)/(15-64)**	68.7%
Life expectancy at birth (1950-1955), in years	38.5 (male) 42.5 (female)	**Life expectancy at birth (2010-2015), in years**	64.9 (male) 69.3 (female)	**Proportion of population over 65 (2010)**	4.7%

Pension Provision

	Description	Benefit structure	Funding	Coverage	Retirement age
Pillar 0 Basic pension from public finances that may be universal or means-tested	Universal non-contributory pension – Renta Dignidad (Dignity Pension)	BOB 250 ($36) per month to those without another pension; BOB 200 per month to those who have another pension	Financed by income from taxes on oil and gas production, and profits from state-owned companies	91% of people over age 60[31]	60, male and female
Pillar 1 Mandated public pension, publicly managed with contributions and, in some cases, financial assets	1) Mandatory individual account 2) Solidarity pension	1) Fixed or variable life annuity; first monthly amount paid under a variable life annuity must not be less than 60% of the insured's average covered earnings in the last 2 years 2) Monthly pension as the difference between contributions and a legally defined threshold corresponding to the number of years of contributions; benefit increases incrementally from 10 years to 35 years of contributions	1) Employee contribution of 11.76% of earnings 2) Employee contributions vary from 0.5-10% of covered earnings, depending on salary; employer contributions are 3% of covered payroll	Not applicable	58, male and female; or 55 for women with three or more children living at home
Pillar 2 Mandated and fully funded occupational or personal pension plans with financial assets	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Pillar 3 Voluntary and fully funded occupational or personal pension plans with financial assets	Employees can deposit additional savings into their mandatory individual accounts	Not applicable	Not applicable	Not applicable	Not applicable

Notes

The solidarity pension was introduced as part of reforms in 2010 to act as a pension guarantee for those who did not qualify for guaranteed minimum benefits, but who had contributed for at least 10 years. The aim was to make it easier for low-income workers and those in the informal sector to receive a contributory pension, and the pension age was reduced at the same time. These reforms also included a renationalization of private pension funds created in 1996.[32]

Risks

Critics of the solidarity pension believe that Bolivia will struggle to fund it in the long term.[33]

Specific areas of interest/best practice

High-coverage, non-contributory pension scheme.

Pension Provision: Kenya 

Key Metrics[34]

Population (2010)	40.9 million	**GDP per capita (2013 estimate)[35]**	$1,800	**Dependency ratio (<15 and 65+)/(15-64)**	82.4%
Life expectancy at birth (1950-1955), in years	40.5 (male) 44.2 (female)	**Life expectancy at birth (2010-2015), in years**	59.7 (male) 63.5 (female)	**Proportion of population over 65 (2010)**	2.6%

Pension Provision

	Description	Benefit structure	Funding	Coverage	Retirement age
Pillar 0 Basic pension from public finances that may be universal or means-tested	Older Persons Cash Transfer: non-contributory, means-tested pension	KES 1,500 per month; resident in a household identified as extremely poor and not receiving any other pension or cash transfer	Government revenue	5% of population over age 65[36]	65, male and female
Pillar 1 Mandated public pension, publicly managed with contributions and, in some cases, financial assets	1) National Social Security Fund (NSSF) – mandatory scheme for formal sector employees[37] 2) Public service pension schemeS	1) Provident fund operating on a DC-basis; lump-sum benefit, no provision for annuitization 2) DB – 2.5% of final basic salary for each year of service, on retirement from service at age 55	1) 6% employer and 6% employee contributions 2) The scheme is financed on a pay-as-you-go basis, with pension costs met from government revenues; male employees contribute 2% of salary towards widow and orphan benefits	1) 53% of formal sector employees 2) 11.4% of total recorded employment[38]	55, or on retirement from regular employment
Pillar 2 Mandated and fully funded occupational or personal pension plans with financial assets	Voluntary occupational schemes	10% of schemes are DB; 90% are DC	No minimum requirements on level of contribution by employers and staff	16% of formal sector employees	Not applicable
Pillar 3 Voluntary and fully funded occupational or personal pension plans with financial assets	1) Personal pension plans 2) Mbao pension scheme (aimed at informal sector workers)	1) Annuity or lump sum 2) Members can receive the sum of their contributions; or, half of them, then monthly disbursements	1) Funded by individual, but eligible for tax deductions 2) Must save at least KES 20 per day ($0.20)	Not applicable	Not applicable

Notes

The Older Persons Cash Transfer is currently undergoing reform/expansion, in line with other social protection programmes in the country.

Risks

Concerns exist over the NSSF's institutional structures and their effectiveness. Many NSSF members are not active contributors.

Specific areas of interest/best practice

In 2009, the Cabinet approved the National Policy on Older Persons and Ageing, which had the aim to "ensure that all Kenyans at 60 years get universal non-contributory social security including those who have never worked". However, coverage currently remains low, with the International Labour Organization (ILO) estimating that only 7.9% of people above retirement age receive a pension.[39]

Pensions and Redistribution: Beyond Intergenerational Inequality

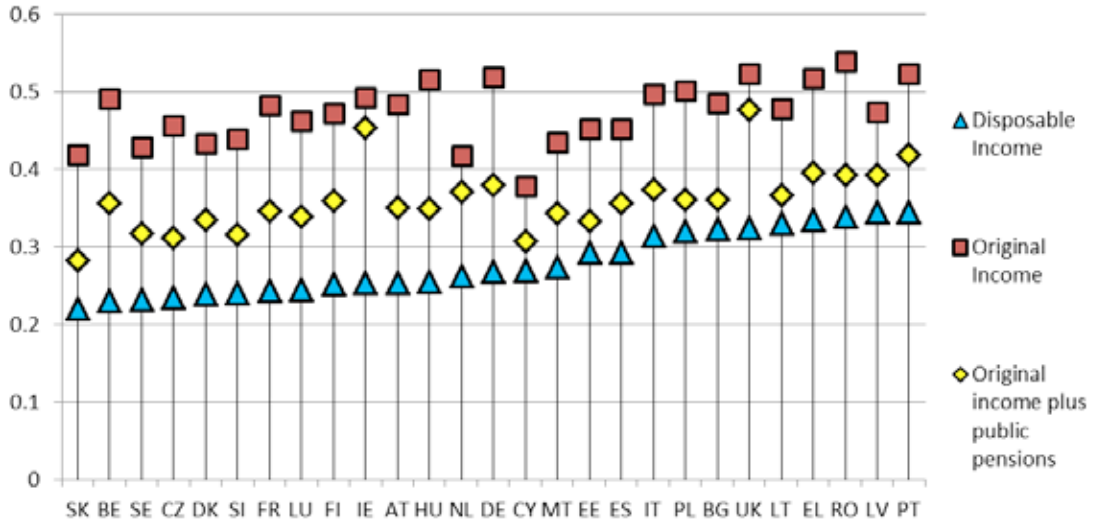
By Silvia Stefanoni, Deputy CEO, Director of Programme and Policy, HelpAge International

Concerns about distribution and inequality are at the centre of discussions about pension reform. Indeed, as outlined by Barr and Diamond (2008),[1] redistribution can be considered one of a pension system's four core functions. Discussions about redistribution are often focused on redistribution across generations. As a result of current demographic trends, increasing concerns arise on how pension can perpetuate intergenerational inequalities by benefiting one generation to the detriment of the other. A common narrative focuses on how younger generations are paying the bill for older people's pensions, a benefit they will not be able to access when they themselves reach old age. Issues of intergenerational fairness are of course important, with plenty of cases in which pension reforms have benefited one cohort more than another. However, this focus ignores the connections between generations and the wider redistributive role that pensions can play.

Overemphasis on intergenerational inequalities creates a false division between generations; it ignores the fact that the lives of younger and older people are strongly intertwined. While old age affects older people, it also impacts on families and societies. Indeed, the challenges that old age can pose have to be addressed not only by the older person, but also by whole families, including children. In the absence of a pension, children are likely to play an important role in providing economic security, which can constitute a major burden – particularly in poorer households. It is worth remembering that if basic pensions in member countries of the Organisation for Economic Co-operation and Development (OECD) were removed today, younger generations would inevitably play a main role in filling the gap. In countries where old-age pensions have recently been introduced, evidence shows major impacts on families – as in supporting children to go to school, improving nutrition and providing greater flexibility for adult children to invest in their own livelihoods.[2]

The focus on intergenerational inequalities also distracts from the fact that differences between generations are usually much smaller than the gaps between the wealthiest and poorest people. A recent Oxfam International report showed that the richest 85 people in the world have wealth equivalent to that of the poorest 3.5 billion.[3] Of these 85 people, two-thirds are over the age of 60. This is not to say that all older people are rich; at the other end of the scale, while it is not possible to disaggregate data on the poorest 3.5 billion by age, other sources find that more than 40% of the population over 60 in a number of Latin American countries are living in poverty,[4] as are up to 51% of the population over 65 in a number of Eastern European countries.[5]

Figure 1: Income Inequality (Gini coefficient): Before and After Taxes and Benefits, 2010 Policies



Notes: Countries ordered according to the value of the Gini coefficient of disposable income. In the calculation of Gini coefficients negative income has been replaced by zero.
Source: EUROMOD version F6.0. See Background information for details of data sources.
European Social Situation Observatory – Income distribution and living conditions

Pensions can play an important role in addressing these wider economic inequalities. The impact of pensions on poverty and inequality in OECD countries is well documented.[6] Figure 1 demonstrates the large impact of benefits, including pensions, on income inequality. The red squares represent the level of inequality in each country (as measured by the Gini coefficient[7]) if there were no benefits or taxes, and the blue triangles represent the level of inequality once benefits and taxes are included. In all countries, the Gini coefficient is reduced after benefits and taxes are included. The yellow diamonds show how inequality is reduced if older people receive a pension; it demonstrates that, in most countries, pensions are responsible for over half of the reduction in income inequality.

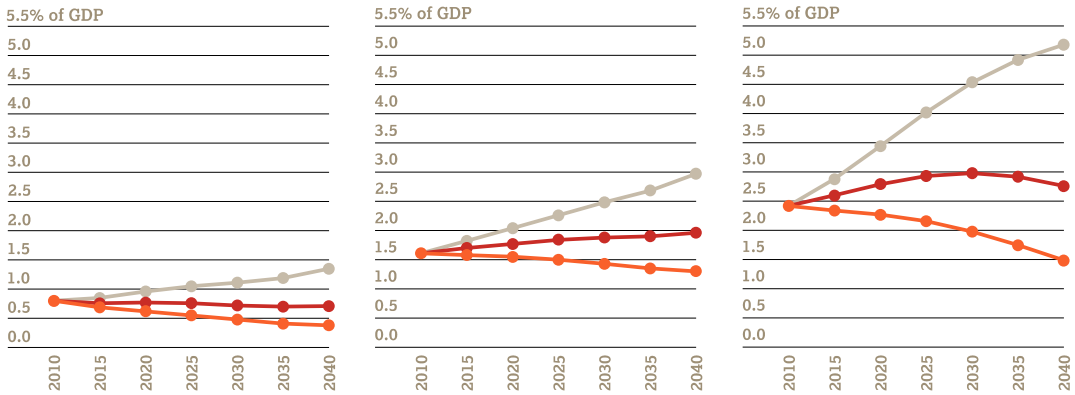
Importantly, however, not all pensions reduce inequality. Where contributory systems are limited to a small formal sector and receive government subsidies, they can actually act as a regressive cash transfer as they benefit only a small proportion of the population that is better off.

A basic non-contributory pension as part of a social protection floor[8] can therefore play a critical role in reducing economic inequality across the whole population. Non-contributory pensions are not a new idea, and their history dates back to the turn of the 20th century when countries such as Denmark, New Zealand and Sweden introduced the first schemes. In many of these countries, social pensions came to form a basic entitlement within their pension systems. The past 20 years, however, has seen a very large increase in the number of countries recognizing the impact of old-age income security and introducing non-contributory old-age pensions.[9] In the last decade, Latin America, for example, has seen substantial growth in the number of governments introducing non-contributory pensions and extending those that previously existed. Countries such as Mexico, Ecuador, Venezuela and Bolivia have introduced schemes that move towards universal coverage, while Brazil and Chile have seen major reform and expansion.

The impact on inequality is clear to see. The extension of basic solidarity pensions in Chile, for instance, led to a fall of 1.5 Gini points between 2006 and 2009.[10] In Brazil, social protection was responsible for over half of the decline in economic inequality between 1994 and 2005, with most of this resulting from pensions tied to the minimum wage.[11] Critically, this decline is not just a consequence of more money being in the pockets of older people; the pension has also been found to have major impact on child well-being, including increased school enrolment and reduced child labour.[12]

For less developed countries where social security systems are still limited, this of course entails extra investment, but costings show that it is relatively affordable to begin scaling up such systems. HelpAge International research, in a survey of 50 low- and middle-income countries, has shown that a universal pension for all people over the age of 65 could be covered by between 0.4% and 1.8% of GDP.[13] Importantly, universal non-contributory pensions also have advantages in terms of future sustainability. Their simplicity makes it very straightforward to predict costs over time, while parametric reforms, such as steadily raising the age of eligibility, can go a long way towards containing costs. Figure 2 uses a variety of scenarios for the long-term cost of a universal pension for three developing nations: Rwanda, Paraguay and Thailand. The projections show that, even in the case of Thailand with a rapidly ageing population, indexing universal pension benefits by inflation (in a medium-growth scenario) would only lead to a modest increase in costs over 30 years.

Figure 2: Projected Cost of a Universal Pension in Three Countries (% of GDP)



Source: Knox-Vydmanov, C. "The price of income security in older age: Cost of a universal pension in 50 low- and middle-income countries", *Pension watch*, Discussion paper, London: HelpAge International, 2011.

The Role of Information and Communication Technologies

By Ali M. Al-Khouri, Director-General, Emirates Identity Authority; and Hans-Horst Konkolewsky, Secretary-General, International Social Security Association

1. Background: Growing Responsibilities of Social Security Institutions

To pursue their mandates, social security institutions have to implement increasingly critical processes and to manage large volumes of data, having to satisfy more demanding requirements. As the political impact of social security grows, institutions are also scrutinized on their efficiency and the quality of their services.

It is important to highlight the wide range of functions that social security institutions have to carry out, which cover the population's life events from birth to long after death and include measures with high economic and social impact.

From a social security functions (business lines) perspective, some of the key processes to be implemented by social security institutions include:

- The registration of contributors and beneficiaries. Challenges involved in the implementation of these systems include the definition and implementation of unified databases and data management processes.
- Benefit granting and payment. Challenges involved in the implementation of these systems include the reliability and performance of systems determining eligibility and amount calculation.
- Collecting contributions. Challenges involved in the implementation of these systems include the reliability and performance of systems validating data submitted by contributors as well as those calculating contribution amounts.

2. Main Contributions of Information and Communication Technologies

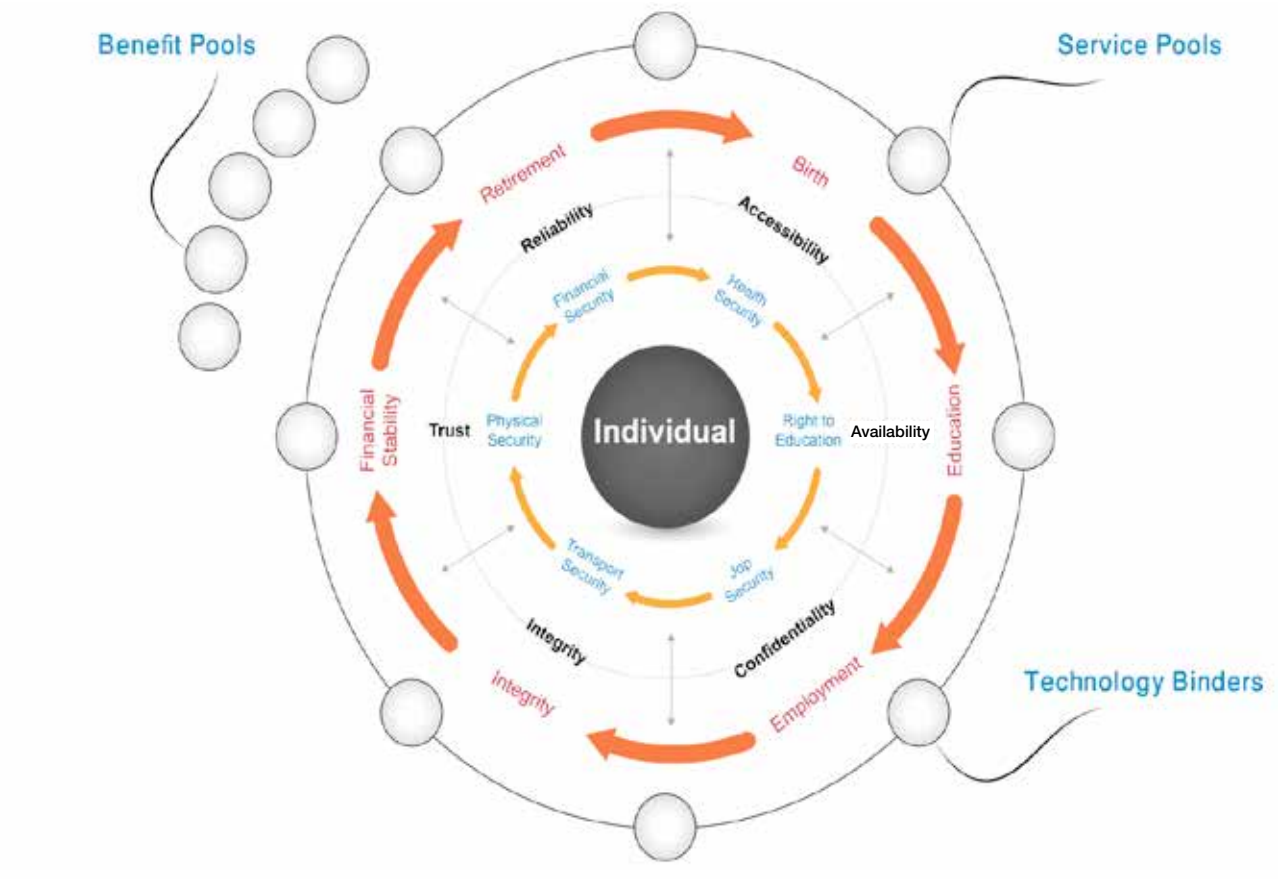
Information technology is all-pervasive in the current context of daily life. Information gathering, information dissemination, decision-making, communication, ease of access… The list of terms that define how information technology contributes to daily life is endless. Social security as a business domain is never far from the influence of information and communication technology (ICT), which increasingly is playing a strategic role in the implementation of social security systems.

Key components of a solid technology support model for social security systems are trust, confidentiality, integrity, accessibility and ability. All these contribute to providing security to society and thus the individual. The idea of providing security should not then be seen in the context of a retroactive or reactive provisioning of services, but from a proactive mode. Security is when an individual and, by extension, the society as a whole experience social benefits in a time of need!

The technology model can be envisaged as a wide array of services. These services are available in different pools and provided by different entities. The various entities need to be engaged in a constant mode of proactive interaction, bound and trusted by their digital identities in the networked digital world. This digital world is the handiwork brought about by technology. The benefit pools likewise need to be interconnected.

The application of ICT has enabled not only the automation of specific processes, but also the transformation of operations and services, resulting in improvements in the performance and service quality of social security organizations.

Figure 3: Technology Model for Social Security



The usage of ICT has thus enhanced various institutions' back-end as well as front-end processes and services.

Improvements to institutions' back-end processes, which comprise the core administrative (business) processes, have been mainly based on high-performance data processing technologies. These technologies, provided by new-generation database systems and process servers, have enabled institutions to improve not only their efficiency, but also the quality and accuracy of their processes by increasing their ability to perform reliable validations, controls and calculations.

Improvements to institution's front-end services, which focus on communication with contributors and beneficiaries, have been mainly based on internet-based e-services. E-services enable 24/7 access to social security services with the possibility to carry out inquiries and transactions even from remote areas and outside national boundaries. These approaches are transforming the way in which institutions interact with users, whether they are members of the social programme, external partners participating in service delivery or internal staff. In this context, the use of mobile technologies in social security constitutes a notable trend, especially in Africa and the Asia-Pacific, where mobile technologies overcome geographical isolation and the limited traditional (wired-based) data communications infrastructure.

From a social security functions (business lines) perspective:

- Improvements in the registration of contributors and beneficiaries have been mainly based on the implementation of master data systems, which provide a unique quality source for core business data. In addition, internet-based interaction with employers and employees has enabled improvement in data administration mechanisms.
- Improvements in contribution collection have been based, on the one hand, on the implementation of internet-based data submission mechanisms, which have enhanced the quality and efficiency of the reception of contribution-related data. On the other hand, improvements have also been based on high-performance validation and calculation processes, which have enabled institutions to quickly respond to contributors regarding contribution amounts as well as errors in the submitted data. In addition, the above-mentioned improvements in contributors' registration have also played a key role in the overall improvement of contribution collection systems.
- Improvements in benefit calculation and payment have been based, on the one hand, on high-performance systems for determining eligibility and calculating benefit amounts. The above-mentioned improvements in beneficiaries' registration have also played a key role by providing the required quality data. On the other hand, internet-based systems have enabled decentralization of payments to sites closer to beneficiaries' homes, allowing them to access the involved information.

In addition to the improvements mentioned in intra-institutional operations, ICT has enabled the implementation of inter-institutional social programmes (e.g. Bolsa Familia in Brazil), through the integration of diverse social protection instruments that are traditionally fragmented.

The implementation of such high-impact nation-wide programmes, requiring an intensive usage of ICT, constitutes a turning point for social security administrations, showing that institutions can play a unique and critical operational role in these strategic socio-economic programmes beyond their traditional schemes of administrative responsibilities. In turn, they have also showed that mastering ICT constitutes a strategic success factor for social security institutions as well as for their leaders.

Furthermore, the extensive application of ICT is transforming the way in which social security functions are carried out:

- Service delivery is switching from counter-based services towards citizens' self-services based on an increasingly wider usage of internet and mobile devices, which is further promoting citizens' empowerment.
- The growing implementation of shared information resources and operational platforms is enabling the design of new organizational models based on multi-actor configurations. Such configurations enable improvement of operational effectiveness and efficiency of complex processes managed by several institutions by unifying operations in a common ICT-based platform, while keeping the responsibilities and jurisdictions of participant institutions (e.g. integrated social protection systems and contribution collection systems in the Republic of Korea and Uruguay).

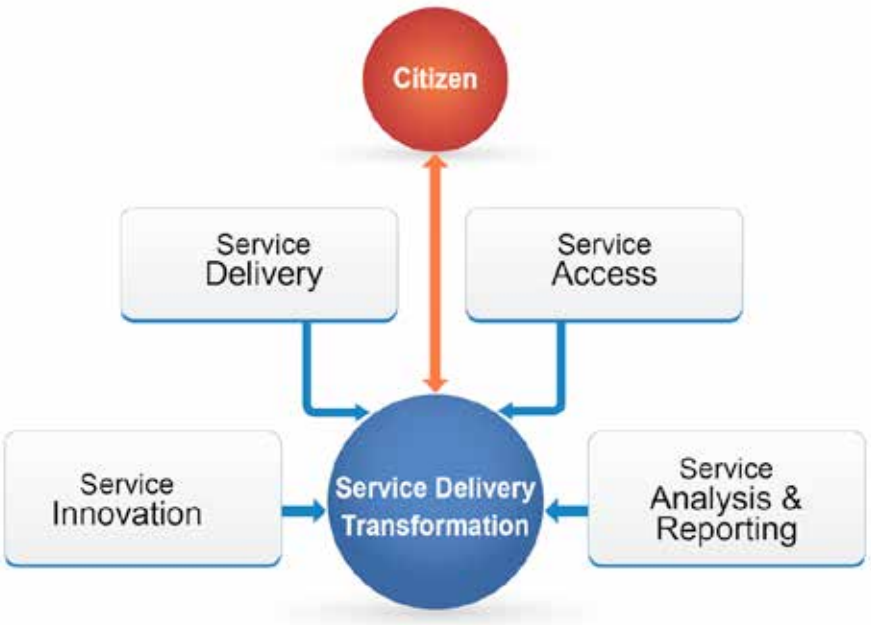
Interesting applications are emerging (existing but with limited experience) for the following:

- Benefit payment and contribution collection through mobile technologies. Mobile technologies are increasingly being used to overcome not only geographical isolation and limited wired-based data communications infrastructure, but also the high costs of traditional bank transactions. *Open issues include* security aspects, business models involving financial services, instability and wide heterogeneity of mobile technologies, among others.
- Automating the operation of international social security agreements in order to provide effective social security coverage to a growing number of migrant workers. *Open issues include* aspects of security and authenticity, aspects of data privacy, standardizing operation processes and data models, among others.
- Fraud detection, both in contribution collection and benefits, by applying data mining techniques to Big Data-like resources, not only using data inside institutions (e.g. records of contributions and benefits) but also using external ones (e.g. maps, aerial and satellite imagery, socio-economic statistics). *Open issues include* characterizing and validating data reliability, adequacy of general methods for local contexts and data privacy aspects.

3. Digital Identity and Social Security

A key point that emerges in all aspects of the ICT applications expounded above is the efficient delivery of benefits to social benefit recipients. After all, a social security system is meant for an individual in particular, which results in the security of the society in general.

Figure 4: Service Delivery Transformation



Service and benefit delivery transformation – the essence of e-government transformation – is thus tied to the identity of the citizen. The first stage is **service innovation**, where the government identifies the need for a specific service and engineers it to meet the specific requirements of all stakeholders. A key point to note here is that service is the outcome of the service innovation process that stems from the need(s) of stakeholders. Hence, the primary objective of a service is to fulfil the associated need(s) of stakeholders in an efficient manner.

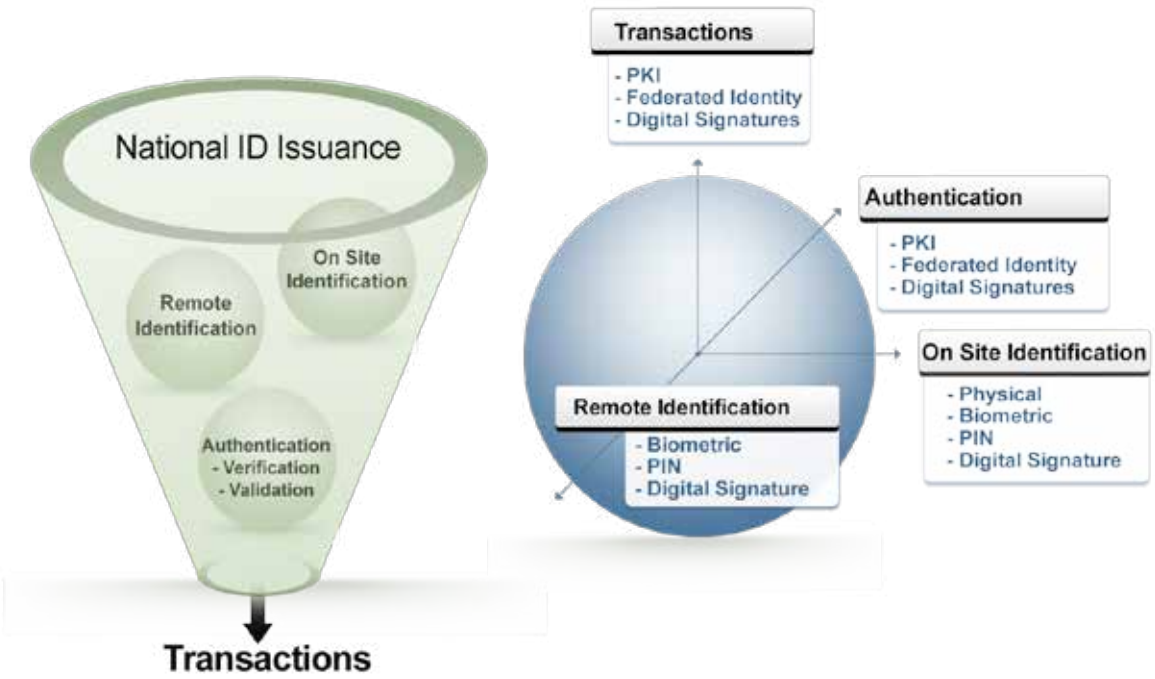
Each service has a target population. **Service delivery** aims to make a service accessible to the target population by considering the characteristics, capabilities and limitations of this group. Inclusiveness is one of the key values that service delivery should always be based on. Another aspect that governs service delivery is the citizen charter with service-level agreements (SLAs), which guarantee a level of service availability and overall quality of the service experience to citizens.

The end objective of service is fulfilled when the target population avails itself of the service. This is facilitated by the **service access** mechanism. In traditional methods of service delivery, a service seeker needs to be present physically at the point of service, which is generally delivered over the counter (OTC). Here, trust is established between the stakeholders through visual inspection of the person and documents. However, this means of establishing trust cannot be extended to electronic means. One of the major challenges posed by electronic service delivery is to establish trust. Since this comes up at the point of service access, this is considered a last-mile challenge.

The fourth stage of service delivery is issue and problem resolution. Disputes may arise and, hence, legally valid evidence of service access and various associated transactions is required to prove the validity of complaints. In addition, a history of service access and transactions may give insight into the behaviour of the overall e-government system. The above aspect, along with business intelligence gathered through **service analysis and reporting**, can result in continuous improvement of e-government service delivery. The key enabler for this is the secure and irrefutable identification of the beneficiary – the citizen.

This enablement then drives digital transformation through secure digital transactions and social benefit delivery. Social benefits can be managed, administered and delivered using the digital identity credentials that are held by citizens. More often than not, the credentials are issued by national governments, resulting in government-enabled benefit transactions, delivering services as they accrue rather than based on personal demand.

Figure 5: National Issuance of Digital Identity Credentials



4. Challenges

In spite of the very positive results, social security institutions have to face a number of important challenges concerning the effective and efficient application of ICT.

On the one hand, implementing new larger systems beyond the boundaries of traditional desk-based services poses relevant challenges to institutions, not only regarding technical aspects but also concerning the management of the overall ICT-related activities. For example, while integrating systems and sharing information offer important advantages, they present collateral issues related to data privacy and institutions' ICT security. Moreover, a systematic implementation of integrated systems involves: (i) using a common e-government-like interoperability platform, (ii) standardizing the "core" information on which the institutions would collaborate, and (iii) clarifying and managing the "ownership" and quality properties of the data.

In addition, the quick evolution of products and their interrelationship can have a negative impact on the stability of business processes. These elements have led to concerns about the cost/result balance and have generated uncertainties regarding better approaches to developing successful ICT applications.

Furthermore:

- The lack of standardization of business processes and information models inhibits the usage of common software packages and the development of an economy of scale. On the other hand, this situation forces institutions to either develop business applications from scratch or to acquire brand-specific software packages.
- Governing and managing larger and inter-institutional (and increasingly cross-border) projects and systems require new management frameworks.
- As data become an essential asset on which key operational and decision-making processes rely, their reliability and quality constitute, more and more, fundamental properties. Addressing these issues systematically requires social-security-oriented data quality models.

Social security institutions may address these challenges through a number of approaches, often involving:

- the adoption of advanced technologies, such as interoperability and mobile and data security, based on standards and good practices;
- the application of ICT governance and management practices, which address the overall organization, implementation and operation of ICT systems;
- the use of common models and ICT-related solutions based on sectoral standards, which would improve the cost-effectiveness and reduce the risks of large ICT-based projects by reusing already-proven solutions and by increasing the economies of scale of ICT products;
- the use of cloud computing, which could enable increasing/decreasing the size of ICT-based services in a flexible way (the so-called "elasticity"), as well as improve the cost-effectiveness of systems development and administration by taking advantage of an economy of scale. On the other hand, a practical implementation of large-scale secure systems still poses technical and methodological challenges, which increase risks and costs, therefore requiring careful analysis of the cost-effectiveness implications and the related ICT-strategy.

Labour Market and Retirement Policies for Older Workers

The Transition from Work to Retirement

By Katrin Westling Palm, Director-General of Pensions, Swedish Pensions Agency; and Hans-Horst Konkolewsky, Secretary-General, International Social Security Association

A common challenge in many countries is the change in population structures. Increased longevity and low birth rates lead to financial problems if retirement systems and labour markets do not find flexible solutions. Employers and employees must adjust to changing conditions. Funding of pension schemes simply require more people in the workforce.

One way is to extend the time in the workforce, thus increasing productivity and taking advantage of the fact that people live longer and have healthier lives. Changes in this direction consist of many challenges that need synchronized attention and actions.

What are the barriers to longer working life? What are the opportunities?

This paper introduces issues that policy-makers, social partners and administrators must address.

1. Labour Market Policies to Promote Employment of Older Workers

Increasing employment rates of older workers are widely seen as a key measure to cope with the financial, economic and social consequences of population ageing. Policies to promote employment of older workers create win-win situations for:

- governments through lower pension and other social security expenditures as well as higher tax income
- businesses through the retention of experienced workers in a context of a shrinking workforce and changing age structures of labour supply
- individuals through continued employment integration, activity and higher retirement income

Governments in most OECD countries have in the past 15 years implemented policies to reverse the longer-term trend to early retirement that began during the 1970s. As a consequence, employment rates have increased; however, the OECD average for workers aged 60-64 is still only 41% of the total population of this age group. In addition, there continues to be a considerable gap between the age of withdrawal from the labour force and legal retirement ages, in particular in many European countries.

Table 1: Employment Rates and Effective Retirement Ages in Selected OECD Countries

Country	Employment rates (%) for workers 60-64		Retirement ages (men, 2012)		Retirement ages (women, 2012)	
	2002	2012	Effective average	Legal	Effective average	Legal
Germany	22.4	46.5	62.1	65	61.1	65
France	11.5	21.7	59.7	60-65	60.0	60-65
United Kingdom	37.9	45.3	63.7	65	63.2	61.2
United States	48.5	52.0	65.0	66	65.0	66

Source: OECD

Efforts to promote employment rates among older workers must therefore be intensified. Significant country differences in both level and trends help in identifying successful policy measures, which support a set of key recommendations.

Recommendations

1. Adopt holistic, comprehensive and coordinated approaches to promoting the employment of older workers by aligning incentives and ensuring the positive integration and contribution of all actors involved, in particular workers and businesses as well as their representatives.

2. Remove social security and tax disincentives for older workers to continue working, in particular through closing early retirement pathways (old-age, unemployment or disability benefits), and creating financial incentives for later retirement and flexible retirement arrangements. Due attention must be paid to the alignment of private pension arrangements with public measures.

3. Enable older workers to remain active by promoting their employability through appropriate skills development, access to employment services, health promotion and occupational safety measures as well as flexible work arrangements.

4. Recognize that the employability of older workers is best ensured through investments in health and skills development from a younger age, and implement measures to enable high productivity and integration of tomorrow's older workers.

5. Implement policies targeted at reintegrating older workers who are out of employment, for instance through rapid employment service support, integrated medical and vocational rehabilitation after a negative health event, subsidies for employers who recruit older jobseekers and compensation for older workers that accept a lower-paid job.

6. Tackle objective employer barriers to the employment of older workers, such as potentially higher labour costs of older workers or special employment protection measures.

7. Combat age discrimination, negative public perceptions and subjective employer barriers to the employment of older workers, such as myths and stereotypes concerning their productivity, health and skills.

8. Take into account the very diverse situation of older workers by promoting flexible arrangements and non-typical employment patterns such as flexible work and retirement schemes, or entrepreneurship among older workers.

9. Take into account the specific situation of older female workers with a view to closing the gender gap and promoting quality employment for older women.

10. During periods of economic downturn, avoid the return to past policy approaches using early withdrawal from the labour force as an adjustment measure, but invest in strategies aimed at protecting the jobs of all workers irrespective of age.

Good practices

In Finland, a number of programmes to promote employment of older workers, including a national programme on ageing workers combined with measures to create incentives for both workers and employers and the closing of early retirement options, have led to an increase in the employment rates of older workers. This increase was from 47.8% in 2002 to 58.2% in 2012 for workers aged 55-64, with a noteworthy increase in the 60-64 age bracket from 26.1% to 42.9%.

Similarly in the Netherlands, comprehensive approaches ensured the involvement of social partners and civil society in combating negative perceptions about older workers alongside employment promotion, the creation of incentives and adaptations to social security early-retirement pathways. A particular focus was put on reducing the number of disability beneficiaries among older workers, as disability benefits had been a major pathway out of the labour force. Employment rates for workers aged 55-64 have increased from 41.6% in 2002 to 58.6% between 2002 and 2012, with an increase from 21% to 43.9% for those aged 60-64.

2. Occupational Safety and Health Policies Promoting Employability of 50+

Health, safety and well-being at work are a precondition for a motivated and productive workforce. One of the major issues related to the ageing of the workforce is the concern that age-related declines in functional capacities and health automatically lead to worsening performance and decreased productivity among older workers. However, the relationship between age and productivity is much more complex because of increased job knowledge, professional mastery, expertise and adaptability, and there is accumulating evidence that job experience is a more valid and reliable predictor of productivity than biological age.

According to Eurostat (*Health and safety at work in Europe [1999-2007]*), sick leave of one day or more decreased with age (from 46% of 15-24-year-olds to 36% of those aged 55-64), whereas the occurrence of sick leave of one month or more increased with age (from 13% of 15-24-year-olds to 23% of those aged 55-64). In terms of occupational injuries, older workers are generally less likely to have accidents than their younger counterparts, while workplace accidents involving older workers tend to result in more serious injuries. Particular causes of stress for older workers can be lack of opportunities for career development and training, and difficulties in adapting to changing technologies.

Rather than factors such as productivity, absenteeism and occupational injuries, the real obstacles in terms of increased employability of older works lie in attitudes. Eurobarometer 2012 results show that workplace age discrimination is the most frequently reported form of age discrimination. More than one in 5 people have either personally experienced age discrimination in the workplace (6%) or have witnessed it (15%). Around seven out of 10 citizens consider the fact that older employees are not viewed positively by employers as an important reason for leaving the labour market.

Recommendations

1. Age-sensitive risk assessments at the workplace: Age-sensitive risk assessment means taking into account age-related aspects of different age groups when assessing risk, including potential changes in functional capacity and health status in the case of older workers.

2. Good workplace design: Because of these large individual differences, the way in which the workplace is modified to address changes in functional capacity has to be tailored to the needs and condition of each worker. Good workplace design benefits all age groups while targeting older workers.

3. Sensory functions: Changes in vision can be addressed by ensuring appropriate lighting and regular sight tests. Decreased ability to judge distances and the speed of moving objects has an implication for night driving. In relation to hearing, overall workplace noise levels need to be reduced. Regular hearing tests are recommended.

4. Physical functional capacity: Reduced physical functional capacity can be addressed, for example, through: job redesign; job rotation; use of equipment and other assistive technologies; restrictions on heavy lifting and physically demanding tasks; training in appropriate lifting and carrying techniques; good ergonomic design of tools, equipment and furniture; good workplace design to minimize the likelihood of falls; allowance for recovery, e.g. through short breaks; more frequent breaks and organization of shift work, e.g. using a “fast forward rotating shift system”.

5. Work ability: Work ability is the balance between work and individual resources; when work and individual resources fit well together, work ability is good. The core factors affecting individual work ability are: health and functional capacities; competence; values, attitudes and motivation; and different aspects of work including work environment, work content and demands, work organization, work community and leadership. Work ability can be measured by the Work Ability Index (WAI).

6. Age management: Age management at the organizational level means taking into consideration age-related factors in daily management, including work arrangements and individual work tasks. The dimensions of age management are: better awareness about ageing; fair attitudes towards ageing; age management as a core task and duty of managers and supervisors; age management included in HR policy; promotion of work ability; lifelong learning; age-friendly work arrangements; and safe and dignified transition to retirement. At its best, age management uses a life-course approach and creates equal opportunities for all age groups.

Source: European Agency for Safety and Health at Work

Good practices

BMW Group: “Today for Tomorrow,” is a holistic and cross-cutting approach to addressing demographic change at the workplace. This program comprises innovative initiatives in the areas of health promotion, training and knowledge management, work environment, and personalized retirement models. When staffing a new production plant a few years ago, BMW specifically targeted unemployed older job seekers to ensure a well-balanced age structure to support the regional labour market. Moreover, BMW recently opened a new assembly hall specifically designed to support healthy aging of its workforce.

Marks & Spencer: A leading UK department store, the company offers a partial retirement scheme that allows older workers to draw company pension benefits while continuing to work part-time. Through this program, Marks & Spencer has doubled the number of 65+ employees on its payroll. The company’s innovative health promotion initiatives include an interactive web portal that offers employees comprehensive health information, discussion boards, and a popular feature that allows employees to make health pledges.

National Australia Bank: The Bank's MyFuture initiative helps 50+ workers extend careers and plan their futures through education on flexibility, work-life balance, and managing personal change. MyFuture further promotes healthy aging, including through health check-ups, an interactive health portal providing online wellness programs, as well as a range of confidential support services to help employees with stress, depression, and work-related issues. The initiative also includes training and education for managers to help them retain older workers.

Elkerliek Hospital: The Dutch hospital's approach to workforce management is based on extensive Work Ability Index (WAI) analysis. Measures to enhance the work ability of its workforce include job carving, a practice of separating tasks from several existing positions to create a new position fitting the needs of an employee with a disability. Elkerliek also establishes individual risk profiles for each employee as part of efforts to manage physical and psychological stress.

Source: AARP International

3. Return to Work – Reintegration

Disability benefit schemes have been one of the major pathways out of the labour force for workers faced with reduced health because of work or non-work related risk factors. This has been the case particularly for older workers for whom disability benefit schemes often constituted a specific early retirement arrangement. Employment, social and labour market integration and social security expenditure outcomes of such policies have been distinctly negative. People with disabilities have lower employment rates and disposable income, and are twice as likely to be unemployed than other people. Social security spending on sickness and disability benefits amounts to an average of 2% of GDP in OECD countries and is significantly higher than spending on unemployment benefits.

Table 2: Expenditures on Sickness and Disability (2007)

Country	Sickness and disability spending, as % of GDP	Sickness and disability spending, as % of total social spending
France	1.4	5
Germany	1.4	5
Netherlands	3.7	18
Sweden	3.6	13
United Kingdom	2.3	11

Source: OECD, 2010. *Sickness, Disability and Work: Breaking the Barriers*

The challenges brought about by ageing societies and workforces make a paradigm shift from compensating incapacity to supporting capacity indispensable. In this context, and with a view to promoting activation and employment, efforts to shift the focus from compensation to rehabilitation, and from exit from the labour force to return to work, have intensified in a number of countries. However, current efforts are still insufficient, and the focus on older workers must be strengthened as part of these measures.

The following recommendations support efforts to ensure the full benefits of return to work and activation. Investment in return to work pays for:

- workers who safeguard income and social integration
- companies that benefit from experience, skills, commitment and lower turnover costs
- economies that maintain a qualified and active workforce
- social security systems that face lower expenditures for long-term benefit schemes

Recommendations

1. Change the approach of disability benefit systems from long-term cash benefits for more or less incapacitated workers to employment promotion systems that provide temporary benefits and support rehabilitation and return to work.

2. Establish a coherent strategy and legal framework supporting rehabilitation and return to work that engages all key actors and makes work pay by aligning incentives under different measures and schemes, including the relative attractiveness of disability, early retirement and unemployment cash benefits.

3. Adopt a comprehensive approach consisting of a continuum of prevention, early intervention and transition back to work.

4. Strengthen prevention measures and ensure that a person is not brought back to a work environment that made him/her sick in the first place.

5. Promote the combination of medical treatment and vocational rehabilitation to enable a person's quick recovery, maximum functional ability and mobility, and early return to work.

6. Focus on early identification and intervention, including the establishment of a proactive reporting strategy to allow for the return-to-work process to start as soon as medically feasible, as well as support for employers to create an appropriate workplace absence management system.

7. Adopt an individualized approach based on case management that allows for support, communication and coordination of different actors, and enables the development of a rehabilitation plan, including appropriate services for an individual's specific circumstances.

8. Facilitate the necessary flexibility in workplace arrangements for individuals who return to work through appropriate incentives and subsidies for employers, and make use of existing active labour market policies to support this process.

9. Implement measures to change attitudes and perceptions of employers, medical professionals and workers concerning the ability and work capacity of people with health problems (particularly older workers). The focus must be changed from inability to ability and from incapacity to capacity.

10. Mainstream the specific needs of older workers in all measures taken, in particular with regard to prevention, early intervention and efforts to maintain the attachment to the current employer.

Good practices

As part of its new Centre for Excellence in Social Security Administration, ISSA has established Guidelines on Return to Work and Reintegration. These professional guidelines, which reflect international good practice in creating and implementing comprehensive return-to-work measures, provide extensive information on the necessary steps and conditions for successful return-to-work measures.

Based on a legal framework requiring each employer to implement workplace integration management, the German Social Accident Insurance (DGUV) has adopted a comprehensive programme to support return to work. A core of this programme is the adoption of disability management as a key approach. Disability management ideally combines prevention, early intervention, individually targeted medical and vocational rehabilitation and return-to-work support. The DGUV is training and certifying disability managers employed by companies, and is offering a certification programme for companies on the basis of which employers may benefit from reduced insurance contributions.

Signalling an important change to mindsets and approaches, the United Kingdom replaced the sick note, used to indicate an absence from the workplace for medical reasons, by a "fit note" in 2010. The new fit note focuses on the advice doctors give about an individual's fitness for work. It is based on the recognition that doing the right kind of work is good for health, and that a person does not always have to be fully recovered to go back to work. In a positive way, it strengthens the attention of medical professionals to workplace issues and the importance of ensuring a close attachment to work as early as possible.

4. Retirement Policies that Promote Work Activity of Older Workers

Sustainable financing of pension schemes requires more people in the workforce. It is necessary to extend time spent in the workforce in order to increase productivity and to take advantage of the fact that people live longer and have healthier lives. Early exits are a waste of human capital.

Unless working lives are prolonged, pension benefit levels will gradually become lower and lower, eroding confidence in the pension system. The dependency ratio will be unsustainable; it will become difficult to maintain acceptable standards of welfare, and there will be a risk of labour shortages occurring in different labour market sectors.

The most important challenge to raising the effective retirement age and extending working life is to reduce the proportion of older people with early exits. Otherwise, there is a risk that measures promoting longer working lives may lead to burdening other schemes, i.e. an increased number of people on disability pensions.

In the context of ageing populations, governments are encouraging older workers to work more hours and to delay retirement. Policy focuses on increasing labour market participation either by encouraging those unemployed or inactive back into jobs, or by motivating those in employment to delay retirement. The latter is supported in many countries by raising the normal retirement age.

The trend of an increasing ratio of women in the workforce provides potential. Women live longer than men. Women often receive lower pensions than men because their (mostly) traditional life choices are different than men's: they take greater responsibility for home and family, stay at home for child rearing, work part-time and care for ageing parents because they largely refrain from wage labour. Many opportunities exist to use policy to influence these patterns, such as establishing schemes for paid leave in connection with childbirth, child rearing, and access to kindergarten and preschool. Such policy can positively affect birth rates and women's labour market participation. A gender-neutral pension scheme can stimulate increased participation of women in the workforce and increased labour supply, and can thereby reduce women's risk of poverty in old age. Annuities which provide lifetime insurance are important, especially to women who are expected to live longer than men.

Recommendations

1. Abolish/reduce early retirement options that are not strictly health- or work-capacity-related
   - Old-age pension schemes should not be used to fix short-term labour market problems (keep people in the right social insurance scheme).

2. Adjust retirement age to reflect higher life expectancy and sustainability requirements
   - Raise the normal retirement age.
   - Introduce elements (e.g. unisex annuity divisors) to make age limits automatically adjust in line with changes in longevity.
   - Introduce flexible retirement age.
   - Consider abolishing fixed normal retirement age, as it is normative for attitudes towards when working life should end.

3. Introduce unisex normal retirement ages
   - Retirement ages should be the same for men and women. Provide incentives to women to remain longer in the workforce.
   - In defined contribution plans that are actuarially fair, lifetime benefits do not increase if women retire early. Actuarially fair benefits will induce participants to postpone retirement voluntarily, compared to a defined benefit system with early retirement subsidies. In defined benefit plans, women are often permitted to retire earlier than men. When benefits are not adjusted in an actuarially fair manner, women could increase their lifetime benefits by retiring early.

4. Introduce flexible retirement solutions, including adjustment mechanisms (e.g. life expectancy); provide incentives/disincentives related to real retirement age; and others
   - Make it possible to continue earning pension credits even after the normal retirement age is reached/ pension benefit is drawn.
   - Make it possible to benefit from working after normal retirement age, also for those with low pension benefit.
   - With a clear link between contributions and benefits, early retirement will lead to a lower annual pension (actuarial retirement age). This gives both men and women an incentive to work longer.
   - Provide financial incentives for employees as well as employers, reduced employer contributions and lower tax rates for pensioners.

5. Provide retirement solutions for those who cannot work longer
   - It is obvious that age limits in old-age pension schemes must adjust to changes in longevity. This puts people with long working lives in drudgery at risk of being unable to retire, despite failing strength and health. People with longer working lives, regardless of the nature of work, can be considered as having contributed sufficiently to both the production and financing of welfare.

Good practices

Pension system design

Balancing mechanisms: Sweden, United States, Japan, Germany, Canada
Annuity divisors: Finland, Sweden
Countries that are raising the normal retirement age make exceptions for people with long working lives: Germany
Gender-neutral and individualized old-age pension systems: Sweden

Financial incentives

Employers:
Lower social security contributions for workers who have reached normal retirement age, i.e. cheaper for employers to retain older workers: Sweden
Employees:
Lower taxes for retirees on labour income make it possible to continue earning pension rights, even after the normal retirement age is reached/pension is being drawn: Sweden

Gradual retirement

In Japan, gradual retirement typically takes the form of moving from a primary to a secondary career job with the existing employer, or being "loaned" to a smaller subsidiary or affiliate.
In the United States, many older Americans take so-called "bridge jobs", or become self-employed between leaving their career job or employer and retiring fully.
Corporate solutions: United States
End-of-career schemes
Job sharing
Phased retirement: first retiring, then returning as a part-time worker
Part-time retirement: reducing working hours, and drawing full or partial pension benefits at the same time as being salaried

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