Global Agenda

A Framework for Sustainable Security Systems


February 2013
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A special thanks to the Stanford Center on Longevity for being the lead editor of this publication
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.

Sources:
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 literacy 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 expectancy 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, and in 2008, more than 1 in 3 workers had savings (retirement plus other) of less than $10,000. 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. 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. 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.

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. 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. 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. 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. 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. 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

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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.

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.)
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.

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.
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:
Why through?

- Students
- Immigrants
- Young unemployed
- Employees
- Retirees

Cooperation:

- The Swedish Consumer Agency (Konsumentverket)
- The Swedish Financial Supervisory Authority (Finansinspektionen)
- The Swedish Pensions Agency (Pensionsmyndigheterna)
- The Swedish Enforcement Authority (Kronofogdemyndigheterna)
- 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

The network
Gilla Din Ekonomi

Geographic and demographic spreads
Efficient. Low cost.
**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.

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**Swedish projects in financial education**

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

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

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
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!

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

Further information: Christian Keller
Managing Director
Tel: +49 89 1220 8400
Telefax: +49-89-1220-8410
Mobile: +49-172-8582182
christian.keller@myfinancecoach.de
www.myfinancecoach.com
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 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 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 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 policyholders 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.
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, 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.
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.
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)
- Benefits based on life expectancy at retirement
- NDC – automatic balancing
- Guarantee pension
  - basic protection (general tax financed)
- Rate of return
  - NDC: wage index
  - FDC: financial market
- Income ceiling = 7.5 base amounts
  (= SEK 409,500 for 2012)
- No age limits

The Swedish retirement income system

First pillar
- Income Pension
  - NDC, PAYG
- Premium Pension
  - DC, Funded
- Guaranteed Pension

Second pillar
- Occupational schemes
  - (90% coverage)

Third pillar
- Tax deferred individual pensions
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. In June 2012, over 150 countries endorsed a Recommendation on social protection floors at the International Labour Conference in Geneva. 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.

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. 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.
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. 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.”

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.9 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.10 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.

6 A social pension is defined as a regular non-contributory income transfer to older people.
8 See, for example, The Economist, “Tick tock: Brazil’s pension system”, http://www.economist.com/node/21551093.
Differing approaches to a floor within the pension system

High coverage social insurance with small social pension

- **Non-contributory pension**

Contributory social insurance (public) redistribution within system and government subsidy

- **Contributory pensions (public or private)** strong link between contributions and benefits

Non-contributory floor with supplementary contributory benefits

- **Non-contributory floor**

Potential for affluence test
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 branches1 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.

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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 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.
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 require adjustments in their infrastructure.**

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.

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

11. Family planning: Educate (especially) girls and young women on birth control and contraception. Provide contraceptives.
12. 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.
13. Health system: Invest in the medical infrastructure, training of local physicians and medical staff, and access to hospitals and medicine.
15. 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.**

16. 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.**


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 different pillars work and fit together 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 judgment 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 lifetime benefits and lifetime contributions) helps to increase acceptance, raises formal labor supply, and prevents black market activities/formality.

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 discussion 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
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.

Members

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

• 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.

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
1. Role of Work

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

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
2. 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

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
3. Private Sector Tools

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

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

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
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.

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?
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M. Michele Burns, Center Fellow, Stanford Center on Longevity

Chair (2013-2014)
Hans-Horst Konkolewsky, Secretary-General, International Social Security Association (ISSA)

Vice-Chair (2013-2014)
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Axel Börsch-Supan, Director, Munich Center for the Economics of Aging (MEA)

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

Daisuke Iwase, President and Chief Operating Officer, Lifenet Insurance Company

Daniel Balaban, Director, United Nations World Food Programme (WFP)

Daniel M. Hofmann, Adviser to the Chairman, Zurich Insurance Group

Donald P. Kanak, Chairman, Prudential Corporation Asia

Evgeny Gontmakher, Deputy Director, Institute of World Economy and International Relations (IMEO)

Gail K. Boudreaux, Executive Vice-President, UnitedHealth Group, USA

Katrin Westling Palm, Director-General, Swedish Pensions Agency

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

Richard Blewitt, Former Chief Executive Officer, HelpAge International, currently Resident Coordinator and Representative for Trinidad and Tobago and Suriname, United Nations

Robert Palacios, Senior Pension Economist and Director, Social Protection Department, World Bank

Silvia Stefanoni, Deputy Chief Executive Officer, HelpAge International

Volker Deville, Executive Vice-President, Allianz SE

Yiyong Yang, Vice-President, Senior Research Fellow, Institute of Social Development Research

Research Analyst
Lisa Ventura, Associate, Global Agenda Councils, World Economic Forum

Council Manager
Jesse McWaters, Project Manager, Financial Services Industries, World Economic Forum

Forum Lead
Giancarlo Bruno, Senior Director, Head, Financial Services Industries, World Economic Forum
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