

Notes of a meeting of the Social Security Sub-Committee held at MGS Seguros, Barcelona on 21 September 2016

Participants:

Gábor Borza – Hungary	Raffaello Marcelloni – Italy
Chris Daykin (chairperson) – UK	Rita Marques – Portugal
Philippe Demol – Belgium	Marianna Papamichail – Greece
Richard Deville – France	Tibor Párniczky – Hungary
Maria Economou – Greece	Ismo Risku – Finland
Cinzia Ferrara – Italy	Hartwig Sorger – Austria
Anna Kwiecińska – Poland	Falco Valkenburg – Netherlands (Chair of Pensions Committee)
Sylvain Le Bihan – France	Jeroen van den Bosch – the Netherlands
Safia Lekehal le Calvez – France	John Woodall – United Kingdom

In attendance:

Yasuyuki Fujii – Chair, IAA Pensions & Employee Benefits Committee
Maitane Mancebo – OECD (Paris)

1. Opening of the meeting and adoption of the agenda

Chris opened the meeting and the agenda was adopted.

2. Notes of the meeting in London on 7 April 2016

The notes of the previous meeting were confirmed.

3. Presentation on Social Security in Spain

Dr Diego Valero made a presentation on social security in Spain, with particular reference to current and forthcoming stresses on the budget and reforms which had been proposed, including raising state pension age and the intended introduction from 2019 of a sustainability factor to adjust downwards all pensions coming into payment so as to offset increases in expectation of life at retirement age. A copy of the presentation is attached to these minutes.

4. Sustainability and adequacy of pensions

The subcommittee's paper on *The Ageing of the EU – Implications for Pensions*, which was published on 14 March 2016, is to form the basis of a seminar in Brussels from 16.30 to 18.30 on Wednesday 16 November for stakeholders, including MEPs, the Commission and other stakeholders.

Chris had presented the paper at the PBSS/IACA/IAAHS Colloquium in St. John's, Newfoundland on 27-29 June 2016 in a joint session with the IAA Population Issues Working Group. The work of the AAE had been well received. Falco Valkenburg had given a similar presentation to the Slovenian Actuarial Association. A copy of the Powerpoint presentation is attached to these minutes so that other members of the subcommittee can use it as a basis for making presentations to their own associations

or to stakeholders in different countries.

5. Task Force on Adequacy of Pensions (TFAP)

Maria reported on the work of the TFAP, focusing on replacement ratios and internal rates of return. Replacement ratios are much used and quoted but they are generally based on theoretical considerations and appear smooth and favourable, whereas in practice the achieved replacement ratios are very variable and for some vulnerable groups they are not very adequate. However, care is needed in interpreting results, as low replacement ratios for those with high underlying earnings may be of less concern than higher replacement ratios for those on low earnings.

The task force presented four case studies, looking at aspects of interpreting replacement ratios in the context of individual countries: Tibor Párniczky (TP)(Hungary); Marianna Papamichail (MP)(Greece), Anna Kwiecińska (AK)(Poland) and Catharine Censier (CC) (Belgium). TP presented a study from a few years ago in Hungary which used cluster analysis on individual data for 34,000 members of the social security scheme to find groups with similar levels of salaries and career path characteristics. This was used to identify vulnerable groups, in particular those with low earnings later in their working careers. MP presented a study of the Labour Institute of the General Confederation of Unions of Greek Workers on 2015 replacement ratios. This looked at different ways of defining replacement ratios and showed the results for different Greek social security schemes which cover different categories of workers.

AK presented work done using a microsimulation model on the full database of salary data on individual members of the Polish social security scheme. This enabled the evolving value of pensions to be monitored in relation to salaries of workers and helped in the identification of vulnerable groups. A particular feature of the Polish social security scheme on which she focused was the minimum guaranteed pension and how this would develop in future depending on how the minimum pension is revalorised.

Maria presented on behalf of CC which showed the impact of recent reforms in Belgium on the calculation of revalued average salary and the increased period required to qualify for a full pension. Philippe Demol commented that the calculation is quite complex and that he would be making a presentation on it to the Pension Committee the following day.

Ismo Risku presented work in Finland on internal rate of return and present values of benefits and contributions as measures for intergenerational fairness. This showed cohorts born from 1940 to 2000 and demonstrated significantly higher returns for earlier cohorts than for younger members, with convergence onto a common level with effect from the 1970s cohorts. The methodology had also been used to investigate the impact of recent reforms in Finland. This showed a slight improvement in the returns available to the younger cohorts, as intended by the reforms, but the effect was marginal.

Jeroen van den Bosch mentioned a study carried out in the Netherlands a few years ago which had looked at the impact of first, second and third pillar pensions, as well as housing and savings, set against expenditure of retired persons. This had identified a number of specific vulnerable groups, including the self-employed and divorced persons and illustrated different ways of looking at adequacy, which involved categories of person as well as salary levels. He suggested that it was desirable to adopt a more holistic approach, as in the Dutch study, and that considerations of expenditure in retirement should be set alongside measures of pension income.

The Subcommittee thanked the TFAP for their work and the interesting presentations and encouraged them to continue working to develop a paper bringing these ideas together which the AAE could promulgate and use as a vehicle for communicating with stakeholders such as DGEmployment and MEPs. This should be a self-standing publication but would also form a background to the eventual update by the SSSC of the paper on The Ageing of the EU, which should be targeted for 2018 when the Ageing Report 2018 and the Pension Adequacy Report 2018 are expected to be issued by the

Commission.

The case study presentations are attached to these minutes.

6. Task Force on Pensioner Mortality

The task force has been established, with Colin Murray (Ireland) in the chair, and has held an initial conference call. However, no report was available from the task force and they would be encouraged to prepare an initial progress report which we could discuss on a conference call towards the end of the year.

7. IPSASB¹ Consultation on accounting for social benefits

IAA representatives had met with IPSASB to discuss the IAA response to the consultation on accounting for social benefits. This would also be on the agenda for the Geneva Discussion Forum (see item 8).

8. Geneva Discussion Forum

This annual meeting between representatives of the IAA, ILO and ISSA would take place in Geneva on 30 September 2016. Chris Daykin would represent the AAE Social Security Subcommittee.

9. Future Meetings

A conference call will be planned for December 2016/January 2017, subject to discussion material being available from the mortality task force and the TFAP. A face to face meeting in conjunction with the next meeting of the Pensions Committee (Malaga, 7 April 2017) would be possible only if someone else agrees to take the chair, as CD will be in Tirana, Albania for a diploma ceremony of the actuarial training programme supported by the Institute and Faculty of Actuaries. However, a meeting will be held in Copenhagen on Wednesday 20 September 2017 (preceding the meeting of the AAE Committees on 21/22 September).

10. Close of meeting

¹ International Public Sector Accounting Standards Board