



ACTUARIAL ASSOCIATION OF EUROPE

Meeting the challenge of ageing in the EU
Social Security Sub Committee

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This report from the AAE responds to:

The recent publication by the EU Commission of the Ageing Report 2018 and the Pension Adequacy Report 2018.

The publication for the first time of disclosures in the supplementary Table 29 of the national accounts of the pension entitlements of households or pension obligations of contributory social security pension schemes.

The actuarial profession in Europe welcomes the thorough analysis that lies behind the reports. It also welcomes the publication of Table 29.

Why this paper?

The EU is getting older at a continuing remarkable rate. How having a lot more time will affect our lives – as workers, consumers and family members – is a fundamental question; social and economic.

The challenge of a longer life requires focus on how to manage key factors such as the retirement age and social security provisions are. In other words, we need to manage the impact of longevity on pensions; the long term risk of longevity in actuarial terms.

As actuaries with expertise in the quantification and management of long term risks:

- We can play an active role in analyzing the impact of future demographic changes on pension and social security provision.
- We can answer to the questions on how to finance retirement income and health care costs for the elderly.

We have answers on how to manage longevity risk and these answers we wish to share.

What are the challenges for financing retirement income and health care costs for the elderly?

- The population structure will go from roughly three working age people per person over 65 to only two in 2050.
- The concern that under more financially sustainable pension costs pension adequacy will decline.
- The crucially important need to pay attention to adequacy of the benefits for poverty prevention and income replacement.
- The costs on health and long term care; they are projected to rise in every country.
- The continuous change in family dynamics that will lead to the need of larger proportion of long term care costs to be paid out of public funds
- The high degree of differentiation between employment statuses. Careers are becoming less and less linear, with people transiting between different employment statuses.

How the Social Security benefits could be expected to develop in the coming years?

Uncertainties surround many aspects of the future, including the outcomes of pension reforms, development of career and other demographic patterns, economic growth.

To manage the impact of longevity on pensions we need:

- To achieve a financially sustainable system.
- To secure pensions adequacy and minimizing risk of poverty.
- To ensure sustainability of Social Security Pensions Promises.
- To communicate these challenges to the public at large.

How can we achieve a financially sustainable pension system?

From an actuarial perspective we would regard the following as important for achieving a sustainable pension system:

- pension costs should be a relatively affordable percentage of GDP and not growing significantly over the long term
- resilience to ageing of the population, through some form of sustainability factor or automatic adjustment mechanism at retirement age to offset increasing length of life
- significant element of protection for those on low incomes through minimum guarantees in the public pension system
- robust funded second and third pillar pension arrangements
- regular actuarial reviews of long-term financial outcomes of the first pillar sound public finances more generally

How can we secure pensions adequacy and minimize risk of poverty?

From an actuarial perspective we would regard the following as important for securing pensions adequacy and minimizing risk of poverty:

- In assessing the current and future adequacy of pensions in terms of level of income, gender, and type and length of career, the distributional effect of different profiles of individuals need to be considered.
- Significant element of social protection for vulnerable groups, such as those on low income, interrupted career or non-standard form of employment, could be achieved through minimum guarantees in the public pension system.

How can we ensure sustainability of Social Security Pension promises?

- Develop a statutory requirement for regular actuarial reporting on the finances of social security.
- Regular actuarial reviews of long-term financial outcomes of social security pension schemes.

This year has seen the publication for first time of disclosures in the supplementary Table 29 of the national accounts. Table 29 disclosure though considers only the liabilities accrued up to the reporting date.

From an actuarial perspective we would regard the following as important for the assessment of the financial sustainability of EU social security pension schemes:

Consider the approach, which takes into account all the liabilities, including those still accruing and those in respect of future joiners, as well as all assets, including the future contributions from current and future participants of the pension scheme

How these challenges can be communicated?

Raising pension awareness is important.

So effort should be paid:

- for wide discussions, so that people can understand their situation more implicitly and consider their options and choices more fully.
- to provide people with fitting default pension products
- to help people with a better pension and health planning in order to prevent them from poverty.

How we can Meet the Challenge of Ageing in the EU?

- With positive planning and action-taking
- With actuarial modelling approaches and methodologies; to project future cash flows and assess the impact of pension policies

The great advantage of increasing life expectancy is that it is happening slowly and is predictable from afar.

As actuaries we seize this advantage and we are able to ensure how we can become appropriately prepared.

We are fully aware that when science and knowledge are focused on a challenge, then much can be achieved.



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