

**Notes of the Social Security Sub-Committee meeting**  
**held at the Hotel & Palais Strudlhof in Vienna on 10 October 2019**

**Participants:**

Maria Economou (Chair) – Greece  
Bernd Muemken - Germany  
Costas Stavrakis – chairperson TF Methodology & Projections - Cyprus  
Chris Daykin - (Immediate Past Chairperson) - UK  
Daniela Martini – Italy  
Hartwig Sorger – Austria (Pensions Committee observer)  
Ismo Risku – Finland  
Jeroen van den Bosch – Netherlands  
John Woodall – UK  
Maitane Mancebo – chairperson Pensions Committee Spain  
Peter Gatenby – UK  
Philippe Demol – Belgium  
Raffaello Marceloni – Italy  
Richard Deville – France (observer)  
Tibor Parniczky – chairperson TF Adequacy Hungary  
Craig Hanna – USA (American Academy of Actuaries)(observer)

**Apologies:**

David Bogataj – chairperson TF Mortality Slovenia

**1 / 2 Opening of the meeting and adoption of the agenda / Notes about the Committee's progress**

Maria opened the meeting by thanking the SSSC members for their contribution. The agenda was adopted.

Maria pointed out the committee's development in communicating its work. She informed the members about the IAA webinar where she invited to present the committee's paper "Meeting the challenge of Ageing in the EU".

### **3. Task Force on Adequacy of Pensions (TFAP) / Chairperson Mr Parniczky**

Tibor made a presentation on EU pension schemes' available information and data bases. That was a deep inventory on what is produced by European institutions (Eurostat, DG ECFIN and DG EMPL, as well as the Council) and other international organisations (ISSA, US SSA, OECD). The presentation assessed the available information against the methods used for financial analysis of social security systems (ISAP2). The TF Adequacy target is to start the discussion with Eurostat, DG ECFIN and DG EMPL, on how to integrate all available information for the purpose of better comparability of sustainability/adequacy indicators (as of financial analysis) and policy advice.

Costas mentioned that all different pension exercises from European institutions are based on different objectives. As he clarified those institutions are aware of the differences / overlaps; however they are focusing on achieving their own objectives rather than on how to provide a comprehensive picture, for example measuring financial sustainability and adequacy on a joint manner.

Costas agreed with the TF target "to contribute in bringing all information together in a more integrated manner". He referred to the example of establishing a common framework for the communication and interpretation of results under the Eurostat ESA 2010 exercise and AWG exercise, including provisions of reconciliation of the above sets of results

Raffaello said that sustainability and adequacy should be discussed together; but what if adequacy is too low? What if sustainability is good for nothing? The point is to find the right balance and the way to reach this target.

Costas then referred to the example of Poland pointing out that even though its public pension system is financially sustainable in the long-term, on the adequacy side the replacement rates are projected to drop significantly by 2070, reaching to a very low level of benefits, which is considered socially unsustainable. How could this be accepted he said; we need to set a pension adequacy limit, below which the replacement rates could not be dropped. Where exactly the level of this limit should be set, we do not know; nevertheless, we can contribute though in defining this limit.

Raffaello said that we need to think about it in the future.

Maitane referred to Poland saying that if the replacement rate drops lower than 40% then a minimum benefit for everybody should be addressed as it was not the same having a 300€ pension dropping 40%,

or a 2,000€ pension dropping the same. We then need to think how this min benefit could be linked with the active population's salaries maybe, as a way to tackle intergenerational fairness.

Ismo said that the AWG should look a little more on the benefit side. There are risks of low benefits in numerous countries. These risks may increase pressures to reform legislation (e.g. Finland raised retirement age in order to enhance sustainability *and* benefit levels).

The following question set regarding a better comparison from the adequacy point of view: Shall we consider the average entitlements instead of the ratio of the starting (or first) pension to the late (or last) salary? If we consider the average entitlements then the unemployed and employed periods could be taken into account.

Raffaello added that unemployment is a special situation.

Raffaello gave a presentation on a specific measure of adequacy called "Pension wealth". This measure is already in use at an international level (see the OECD's "Pension at a glance") and in this case the Pension wealth was focused on the Italian injured workers to put in evidence the impact of a worker's compensation system on the adequacy of benefits.

Raffaello also stressed the point of the difficulties in definition of adequacy. "What is adequate and what is not?" The answer could be addressed in two main levels. The 1<sup>st</sup> level is to have the adequacy to prevent poverty. The 2<sup>nd</sup> is to replace income.

Raffaello proposed to discuss about compensation programs also in cooperation with the Social Security Committee of IAA where a specific working group was created.

Tibor said that the real question is how to "translate in practice" indicators / survival benefits. How the indicators on different types of careers are set and the replacement ratio on working careers are calculated.

Raffaello said that it should be interesting to see adequacy from the lowest level of income and pension benefits. Thus unemployed and vulnerable groups will be considered.

Tibor asked how to use different life expectancy? How much of all discussed is theoretical?

Referring to the Intergenerational Fairness he said that TF Adequacy will discuss pension reforms putting the strain of certain generations. He added that Automatic Adjustments Mechanisms contribute to that.

John said that he is interested to work on the intergenerational fairness topic.

Jeroen set the question on our future role as actuaries. What we wish to achieve, he asked, in a 5 years' time? What would be our contribution to the wellbeing of the society? We need to puzzle more what to achieve in the longer term. He pointed out that we need to look to the poverty not only from the income but also from the expense side. As an example he mentioned the mortgage issue that, as a big deal of spending, is away for most of people when entering retirement status. He proposed to discuss how to defy not entering to poverty.

Costas proposed to organize a designated session on the role of actuaries. It is not an easy task he said; we need though to give a general answer.

Raffaello said that the first topic is to define what is adequacy. Prevention of poverty? We could decide what the min level of poverty is and to discuss what is the "real" role of taking action on this. What an actuary can do to improve it.

Ismo agreed with Jeroen and raised also the topic of the health services and medical costs as an important item.

#### **4. Update on the implementation on pension tracking service in the EU**

Jeroen gave an update on the above project. He informed the committee that currently 4 countries participate, The Netherlands, Belgium, Sweden and Germany, and that there are discussions on how to go ahead. There are a number of difficulties, among them "the language this service will be communicated" since not all people who are expected to use it are at a high educational level.

Chris said that in UK they also try to develop this service. The difficulty though he said is the big number of the different pension plans in UK.

Raffaello underlined the language difficulty.

Tibor mentioned that for the subsidiaries countries the regulation should be in EU level.

Jeroen replied saying that nothing is said by regulation. He also mentioned that there should be different information levels.

Bernt asked about the services' process and Jeroen explained. He also clarified that the provided information is personal information.

## **5. Task Force Mortality / Chairperson Mr Bogataj**

Maria informed the committee about the draft paper of David on mortality literature and invited the participants to send their comments so that to be finalized till the meetings in Bratislava.

Daniella made a presentation on disabled mortality.

Raffaello said that the different behaviours included in every profession should be also seen from the “adequacy perspective”.

Tibor agreed.

Chris said that in UK mortality is examined by occupational group. In UK schemes mortality is examined by level of earnings and by level of pensions. So it can be followed how mortality is developing in the different socioeconomic groups. Analysis is taking place in individual schemes and, depending on the scheme, big differences come up. We, as a committee, need to focus on what as actuaries can do; how metrics can be used in pension reforms / expectation of life. He also pointed out the IAA work on mortality and the big amount of info available.

Tibor said that as an attempt of pension reforms was to unify a “common life expectancy”. There are mortality differences among the socio economic groups on which we should pay attention.

Everybody agreed to discuss further the topic of mortality among different socio economic groups.

Maria referred to the Europop 2018 population projections data inviting the participants to start comparing the data published with the corresponding ones used for the AR18.

## **6. Task Force Methodology and Projections / chairperson Mr Stavrakis**

Costas referred to the pension experts' group meeting in Luxemburg last April and the Eurostat technical manual which needs to be updated for the upcoming Eurostat pension exercise of December, 2020. The revised manual should be completed by April 2020.

As part of our technical collaboration with Eurostat, we aim to enhance the existing methodological framework for the calculation of actuarial pension obligation data for the purposes of T.29 reporting in national accounts, while respecting the internationally-set actuarial principles and standards. Such enhancement would be reflected to the update of the technical manual, which should be principle-based.

He then referred to the annual meeting of OECD working parties on financial statistics and national accounts with the participation of the IAA, Eurostat and other international national organisations that takes place the first week of November. Costas said that he has been contacted by colleagues of IAA to lead the intervention of the actuarial community on this topic.

Maria encouraged Costas to do so. She also asked Costas to circulate the manual so that to start discussing on it.

## **7. Future meetings**

Maria asked who of the SSSC members will participate in the IAA meetings in Tokyo.

Chris and Raffaello confirmed that they will attend.

Maria informed the committee that she will attend the IAA – ILO – ISSA Social Security Forum in Geneva on October 21<sup>st</sup> on behalf of AAE.

She proposed to have a conference call around mid-December and another one at the end of February.

She also asked for another face to face meeting in Bratislava Slovakia on Wednesday 1 April 2020.

## **8. Close of the meeting**

Maria thanked the participants for their attendance and their contribution to the discussion items.