



# ACTUARIAL ASSOCIATION OF EUROPE

Intergenerational Fairness – Ideas for discussion

# Main Objective

EIOPA has shown interest for the Intergenerational Fairness topic through the IORP II Directive. Article 7 on the "Activities of an IORP" says in its last sentence:

*"As a general principle, IORPs shall, where relevant, have regard to the aim of having an equitable spread of risks and benefits between generations in their activities"*

## Description (mostly pensions perspective)

- Pensions is an intergenerational benefit because of its **time horizon** and by definition of contribution and benefit payment period.
- Each generation receives a **similar return** on contributions paid.
- Each generation should retain a fair **expectation** of social improvement and have a fulfilling life without being unduly harmed by the actions of a previous or subsequent cohort.

## Description (mostly pensions perspective)

- A system which does **not intentionally** and **materially** advantage or disadvantage one generation (e.g. the current one) over another (e.g. the future ones).
- Intergenerational Fairness has to arise questions like "what is the **value** of a safe and happy childhood".
- Ensure that **contributions** made from a generation to finance pension benefits are **fairly used**.
- **No dishonest redistribution** of pension assets between age cohorts.

## Description (mostly pensions perspective)

- Provide pension levels and indexation that **avoid** having **pensioners in poverty** but also find a way that the younger that will receive less pensions from the pay as you go systems **do not pay twice**, once for the former generations and second for themselves.
- In third pillar intergenerational fairness can refer to **tax treatment**.
- Important to assess the interaction of a number of distinct but parallel elements, not only technical equity, but also a social dimension (which may be more or less subjective) of **perceived "fairness"**.

# Description (mostly pensions perspective)

Avoid pensioners in poverty

Perceived fairness

Intentionality of harm

Contributions = Benefits

Expectation management

Similar return in different time horizon

Materiality of changes

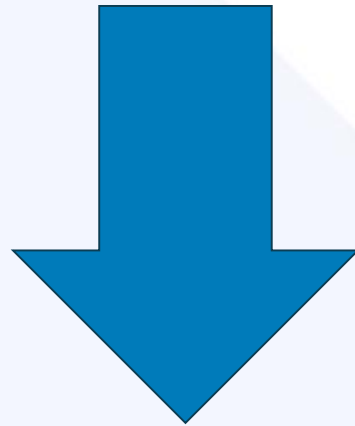
Equal value for different advantages  
(i.e. education vs pension amount)

## Challenges (mostly pensions perspective)

- Difference between justice from a social perspective and within a pension plan.
- Difference between fairness at the time of construction and what is considered to be fair when the outcome is known.
- We give our children a safe and "pampered" start into life, bigger possibilities for learning and education so they could achieve a better job than we could. But on the other side they will get lower Pension payments (from 1st and 2nd pillar), but for them it is easier to bring more Money in the third pillar.

# Challenges

Many of the issues are subjective



The AAE should stay objective, describe the issue and provide an actuarial tools to calculate the potential differences between generations



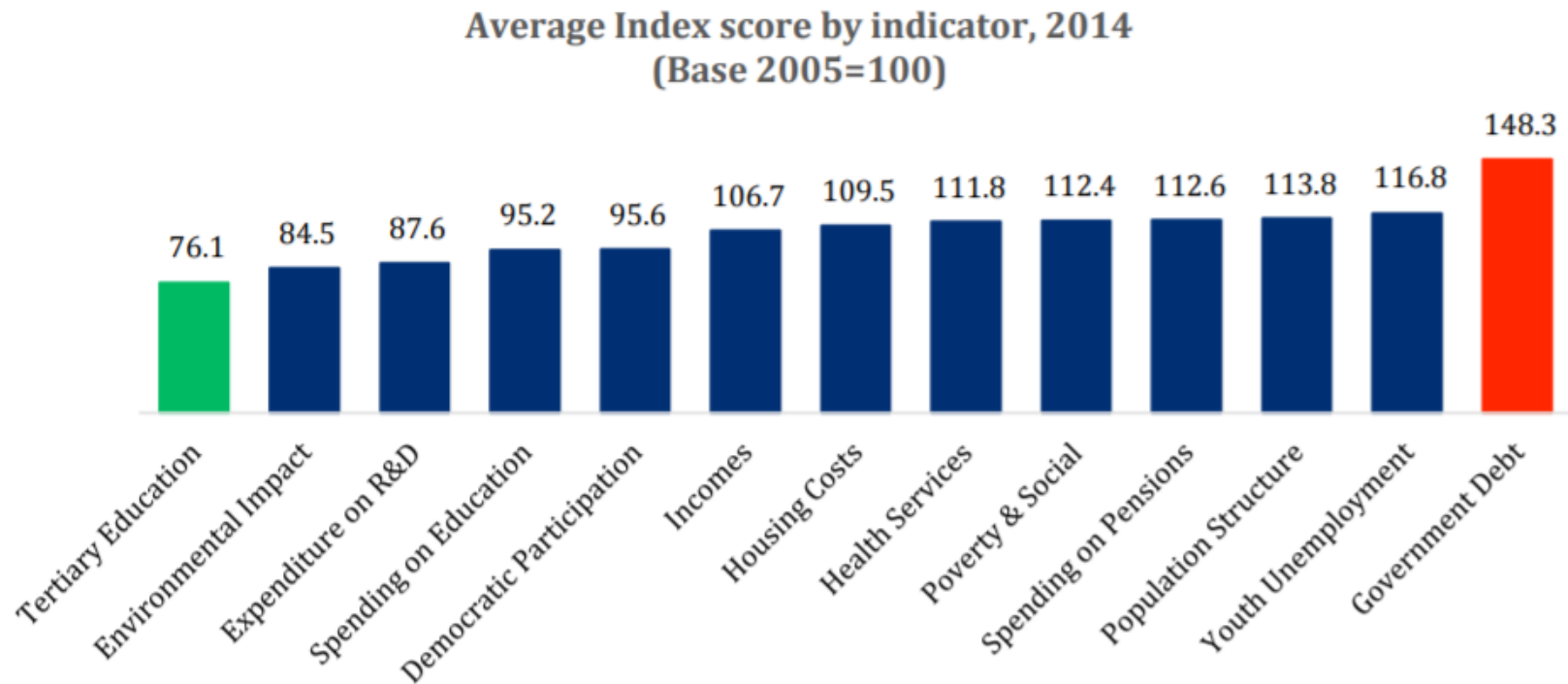
# Potential focus areas for AAE

- Raising awareness of about the problem
- Product design
- Cashflow analysis
- Highlight items in our work which are unfair
- Not only in pensions: also in all other social benefits, health care costs, housing, education, etc.

# How do different countries deal with it

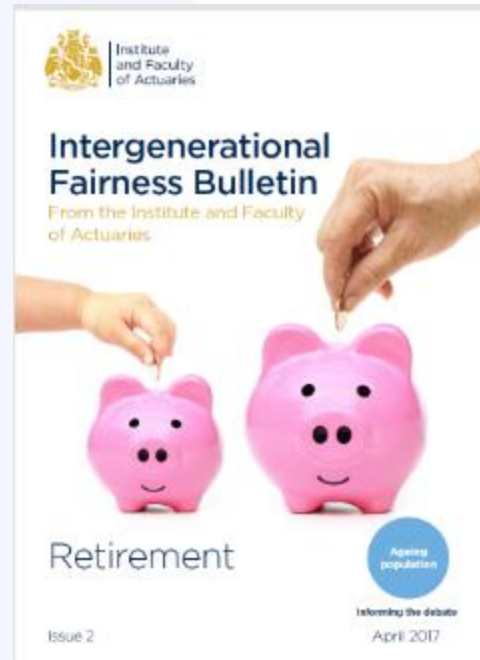
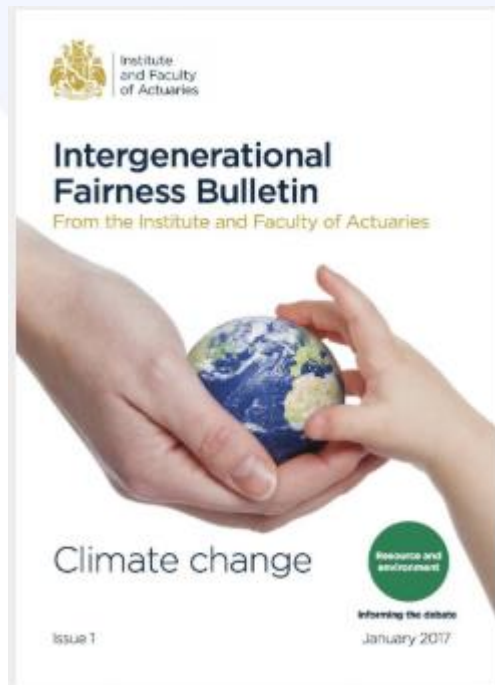
- In the Netherlands the board of the IORP, when they'd like to change something within the IORP, has to explain that every generation is treated fairly, and all interests have been taken into account properly.

# Work done by the Intergenerational Foundation



Source: [if.org.uk](http://if.org.uk)

# Work done by IFoA



## Work done by AAE

How can we contribute?



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