Our future role as Social Security Actuaries in Europe

1. Introduction

As Social Security Actuaries we are proud – with good reason - of our role in the development of theory and practice in the Social Security field. In recent times, we see evidence that policy-makers are, generally, beginning to take increasing note of the advice of actuaries working in Social Security.

The context, however, is one in which populations, societies, and markets change in a dynamic way. Insecurity, unfairness, and growing tensions among different groups seem to reflect a growing perception of increases in overall inequality, leading to a growing demand for adjustments in the social contract.

Our work as Social Security Actuaries requires us to assess the relevant dynamics of the changing balance between groups – in particular (but by no means only) between younger and older age cohorts. This should contribute to the design of new institutional framework, consistent with those dynamics.

In seeking to respond to such challenges, we need to reflect deeply on what we wish to achieve in the short but also in the longer term.

The Vision Statement of the AAE expresses these issues as follows:

"…

This objective of this paper is, accordingly, to address the following question:

- What future role should actuaries play with regard to social security?
- What do we wish, and believe we are able, to achieve within the next 5 years?
- What do we wish to achieve in the longer term?

  and, [importantly].

- What would be our specific contribution to the wellbeing of society?

- **What do we wish to achieve within the next 5 years?**

To highlight the crucial contribution of Social Security systems to a well-functioning and just society.

In principle, the professional skills of the actuary are applied in helping institutions, (often businesses, but also, social security and other public sector entities) to develop policies that minimize the financial cost of risk and uncertainty.

However, our role has not until now been seen as crucial when reporting government's liabilities in Social Security, and perhaps given less weight than the perspective of economists.

Accordingly, we envisage taking steps over the next 5 years following two parallel paths:

- communicating, as broadly as possible, the value of our work in social security; and
- Continued development of our expertise

The issue of communication

We face challenges of two kinds (at least), which are somewhat beyond the "traditional" scope of actuarial work. Firstly, the content for discussion is often of a technical nature. Secondly, the need is to for two-way communication with a wider, public audience.

Communication in this sense should focus, thus, on:

- People's understanding on how social security contributes to economic security;

  and

- Our understanding of the needs perceived by people widely; we cannot contribute to the wellbeing of the society if we see ourselves as being outside of that society.

It is important to raise awareness of issues and challenges relating to pensions. So in the short term, efforts should be devoted to organizing:

- Webinars focusing on questions identified non-actuaries;
- Discussions focused on helping people to develop their understanding of their pension rights more deeply.

The challenging period of the COVID 19 pandemic has highlighted the importance of identifying and then listening attentively to the experts, As Social Security actuaries we may consider and so offer ourselves as experts in the Social Security field; our expertise comprises the full knowledge, and the necessary tools to implement solutions. Moreover, we are able to work in a way which is independent of industry interests.

Our role should always be:

- to state the facts and analyse the financial costs of risk and uncertainty;
- to quantify the risks of either policy makers' proposals, offering a clear view on the "pros and cons" of alternative courses of action.

Last but not least: We must continue to promote our profession internationally. This can be enhanced through the development of our collaboration with the International Actuarial Association (IAA), the International Labour Office (ILO), and the International Social Security Association (ISSA(

We should, moreover continue to highlight the social security guidelines which have been formalized by ISSA; in this context it is worthwhile to note that for almost a century. it has been recognized that actuarial reporting forms a key element of good social security governance.

Continuous development of our expertise

Actuarial modelling approaches and methodologies are built on projections of future cash flows, which facilitates assessment of the short-, medium- and

long-term impact of pension policies and reforms on adequacy and sustainability of pension system provision in an integrated way. We should continue to highlight this expertise and the importance of the actuarial perspective in relation to assessing the adequacy and sustainability of pensions, firstly in quantitative, but also qualitative terms.

This has particular relevance in relation to:

- The calculation methods for the European Commission periodical Reports on Ageing and Pension Adequacy.
- The development of pension adequacy measures, including replacement ratios, which themselves may be defined in a variety of ways.
- The use of pension projection methods (micro and macro).
- Compliance with ISAP2 and with the ISSA/ILO Actuarial Guidelines
- Pension tracking Services in the EU countries.
- The calculation of the pension figures in the T29 table.
- We should continue to discuss, comment on and, where appropriate, draw conclusions in relation to: Long-term demographic projections.
- Topical issues relating to retirement.

In addition:

While it may be natural to approach many of the topics noted above in a perspective focusing on pension benefits, and hence pension scheme liabilities, it may be useful to recall that actuarial methods are equally applicable the expense side of scheme management: Despite the importance of occupational pensions, there exist few comparative studies of total pension provision and their costs. Work to fill this gap will help to better understand the different options available to reduce imbalances in benefits and expenses.

Intergenerational fairness should be also considered when dealing with pensions. An important aspect here is to understand the way in which individual concerns are expressed in the very language of “fairness”.

- **What do we wish to achieve in the longer term?**

To advance solutions to challenges facing the member states, not least by increasing public understanding of the way in which social security contributes to economic security

Globalisation, technological progress and demographic change profoundly impact OECD (indeed global) labour markets, influencing not only the quantity and quality of jobs that are available, but also the way in which and by whom they are carried out. Work patterns are diverging from the full-time dependent employee model on the basis of which social protection systems have usually been designed. The resulting and varied concerns of scheme members play out broadly in the process of "political economy".

The consequent challenges for traditional social protection systems must be reflected in the assumptions actuaries make about the future. As actuaries we should expect to participate in the design of products which may address, these trends, at least in part We should promote approaches which draw on actuarial expertise.

Accordingly, it is matter of concern as to how we may ensure that our proposals are heard accurately by policy makers.

More specifically to achieve our long term target we should:

- Continue to provide input, based on the appropriate relevant calculations, to policy makers of European institutions concerning the adequacy of retirement provision
- Promote the provision to pension scheme participants of information which will enable them to assess their personal financial situation when reaching retirement age

In addition:

Examination of the actuarial modelling approaches and methodologies used at present by different Member States across the EU appear to reflect a low level of consistency. As a result, when considering the role of the Social

Security Actuary, we need to pay close regard to the differing frameworks prevailing in each member state.

Suggested long term goals are:

- to promote the consistent reference by EU policy makers to the ISSA-ILO Guidelines on Actuarial Work for Social Security, in relation both to actuarial work in individual countries and for EU level exercises such as The Ageing Report.
- To promote the wider role of actuaries in social security work at the national and international level
- To create a forum in which those actuaries in different countries who are in fact working with social security institutions may be identified and enabled to collaborate effectively; a to the extent possible, such collaboration should be extended to other professionals and experts who are doing work of this kind in the absence of the involvement of actuaries as such.
- **How do we wish to approach the objective of making a material contribution to the wellbeing of the society?**

Because our primary concern is the wellbeing of people, we should promote the objective that, in the long run, pension benefits sufficient at least to prevent poverty will be provided to all European citizens.

As actuaries, being concerned on the quantification of financial and demographic risk aspects relating to groups of individuals, we have an extensive role in the management of relevant financial and social risks.. We refer to past experience, as providing useful information, but are increasingly aware that the past may not be an accurate indication of what the future will hold.

Accordingly, it is crucial to develop an understanding of the differences, causes, effects and dynamics of the composition of the groups of individuals

in terms of their similarities and differences. We must strive for an equally dynamic, continuously-updated approach to our understanding and hence advice offered in relation to, for example, public policy or societal consensus, mobility, life-cycle variations, inter-generational relationships, and technology.

At the present time, as with any crisis, social security systems face many and serious challenges, and these may impact on benefit levels.. A conceivable and regrettable long-term consequence may be that those who feel they have been unfairly disadvantaged, may dissociate themselves from orderly social dialogue.

To face the challenges of realities “on the ground" we need to strengthen our problem-solving approaches. This should include measures to define as clearly as possible requirements for recognising and measuring social benefits.

Concurrently, we need to:

- Demystify the role of our profession, in particular through enhancing our capacity for public explanation of the mechanisms of social security, together with the demographic, economic and other external factors that may affect schemes,
- Strengthen our relationships with policy makers, in order that the application of rigorous actuarial analysis to relevant problems should lead to improved policymaking.

We fully understand that in addressing any problem, a variety of solutions may be feasible. Our objective is to [help to] identify that solution which is optimal.