

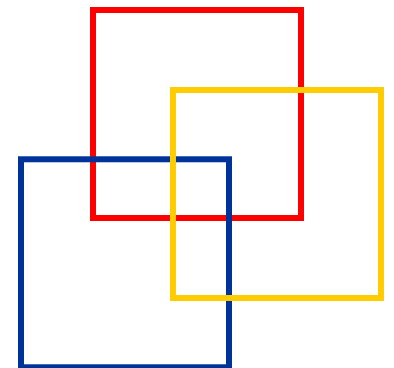


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Pension reforms and the crisis

Social Security Department
International Labour Office

The ILO Global Campaign to extend Social Security to all



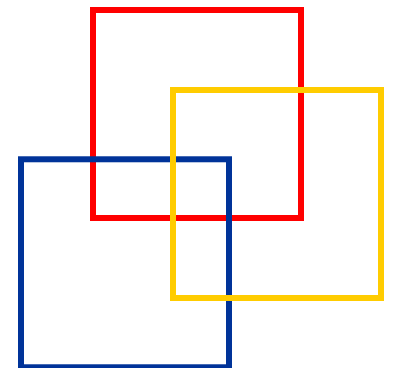


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Agenda

- A. Crisis and pensions
 - Role pensions play in crisis as part of national social security systems
 - Impact of crisis on pensions
- B. Automatic stabilizers or de-stabilizers?
- C. What has to be done?
- D. Ten guiding principles for social security pensions

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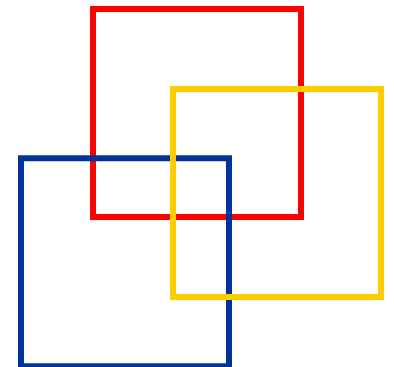
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Responding with social security to the crisis

- **Responses:**

- social security has been widely used as a means to combat the social and economic consequences of the crisis through prevention of poverty individual consumption smoothing and stabilisation of aggregate demand
- acceptance of stabilisation function of social transfers led to extending benefits.
- But there are first signs of “consolidation measures“ ...

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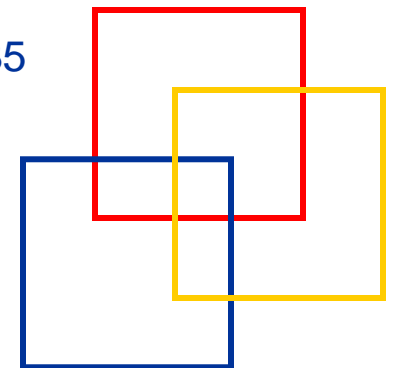


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Responding with social security to the crisis (2)

- Australia (increase in pension benefits)
- Bangladesh (old-age pension increased by 20 per cent)
- Brazil (increase of old-age pension in line with minimum wage)
- Chile (extension of social pensions to another 5% of the poor elderly, increase in benefit level)
- China (gradual extension of the old-age pensions to rural population)
- Costa Rica (15% increase in benefit level in non-contributory pensions)
- France (6.9% raise in old-age pensions)
- India (expansion of pension coverage)
- Kenya (cash transfers to the elderly)
- Russia (adjusted pensions to inflation forecast)
- South Africa (decreased retirement age for men)
- Spain (increase in minimum pension benefit)
- Tanzania (increased minimum pension benefit levels)
- Uruguay (shortened minimum contribution period for full pensions from 35 to 30 years)
- ...

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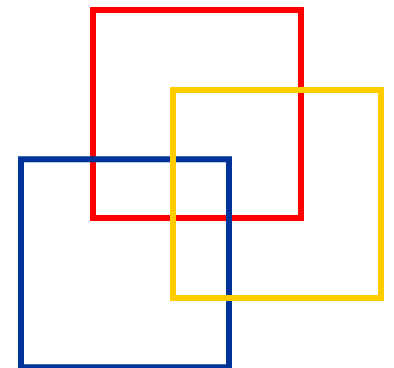


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Responding with social security to the crisis (3)

- Pension levels protected in real terms or increased
 - to prevent poverty of the more vulnerable
 - to stimulate the economy
- Coverage extended to uncovered groups
 - to prevent poverty of the more vulnerable
 - to stimulate the economy
- Effective retirement age reduced
 - to ease the situation at the labour market (not recommended but happens)

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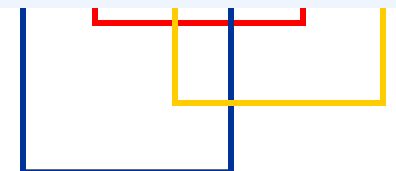
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Impacts of the crisis on pensions

	Younger/prime-age workers	People near to retirement	Retirees
Strongly affected		Individuals in mature, private DC schemes (especially: <i>i</i>) where exposure to riskier assets is greater; and <i>ii</i>) where people are required to annuitise their balances at retirement)	Retirees who did not annuitise their DC balances at retirement (especially those with greater exposure to riskier assets)
Moderately affected		Individuals in mature, private DB schemes Public, PAYG systems with deficits	Retirees in plans with automatic benefit adjustments (e.g. conditional indexation, balancing mechanisms, sustainability adjustments)
Less affected	Most individuals in this group	Individuals with recently established private DC schemes	Retirees who annuitised DC balances before the crisis Most retirees with DB private pensions or public, PAYG benefits

Source: *Pensions at Glance 2009, OECD*

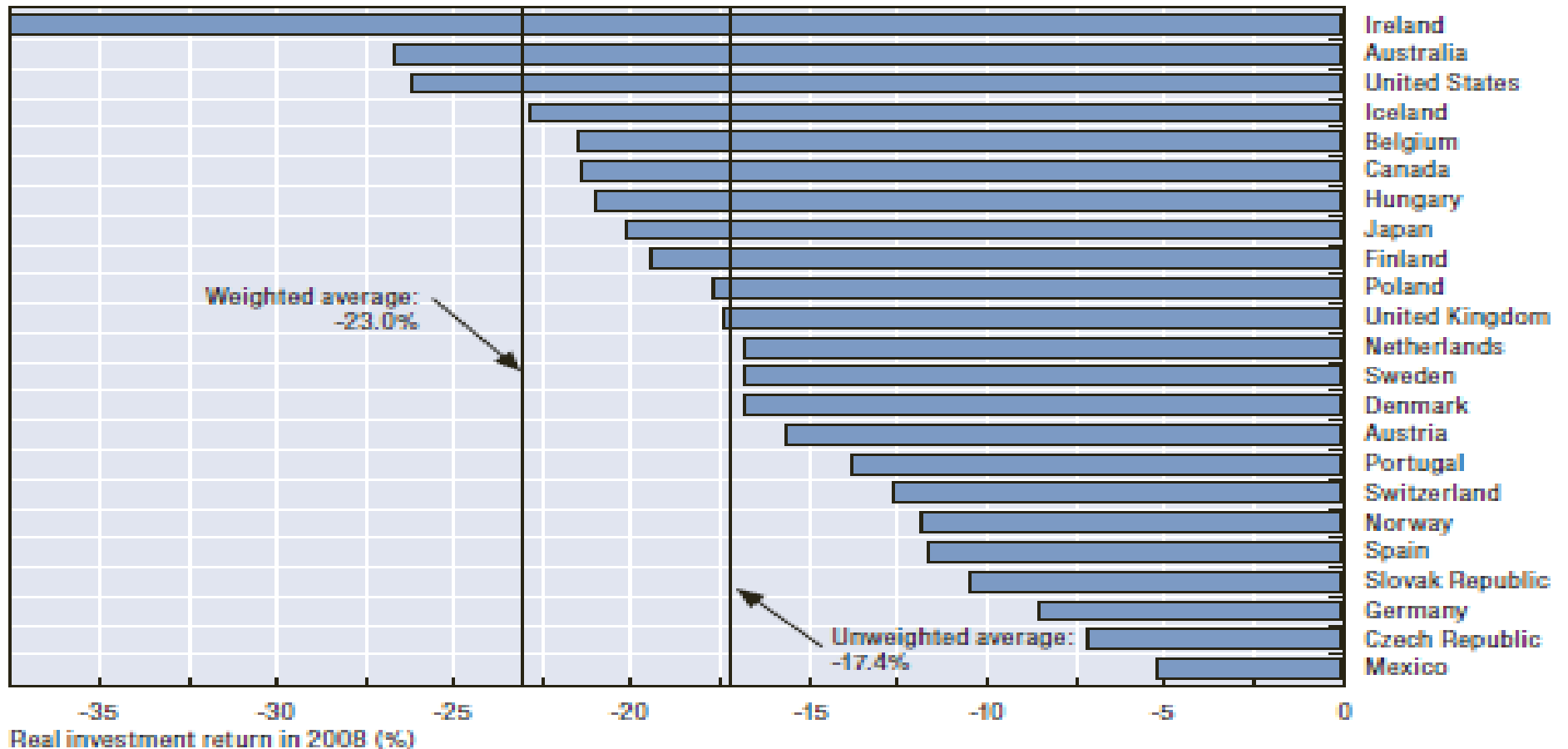
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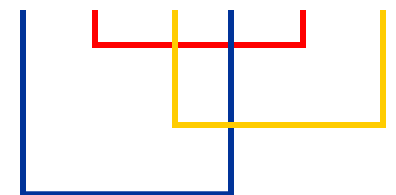
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Impacts of the crisis on pensions (2)



Source: *Pensions at Glance 2009*, OECD

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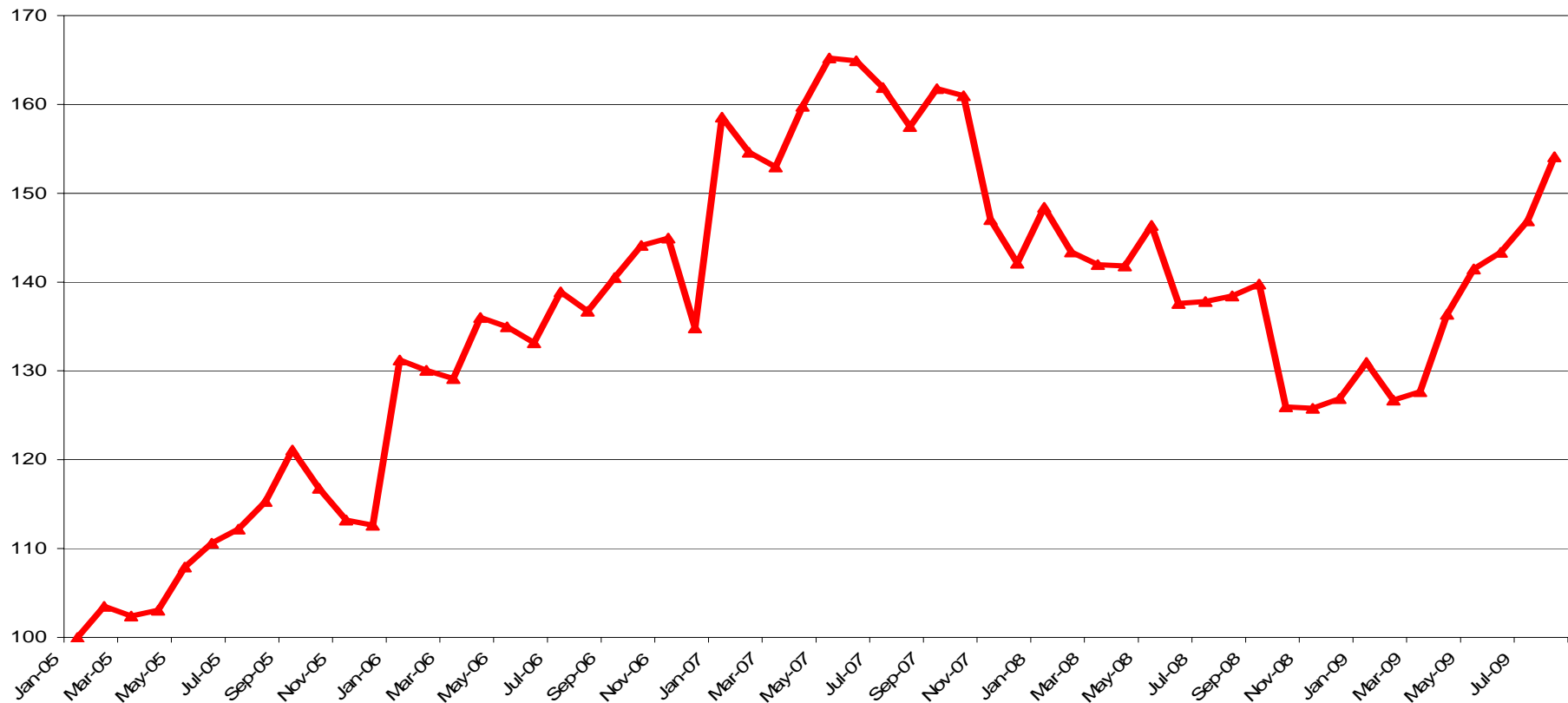




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Impacts of the crisis on pensions (3)

Net real assets per member of mandatory second pillar pension funds:
Poland 2005-2009



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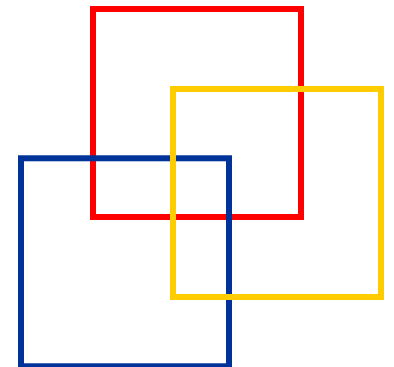


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What was designed as long-term stabilizer may act as de-stabilizer during the cyclical downturn

- Many recent reforms focussed on ensuring long-term financial sustainability as a primary goal, sometimes at the cost of benefit adequacy
- Many recent reforms built-in automatic mechanisms linking levels and adjustments of both future and current benefits to economic and labour market situation
- In the current crisis many of these mechanisms proved to cause pro-cyclical changes in benefit levels, would thus decrease the benefit levels when economy and labour market is in recess.
- To prevent above, in some cases, these automatic mechanisms were suspended. These mechanisms have to be revised.
- One has to search for such designs which would balance financial concerns with benefit adequacy goals and also long-term objectives with the need to protect people during the downturns of the economic cycle.

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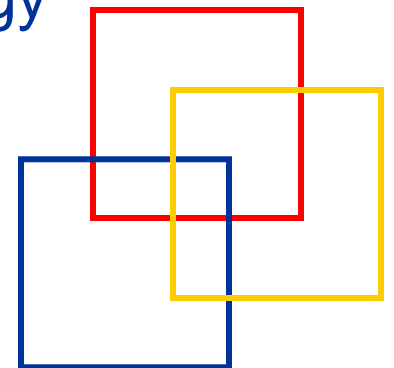


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Pension systems reformed over last decades have to be reviewed, fixed and strengthened

- Fix existing contributory pension schemes
- Introduce/strengthen minimum non-contributory guarantees - a social protection floor
- Combine the two into a rational long-term strategy

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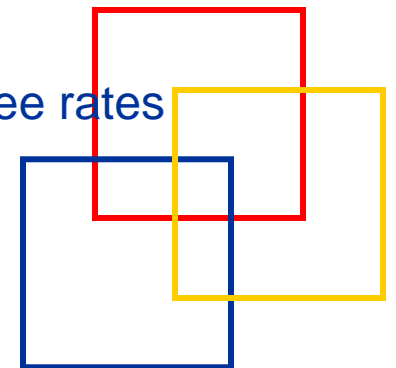


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Fixing existing schemes

- *Stop undermining trust in public DB schemes* by pretending that DC schemes are immune to ageing
- *Enforce efficiency*: decrease administrative cost levels
- *Stop wasting public money* on providing tax breaks for voluntary private third tier pension schemes
- *Intelligent pension age rules* need to be used as stabilisers
- *Improve the* unemployment schemes to prevent pensions being used as a substitute
- *Intelligent funding levels* in DB pension schemes need to be developed to optimise the economic role of pension schemes
- *Reduce dependency of benefit levels in pension schemes on volatile market performance through*:
 - Shifting the balance in the systems back to DB schemes
 - Develop DB guarantees for DC schemes
 - Turn mandatory DC schemes into NDC schemes or guarantee rates of return otherwise

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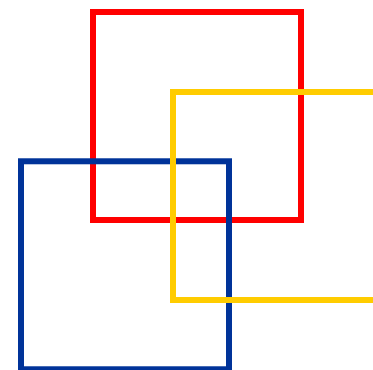


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Putting a solid social protection floor in place

- Basic non-contributory pensions for everybody
- Non-contributory interventions into the contributory schemes:
 - Compensating lost-benefit entitlements or refunding contributions for periods of involuntary absence from the labour market
 - Subsidising contributions of those with lower incomes

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Ten guiding principles (1)

1) Universal coverage:

Everybody has a right to affordable retirement through pension systems that provide all residents with at least a minimum level of income protection in old age. Similarly, everybody has a right to income security in case of a loss of a breadwinner and disability.

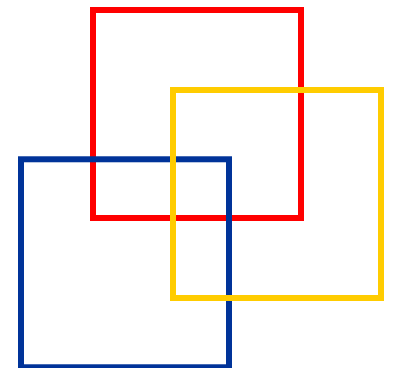
2) Benefits as a right:

Entitlements to pension benefits should be precisely specified as predictable rights.

3) Equity and fairness:

There should be no discrimination and equal treatment of all, including equal treatment of national and non-national residents. Entitlement conditions and benefit provisions should be gender-fair.

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Ten guiding principles (2)

4) Protection against poverty:

Pension systems should provide a reliable minimum benefit guarantee that effectively protects people against poverty in old-age, loss of a breadwinner or disability

5) Income replacement:

Contributory earnings-related systems should provide guaranteed replacement rates at least to those with earning lower than average

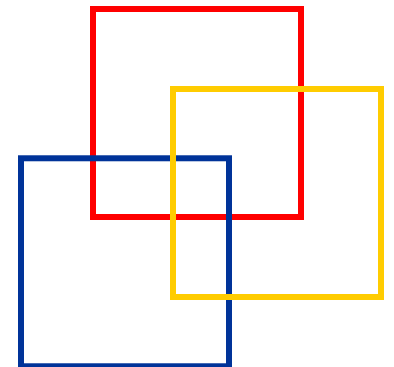
6) Collective actuarial equivalence of contributions and pension levels:

Amounts of benefits for all contributors should adequately reflect the level of the contributions paid

7) Guarantee of a minimum rate of return on savings:

The real value of contributions paid into savings schemes wherever these are part of the national pension systems should be protected and minimum rate of return guaranteed.

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Ten guiding principles (3)

8) Sound financing and fiscal responsibility:

Schemes should be financed in such a way as to avoid uncertainty about their long-term viability. Pension schemes should not crowd out the fiscal space for other social benefits in the context of limited overall national social budgets.

9) Policy coherence and coordination:

Pension policies should be inherent part of coherent and coordinated social security policies aimed at providing affordable access to essential health care and income security to all those in need.

10) State responsibility:

The State should remain the ultimate guarantor of the right to affordable retirement and access to adequate pensions.

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