

Old-age pensions – the debate

1. The early warning: ILO on fashionable Chilean pension reform

Analysis of a national private pension scheme: the case of Chile

Gillion, C; Bonilla Garcia, A.; International Labour Review. Serial Volume Number 131; Serial Part 2; pages 171-195, ISSN: 0020-7780, Geneva, Switzerland, 1992, ISSA Call no.: AS-22514

2. World Bank 1994 Campaign

Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth

<http://publications.worldbank.org/e-commerce/catalog/product?context=drilldown&item%5fid=216853>

Published September 1994 by Oxford University Press , World Bank ISBN: 0-19-520996-6 SKU: 60996

Analyzes the issues affecting income security for the elderly in both developing and industrial nations:

Systems providing financial security for the old are under increasing strain throughout the world. Changing demographics have led to an increased proportion of old people in the general population. Traditional means of support for the old, such as extended families, are weakening. Meanwhile, formal systems, such as government-backed pensions, have proven unstable. For these reasons economists, policymakers, and government officials are exploring ways to address such issues as:

*How to ensure financial security for the old and the best ways of paying for such security

*The roles of the public and private sectors when systems are used to enhance rather than detract from economic growth.

This study, the first comprehensive and global examination of old age security, addresses such issues. It identifies three functions of old age financial security programs--redistribution, saving, and insurance. It evaluates the policy options for meeting these functions using two criteria: their impact on the aged and their impact on the economy as a whole. The study suggests that financial security for the old and economic growth would be better served if governments relied on three systems:

- 1) A publicly managed system with mandatory participation and the limited goal of reducing poverty among the old
- 2) A privately managed mandatory savings system
- 3) A voluntary savings system.

These three systems would ensure against the many risks of old age.

The study concludes that a combination of different income security policies is more effective than any single approach and that all countries should begin planning for their aging populations now.

3. ILO responses

3. 1. To the general debate:

A risky strategy: Reflections on the World Bank report *Averting the old age crisis*

Beattie, R.; McGillivray, W.; in *International Social Security Review* (Geneva, ISSA), Vol. 48, No. 3-4, pp. 5-22, 1995

Social security pensions : development and reform (executive summary, 27 p.)

Gillion , C.... [et al.]

Geneva, Switzerland: International Labour Office, 2000. - XXV, 769 p. - ISBN: 92-2-110859-7.

<http://www.ilo.org/public/english/protection/secsoc/downloads/publ/329sp1.pdf>

This very substantial volume, the fruit of collaboration among a number of eminent experts coordinated by the outgoing Director of the ILO's Social Security Department, discusses the current situation in pension schemes and considers the analytical social and economic consequences which arise from different pension structures. It

examines the practicalities of running a pension scheme and provides numerous examples, summaries and quantitative information. It also considers administrative regulations and procedures used to collect contributions, to pay pensions, to invest reserves and to set various formulae which determine contributor and benefit rates.

World Labour Report: Income Security and Social Protection in a Changing World Income Security in Old Age

International Labour Organization, 2000

<http://www.ilo.org/public/english/support/publ/textsp.htm#b8317>

The development and reform of social security pensions: the approach of the International Labour Office

Gillion, C.; International Social Security Review. Serial Volume Number 53; Serial Part 1; pages 35-63, ISSN: 0020-871X, 2000

ISSA Call no.: AS-44382

Social Dialogue and Pension Reform, United Kingdom, United States, Germany, Japan, Sweden, Italy, Spain

Reynaud, E. ; ILO, ix+107 pp. ISBN 92-2-110835-X

Social security: a new consensus

<http://www.ilo.org/public/english/protection/secsoc/downloads/353sp1.pdf>

ILO, Geneva, 2001, VI, 114 p, ISBN 92-2-112624-2. (Also available in French and Spanish). Portuguese available from Departamento de Cooperação do Ministério da Segurança Social e do Trabalho de Portugal, Castilho, R., 24, 1250-069 Lisboa

3.2. To challenges of ageing:

ILO contribution to the European Ministerial Conference on Ageing, Berlin, September 2002

<http://www.ilo.org/public/english/employment/skills/older/download/berlin.pdf>

ILO contribution to the Second World Assembly on Ageing, April 2002, Madrid

<http://www.ilo.org/public/english/employment/skills/older/download/engage.pdf>

A demographic revolution is taking place, as the world's population grows older at an accelerating pace. In the last 50 years, global life expectancy of women has increased from 48 to 67 years and of men from 45 to 63 years. Globally, by the year 2050, the number of people aged 60 and over will rise from about 600 million to 2 billion. For the first time in history, in less than fifty years from now, there will be more people in the world over age 60 than under age 15. In many countries, while people are living longer, there has not been a corresponding increase in the length of working lives. In fact, the reverse has happened in many industrialized countries, where there has been a substantial drop in the average retirement ages. As a consequence, these countries are facing serious concerns about the viability of social security systems, as the number of people seeking benefits increases and the number of contributors declines.

The ILO sees the promotion of decent work for all as central in addressing the challenges posed by this demographic revolution. Education and skills training are central to decent work. In order to enable older people to remain active longer if they wish, societies need to introduce measures to encourage older workers to update their skills in a lifelong learning framework, strengthening the already observed trend for older people with higher education to remain longer in employment, and counterbalancing the current trend in which participation in training declines with age. Other necessary action includes measures to improve conditions of work, combat age discrimination and encourage a change of attitudes. Particular attention is needed to the problems faced by older women, and older disabled persons, whether they acquired their disability early in life or at a later age.

The impact of ageing on labour markets and pension reform

7th European Regional Meeting in Budapest

Managing transitions: Governance for decent work, Report of the Director-General, vol. II, Seventh European Regional Meeting, Budapest, February 2005. Chapter 5: Ageing, labour market participation and pension reform:

<http://www.ilo.org/public/english/region/eurpro/geneva/regconf2005/report.htm>

Conclusions of the 7th European Regional Meeting in Budapest:

<http://www.ilo.org/public/english/standards/relm/rgmeet/7term/conc.pdf>

Although the establishment of national pension schemes in the world's industrialized countries ranks among the great achievements of the twentieth century, and those schemes have proved effective in alleviating poverty among the elderly, adjustments are needed if current levels of well-being are to be maintained. Ageing and its impact on labour markets and pension systems is one of the main issues to be discussed at the European Regional Meeting of the ILO in Budapest on 14 to 18 February ILO online spoke with Emmanuel Reynaud, head of the Social Security Policy and Development Branch.

Can Europe afford the future financing of the welfare states?

Cichon M; Geneva, ILO, Social Security Department, 1997, 26 p.

<http://www.ilo.org/public/english/protection/seccoc/downloads/publ/1055sp1.pdf>

“The ageing debate in social security: barking up the wrong tree?”

Cichon, M; Studies and Research. (Geneva , International Social Security Association, 1996, No. 37, pp. 83-89). ISBN 92-843-110-1. (Also available in French).

<http://www.ilo.org/public/english/protection/seccoc/downloads/publ/ageing.pdf>

White or Prosperous: How much migration does the ageing European Union need to maintain its standard of living in the twenty-first century?

Cichon, M.; Knop, R.; Léger, F. ; Paper presented at the, 4th International Research Conference on Social Security, “Social security in a long-life society”, Antwerp, Belgium, May 2003.

3.3. To the Swedish-World Bank invention of the so-called «national defined contribution » (NDC) concept... :

The Swedish Pension Reform Model: Framework and Issues (196kb pdf)

Palmer, E; Social Protection Discussion Paper No. 0012; Publication Date: 6/00

<http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Pensions-DP/0012.pdf>

This paper describes the recent Swedish reform and available options on major issues within this reform framework. In June 1994, Sweden's Parliament passed legislation replacing the old defined benefit system with a combination of a pay-as-you-go notional defined contribution (NDC) and a DC privately managed financial account scheme, based on a total contribution rate of 18.5 percent on earnings. The financial account scheme is run using a state-clearing house as a broker, and will have a state monopoly supplier of annuities. During the accumulation period, participants can choose among all registered funds, about 500 when they make their first choice in the autumn of 2000. Accounts were created in 1999, and two annual statements have been sent out since then. If the NDC and financial account schemes together do not reach a minimum level by age 65, and the individual chooses to retire at this age, benefits from these systems will be supplemented up to the guarantee level, determined by Parliament and financed with a state budget transfer. This reflects the fact that the PAYG NDC and financial account schemes are designed to function autonomously from social policy. Life expectancy is factored into the NDC annuity, and together with the financial account system, this innovation helps to shift the risk of an aging society onto workers while they are still active. There is no maximum retirement age, and the system offers a broad range of options for labour-force exit for older workers. Full, partial or no earnings from work can be combined freely with full or partial annuities from one or both of the public schemes from the minimum pension age of 61.

Notional Accounts: Notional Defined Contribution Plans as a Pension Reform Strategy (87kb pdf), 09/01

<http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNoteNotionalAccts.pdf>

Notional accounts are designed to mimic a defined contribution plan, where the pension depends on contributions and investment returns. (For this reason, they are sometimes called ‘notional, defined-contribution’ schemes). Pension contributions are tracked in accounts which earn a rate of return. However, in notional

accounts, the return that contributions earn is a notional one, set by the government, not the product of investment returns in the markets.

The Swedish pension reform

Scherman K. G.; (Issues in Social Protection, Discussion paper 7) (PDF 213 KB). Social Security Department, ILO, Geneva 1999.

<http://www.ilo.org/public/english/protection/secsoc/downloads/publ/559sp1.pdf>

"National Defined-contribution schemes: old wine in new bottles ?"

Cichon, M.; International Social Security Review. (Geneva, International Social Security Association, 1999, vol. 52, part 4, pp. 87-105) ISSN:0020-871X, Blackwell Publishers, Oxford, United Kingdom. (Also available in French, German and Spanish).

Until recently, most pension benefit formulae in social security schemes resembled each other. They were all defined-benefit formulae that were either generous or mean, while defined-contribution formulae were exclusively used in private and occupational pension schemes and some national provident funds. Then came the mandatory retirement savings model, introduced in Chile and subsequently in other Latin American countries. It did not seem possible that such a formula could be used on any large scale in the pay-as-you-go environment of OECD pension schemes. In the early 1990s, however, Swedish social security experts devised the notional defined-contribution (NDC) system: individual social insurance pension contribution records are converted into a fictitious savings amount at retirement, whereupon the defined-contribution approach is followed. This article analyses how much of this approach is new. The conclusion is that it is a novel pension policy instrument rather than a new type of pension formula, and most of its potential financial and distributive effects could also be achieved by a classical, linear defined-benefit formula. It is the packaging that differs and, in politics, that often is what matters.

Balanced Notional Defined Contribution Schemes: A new “geist” in old bottles?

Cichon, M.; Geneva, ILO, Social Security Department, 2005, mimeo.

The paper argues that the balanced NDC approach, which aims at consolidating the finances of PAYG pensions, may do so at high cost to pensioners in a typical European context. It also symbolizes a fundamental shift in the way PAYG pension schemes are functioning, away from a solidarity- based way of coping with emerging new demographic, economic, social and resulting financial burdens to an individualistic approach. That approach also limits the policy space for politicians to distribute future financial burdens triggered by old age security systems between the active and inactive generations. Balanced NDC schemes reflect a new “zeitgeist”.

Accounting for the new Swedish old-age pension scheme A COMMENT

Hagemejer, K.; ILO SOC/FAS

International Workshop on the Balance Sheet of Social Security Pensions Hitotsubashi University, Tokyo 1-2 November 2004

<http://www.ier.hit-u.ac.jp/pie/English/seminar/workshop0411/Hagemejer1-ppt.pdf>

4. ILO initiative: universal pension and basic social protection package for the poorest countries financed with the help of international solidarity

A Global Social Trust Network: A new tool to combat poverty through social protection

Cichon, M.; Pal, K.; Léger, F.; Vergnaud, D.; ISSA Initiative Findings & Opinions, No. 11, May 2003

Reaching out to 100 million poor? Designing resource mobilization strategies to combat old age poverty through universal pensions - A concept note,

Paper presented by Michael Cichon to the UN commission for Social Development, New York 2004.

Non-contributory pensions in Brazil : The impact on poverty reduction

Scharzer, H.; Querino, A. C.; ESS N° 11. (Geneva, ILO, Social Protection Sector, 2002, viii, 49 p. + appendix.) ISBN 92-2-113188-2.

<http://www.ilo.org/public/english/protection/secsoc/downloads/publ/esspaper11.pdf>

Anti-poverty Programmes in Costa Rica: The Non-Contributory Pension Scheme

Durán-Valverde, F.; ESS N° 8, (Geneva, ILO, Social Security Policy and Development Branch, 2002, ix, 33 p.) ISBN 92-2-113140-8.

<http://www.ilo.org/public/english/protection/secsoc/downloads/publ/esspaper8.pdf>

The non-contributory pension programme in Argentina: Assessing the impact on poverty reduction

Bertranou, F.; Grushka C.O.; ESS N° 5, (Geneva, ILO, Social Security Policy and Development Branch, 2002, v, 37 p.) ISBN 92-2-113069-X.

<http://www.ilo.org/public/english/protection/secsoc/downloads/publ/esspaper5.pdf>

Non-contributory pensions and social protection

Barrientos, A; Lloyd-Sherlock, P.; Issues in Social Protection, discussion paper 12, Social Protection Sector, ILO, Geneva 2003. ISBN 92-2-113726-0.

<http://www.ilo.org/public/english/protection/secsoc/downloads/publ/dpno12.pdf>

Namibia's Universal Pension Scheme: Trends and challenges

Schleberger, E.; ESS Paper No 6, Social Security Department, International Labour Office, Geneva 2002

<http://www.ilo.org/public/english/protection/secsoc/downloads/publ/esspaper6.pdf>

4.1. Allies

Age and security: How social pensions can deliver effective aid to poor older people and their families

HelpAge International, 2004

This report makes a strong case for providing universal non-contributory pensions - "social pensions" - to older people in developing countries. It describes how social pensions effectively target aid, reducing the poverty of older people and the families they so often support.

<http://www.helpage.org/Resources/Policyreports#1118138225-0-11>

Universal Pensions in Mauritius: Lessons for the Rest of Us

Willmore, L.; April 2003, United Nations, Economic and Social Affairs, ST/ESA/2003/DP.32, DESA Discussion Paper No. 32

That the Government of Mauritius provides nearly every resident over the age of 60 with a non-contributory, basic pension is one of the best-kept secrets in the world. The scheme dates from 1950 and became universal in 1958, following abolition of a means test. Remarkably, introduction of a compulsory, contributory scheme for workers in the private sector appears to have strengthened the non-contributory regime without affecting its universality. This paper examines the past and future of non-contributory, universal pensions in Mauritius, and draws lessons that might be useful for other countries, especially those in the developing world.

<http://unpan1.un.org/intradoc/groups/public/documents/UN/UNPAN009128.pdf>

4.2. The World Bank response

Aging and Poverty in Africa and the Role of Social Pensions (329kb pdf)

Kakwani, N., Subbarao, K.; Social Protection Discussion Paper No. 0521; Publication Date: 05/05
(online only)

<http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/0521.pdf>

In many low income African countries, three factors are placing an undue burden on the elderly. First, the burden on the elderly has enormously increased with the increase in mortality of prime age adults due to HIV/AIDS pandemic and regional conflicts. Second, the traditional safety net of the extended family has become ineffective and unreliable for the elderly. Third, in a few countries, the elderly are called upon to shoulder the responsibility of the family as they became the principal breadwinners and caregivers for young children. While a number of studies have examined the welfare consequences of these developments on children, few studies have systematically analyzed the poverty situation among the elderly (relative to other groups) in low income countries Africa, and the role of social pensions. This study aims to fill this gap.

Old-Age Income Support in the 21st Century: An international perspective on Pension Systems and Reform,

Holzmann, R; Hinz, R.; Published May 2005 by World Bank

<http://www.worldbank.org/>

5. Latin American debate

Keeping the Promise of Old Age Income Security in Latin America

Pension Reform in Latin America is Incomplete - Greater Access is Needed to Prevent Poverty in Old Age by Gill, I.G; Packard, T.G.; Yermo, J.; October 2004, World Bank, ISBN: 0-8213-5817-0

Rethinking social security: pension reform in Latin America

Bertranou, F.; ILO Santiago, 2005

http://www-ilo-mirror.cornell.edu/public/english/bureau/inf/features/05/socsecu_latin.htm

SANTIAGO de Chile (ILO on line) - In the past decade, many Latin American governments have radically restructured their old age income security systems, following the lead of Chile, which undertook its major pension reform in 1981. The defining characteristic of the reforms has been a shift in the basis of public pensions from social to individual responsibility. Numerous countries in the region, including Argentina, Bolivia, Colombia, Costa Rica, the Dominican Republic, El Salvador, Mexico, Peru and Uruguay, have adopted a system that relies on individual savings accounts. The United States is considering a pension reform proposed by President George W. Bush which foresees a private system, similar to the one introduced in Chile in 1981. ILO online asked Fabio Bertranou, a Senior Social Security Specialist with the International Labour Office in Chile, about the pros and cons of private retirement plans.

Protección social, pensiones y género

Bertranou, F.; Arena de Mesa ; ILO, Santiago, 2003, 225 p., ISBN 92-2-313562-1

<http://www.ilo.org/public/english/protection/seccsoc/downloads/publ/pensionesygenero.pdf>

Pensiones no contributivas y asistenciales: Argentina, Brasil, Chile, Costa Rica y Uruguay

Bertranou, F.; Solorio, C.; Van Ginneken, W., ILO, Santiago, 2002, 264 p., ISBN 92-2-313259-2

<http://www.ilo.org/public/english/protection/seccsoc/downloads/publ/358sp1.pdf>

6. European debate

Pension Reform in Europe: Process and Progress,

Holzmann, R.; Orenstein, M.; Rutkowski, M. (Eds.), World Bank, Washington, DC, 2003, 202 pp., ISBN 0-8213-5385-6.

<http://www1.worldbank.org/sp/doc/PensionReformEurope.pdf>

Are there better ways to cut and share the cake? The European welfare states at the crossroads,

Cichon, M.; Issues in Social Protection, Discussion Paper No. 3 (Geneva, ILO, 1997).

<http://www.ilo.org/public/english/protection/secsoc/downloads/publ/dist.pdf>

Pension reform in Central and Eastern Europe

Fultz, E.; ILO/CEET, Budapest, 2002

<http://www.ilo.org/public/english/protection/secsoc/downloads/publ/417sp1.pdf>

Vol. 1 Restructuring with privatisation. Case studies of Hungary and Poland

<http://www.ilo.org/public/english/protection/secsoc/downloads/publ/413sp1.pdf>

Vol. 2 Restructuring with privatisation. Case studies of Czech Rep., Slovenia

Recent Trends in Pension Reform and Implementation in the EU Accession Countries

Fultz, E.; ILO/CEET, Budapest, 2003

http://www.ilo.org/public/english/region/eurpro/geneva/activities/ac/trend_en.pdf

Each worker who enters covered employment soon makes a first contribution to the social security administration of his or her country. He or she does so in virtual ignorance of all the events that lie ahead. Then typically, many years later, those who escape death and disability begin to draw a retirement pension. After some additional years, the worker, or a survivor, draws the last payment that the retirement scheme allows. In the course of the 50 or more years that may elapse from first to last of these events, the worker will see his income rise and fall in response to countless unforeseen risks. The worker will witness interests rates alternately reach new lows and new highs, uncharted fluctuations in share prices, boom and recession, spells of unemployment, natural disasters, armed conflicts, changes of political regimes, and fluctuations in what the currency will buy.

The gender dimensions of social security reform in Central and Eastern Europe: case studies of Czech Republic, Hungary and Poland

Fultz, E.; Ruck, M.; Steinhilber, S; Ed., (Budapest, ILO, Subregional Office for Central and Eastern Europe, 2003, 325 p.) ISBN 92-2-113701-5.

<http://www.ilo.org/public/english/protection/secsoc/downloads/publ/421sp1.pdf>

"Pension reform in Central and Eastern Europe: Emerging issues and patterns".

Fultz, E.; Ruck, M.; International Labour Review. (Geneva, International Labour Office, 2001, Vol. 140, N° 1, p. 19-44) ISSN 0020-7780. Also available in French and Spanish.

Sustainable, safe and adequate? Pension reforms in Poland, Hungary, Czech Republic and the World Bank pension agenda

Hagemeyer, K; ILO Geneva 2004, mimeo.

Challenges facing financing of social security systems from the European Union enlargement and opening the inner borders in Europe: Results of simulations with a simple model,

Hagemeyer, K.: in: "Social security and changes in the world of work", European Series, Social Security Documentation No. 28, International Social Security Association, 2002.

7. World Bank changes its approach to pensions?

7.1. Stiglitz contra Holzmann?

New ideas about old age security : toward sustainable pension systems in the 21st century, Volume 1

Holzmann, Robert; Stiglitz, Joseph E.; [editor] (Historic)Social Protection) 2001/05/14

http://wdsbeta.worldbank.org/external/default/WDSContentServer/IW3P/IB/2001/04/24/000094946_01021705482946/Rendered/PDF/multi0page.pdf

Given the impact of the multipillar approach to pension reform and the diversity of its implementation, the authors, who presented papers at the 1999 conference on "New Ideas About Old Age Security," re-examine the evidence and thinking on pensions and retirement security. This report examines global issues on pension reform which help put in perspective three major sets of questions. A first set of questions deals with generic issues that concern policymakers worldwide, almost independently of approaches to reform. Most prominent but also least understood are the economic policy questions regarding the economic circumstances that are most conducive to the initiation of a reform and to its eventual success. Equally important are questions relating to the coverage of the labour force under a reformed system. Other questions concern the distributive effects of reformed systems with respect to generation, income group, and gender. A second set of questions is linked with a move toward funded provisions under a multipillar approach. A third set of questions concerns the multipillar reform approach itself. A wide consensus has emerged inside and outside the World Bank about the multipillar framework, but that consensus does not extend to several key issues regarding how the framework should be implemented in practice. The introduction to this report sums up each chapter in the report and concludes with a discussion of policy issues and on areas requiring further research.

7.2. A new approach?

Old-Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform

2005 The International Bank for Reconstruction and Development

http://siteresources.worldbank.org/INTPENSIONS/Resources/Old_Age_Income_Support_FM.pdf

Old-Age Income Support in the 21st Century attempts to explain current policy thinking and update the World Bank's perspective on pension reform. The World Bank has been involved in pension reforms in nearly 60 countries, and the demand for its support continues to grow. This book incorporates lessons learned from recent Bank experiences and research that have significantly increased knowledge and insight regarding how best to proceed in the future.

7.3. ILO-World Bank: Approaching a common denominator?

Approaching a common denominator? An interim assessment of World Bank and ILO position on pensions.

Cichon, M.; ILO, November 2004 (mimeo)

8. European Union's approach: pension systems should be both sustainable and adequate: there should be a balance between efforts to contain the finances and efforts to provide suitable pension levels

http://www.eu.int/comm/employment_social/soc-prot/pensions/index_en.htm

Joint Commission/Council Report on adequate and sustainable pensions: (18/03/2003)

This report is based on the national strategy reports submitted by the Member States in September 2002 and

analyses how the Member States are planning to cope with the challenges of adequacy, financial sustainability and modernisation of their pension systems in a long-term perspective. The joint report was endorsed by the Council on 6 March (Employment, Social Policy, Health and Consumer Affairs) and on 7 March (Economic and Financial Affairs) as a contribution to the European Council on 20-21 March 2003.

Proposal by the Commission for a Joint Commission-Council report on adequate and sustainable pensions (17/12/2002) (based on the national strategy report)

Objectives and working methods in the area of pensions: applying the open method of co-ordination.

(Joint report of the Social Protection Committee and the Economic Policy Committee November 2001)

Supporting national strategies for safe and sustainable pensions through an integrated approach

(Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee) (Com 362/2001)

Adequate and sustainable pensions

A report by the Social Protection Committee to the Göteborg European Council on the future evolution of social protection (June 2000)

The Future Evolution of Social Protection from a Long-Term Point of View: Safe and Sustainable Pensions

(Communication from the Commission to the Council, to the European Parliament and to the Economic and Social Committee (11/10/2000))

National strategy reports: adequate and sustainable pension systems:

http://europa.eu.int/comm/employment_social/social_protection/pensions_en.htm