International Federation on Ageing

Senior Officials Meeting:
Pension Reform & Pension Design In Ageing Societies

Copenhagen

29th & 30th May 2006

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Introduction

The International Federation on Ageing (IFA) brought together over 80 senior officials from governments across the world to explore the global challenges facing an ageing population of designing, implementing and reforming pension systems. Officials from 43 developing, transition and developed countries met in Copenhagen on the 29th & 30th May 2006, to share experiences and examine the implications for policy and practice, of designing and implementing pension reforms. Five sessions addressed the following areas:

Experience & Lessons: provided a critical review of pension design and pension reform, highlighting what the major developments have been over the last two decades, what went right – what went wrong, and identifying lessons for the future.

Social Pensions: examined the extent and nature of social pensions, their coverage and contribution to social protection, and their impact on poverty.

Who's Going To Pay – Reapportioning Cost & Risk: explored the social and political implications of introducing pension reforms which challenge long-held assumptions about the distribution of risk between Government, employers, different generations of workers and pensioners; who and how the costs are met.

Working Longer: addressed the importance to pension reform of an older work force and extending working lives, the importance and impact of informal work, and the policy challenges needed to support work in later life

Pension Reform – Making It Happen: explored the political challenges for governments in introducing pension reforms, of raising awareness, achieving debate, commitment and consensus, and the extent to which governments can expect citizens to take responsibility for their retirement income.

A summary of each of the five sessions is highlighted in the following sections. Copies of the PowerPoint presentations will shortly be available on the IFA website: www.ifa-fiv.org

Experience & Lessons

Chair: Dalmer Hoskins (American Association of Retired Persons)

Presentations: Robert Holzmann (World Bank - Washington)
Warren McGillivray (Caledon Institute – Ottawa)

The past twenty years have witnessed major developments in the design and reform of pension systems in countries around the world. To set the scene for the Senior Officials Meeting, this session highlighted the most important of these developments, with particular attention to what went right and what went wrong and the lessons that could be drawn.

Robert Holzmann - highlighted that numerous challenges, demographic, economic and political, have led countries in every part of the world to undertake pension reform in order to ensure the financial and social sustainability of their pension systems. This has resulted, broadly speaking, in a greater emphasis on multi-pillar systems that seek to mitigate risk, notably by utilising different methods of financing for the various pillars.

The pace and nature of public pension reform has varied substantially from region to region:

- Latin America - where the current round of pension reform began in 1981 in Chile, far-reaching structural reforms have been undertaken. Many countries have closed their previously unfunded, non-performing and fragmented pension systems and, in their place, have implemented unified multi-pillar systems with funded, mandatory, privately-managed individual retirement accounts. The reforms, however, have not resulted in an expansion of coverage, and many Latin American countries are now completing the reforms by addressing the coverage issue.
- Central & Eastern Europe (CEE) and the former Soviet Union (FSU) - countries have also opted for structural reforms. In their efforts over the past 15 years to replace the unfunded pension systems inherited from the period of command economies, with new pension systems that are financially sustainable and better adapted to market economies, most CEE and FSU countries have introduced a funded pillar.
- Industrialised countries - have generally opted for "parametric" reforms – reforms that have left the basic structures of pension systems unchanged but which have altered such elements as the age of entitlement to pensions, the formulae for calculating benefits, and contribution rates.
- Africa, the Middle East, South & East Asia - in spite of fiscal and economic pressures, pension reform is generally at an early stage because of currently favourable demographic situations and low coverage. However, there are encouraging developments, such as the reforms that have been undertaken in Egypt and India.

Several factors have driven pension reform. The most visible, and in most cases the most important, have been fiscal pressures resulting from demographic ageing, slower rates of economic growth, and (in the case of the CEE and FSU countries) political changes.

However, fiscal pressures have not been the only drivers behind pension reform. The failure of pension systems to deliver on the promised benefits has been a critical factor in some countries. This failure resulted from over-promising, manifest unfairness, low coverage, and continuing high rates of poverty among the elderly. In addition, in most countries it has been necessary to re-align pension systems with socio-economic changes such as evolving family structures, increasing labour-force participation of women, and economic globalisation.

Several clear directions for pension reform have emerged, including:

- Adoption of multi-pillar systems that place a greater emphasis on achieving the *objectives* of the pension system (ensuring a basic income to the elderly and maintaining living standards after retirement), with less concern about *structures* (i.e. public versus private, funded versus pay-as-you-go).
- Diversification of funding approaches, and the harmonisation or co-ordination of fragmented schemes based on occupation or sector (e.g. separate schemes for civil servants, or for specific groups such as teachers, bank employees, coal miners).
- The emergence of a new model, the Notional Defined Contribution approach, which is designed to respond specifically to changing demographics.

In spite of the progress that has been made in pension reform, three key challenges remain:

- Increasing the coverage of pension systems - coverage remains low in almost all developing countries and has actually decreased in recent years in many countries, both developed and developing.
- Responding to population ageing - the primary issue is how to divide increasing longevity between work and leisure, and specifically how to encourage older workers to remain in the labour force.
- Adjusting to a globalizing world - pension systems that risk becoming a liability as globalisation proceeds must be reformed. And - there must be more effective portability of pension (and health) benefits between professions, sectors and countries.

Warren McGillivray – highlighted the reasons governments establish pension systems. These include: responding to society's needs; the inability of many (most) workers to save for retirement on their own, whether because of higher immediate priorities or myopia; diminishing family support for the elderly; avoiding the need for financial assistance to indigent retirees; organising intergenerational support; and, in some countries, reducing governments' liabilities for special schemes for civil servants.

In addition to their fundamental objectives of ensuring a basic income to the elderly and maintaining living standards after retirement, pension systems must also provide benefits that are adequate, equitable, transparent, affordable, sustainable and robust (able to sustain unforeseen economic, demographic and other shocks). Pension reforms of the past two decades have generally focussed on the latter objectives, and in balancing them with providing benefits which are adequate and equitable.

Pensions are transfers from current workers to inactive retired persons. The transfers, which take the form of foregone consumption or investment by active workers, occur at the time the pensions are paid. This is the case whether a pension system is funded or pay-as-you-go. National economic growth, therefore, is the core prerequisite for a sustainable pension system. However, it is not enough on its own. Other prerequisites include the efficient administration of the pension system and the commitment on the part of all its stakeholders (government, scheme administrators, employers and insured persons) to respect the system's basic rules (e.g. the registration of workers and employers, the effective collection of contributions, the prompt and reliable payment of benefits).

Pubic pensions are an integral component of modern economies. The evolution of pension systems since the Second World War can be traced from the adoption in 1952 of the International Labour Organization's Convention 102 which prescribes minimum standards for the various branches of social security, including pensions. In the industrialised countries, the evolution of pension systems has consisted, generally speaking, of three phases: expansion until about 1970, consolidation and reappraisal in the 1970s and 1980s, and reform since the early 1990s. The early 1990s also marked the start of the reform of the pension systems of the CEE and FSU countries, which was an integral part of their transition from command to market economies.

Starting in the 1960s, many developing countries implemented contributory pension systems, often based on European models and generally covering only workers in formal employment. It was expected that, through economic growth and the consequential expansion of the formal sector of the economy, the systems would cover an increasing portion of the work force. However, the formal sector has generally not grown - in some developing countries, it has shrunk. As a result, contributory pension systems have failed to provide widespread protection, and a new model – perhaps a universal or social pension – is necessary.

Pension reform is driven by four basic considerations:

- National economic, social, demographic & political developments
- Ensuring that pension systems meet their objectives
- Removing perverse incentives and potential sources of abuse that have undesirable labour market or social effects and that increase the cost of pensions

- Ensuring the financial sustainability of pension systems.

In order to succeed, reforms must take into account the entire national social protection system (including health care) and the administrative capacity of the implementing institutions. Reforms should improve workers' productivity through enhanced social protection. Ultimately, however, pension reform is more political than technical. This consideration, especially the need to preserve inter- and intra- generational equity, should always be kept in mind.

It is not yet possible to make definitive assessments of most reforms because pension systems have a long-term horizon and most reforms are relatively recent. A timeframe of several generations is required before the full effect of a reform is evident. However, it has unfortunately become clear that pension reforms sometimes involve confusion, obfuscation and even the deception of the public.

Conclusions:

- Pension reform is an on-going process. Circumstances change, and no reform is final. Pension reform will remain on the policy agenda for decades to come.
- Early, well conceived reforms avoid hasty, costly, difficult and disruptive reforms later.
- Pension reform objectives should include adequacy, equity, transparency, affordability and sustainability. Attention should be paid to the resulting distribution of benefits and the incentives which are created.
- Pension reform requires sufficient and clear explanations, consensus building, effective implementation and efficient administration.
- The challenges of implementation and administration should not be underestimated and should be fully taken into account. Administrative capacity is a prerequisite for a successful reform. Sound pension governance and strict regulation of private managers are necessary.
- A multi-pillar pension system (defined benefit *plus* defined contribution *plus* voluntary provision) reduces risk. Voluntary provision should be encouraged.
- Funded schemes require adequate financial infrastructure and must insulate reserves from political interference.
- If employment in the formal sector is low, a universal subsistence pension payable to all persons at a high age should be considered to meet the needs of aged/retired persons.
- Past, ongoing, and future reforms in other countries provide a rich source of information that can and must be intensively used. However, pension reforms elsewhere may not be appropriate in a particular country because (a) national circumstances differ and can produce different results in different countries, (b) national priorities differ, and (c) options for pension reform in a country are likely to be limited by the structure and history of that country's existing pension system.

- Results of a pension reform cannot be known for many years.
- Pension reform usually takes longer than expected.

Social Pensions
Chair: Matthew Greenslade (Department for International Development – UK) Presentations: Krzysztof Hagemejer (International Labour Office - Geneva) Semakula Kiwanuka (Finance Minister – Uganda) Michael Samson (Economic Policy Research Institute – Cape Town) Thabo Thulo* (Pensions Commissioner – Lesotho)

* The presentation which Mr Thulo was unable to give, will be available shortly on the IFA website

This session explored the impact social pensions can have on poverty and whether it is feasible and desirable to introduce them into more developing countries. Examples were drawn from countries in Sub-Saharan Africa with social pensions to show the impact to-date and studies were highlighted that assessed the potential impact and costs of introducing universal social pensions in selected African countries.

Matthew Greenslade – set the scene for the session, highlighting that the UK's Department for International Development believe that social assistance in the form of cash transfer can reduce poverty, increase human development and contribute to growth. Social assistance includes social pensions plus other cash transfers to poor and vulnerable households. A social pension is a non-contributory pension designed to reduce poverty. Social pensions are important because older people are more likely to be in poverty and living with others. Social pensions are also practical as it's easy to target by age, they're acceptable as they're perceived as not increasing dependency, and they're affordable.

Michael Samson – noted that access to social pensions varies across regions. In the north, coverage is generally good, whereas in Sub-Saharan Africa and South Asia, coverage drops to less than 20%. However, evidence shows that non-contributory pensions can help address poverty. Households with older people tend to be poor and HIV/AIDS has meant that households consisting of older people and children tend to be substantially poorer. Five countries in Africa have non-contributory social pensions and it is impacting positively on the household. For example, South Africa has a strong commitment to its social pension and has successfully introduced a non-contributory pension that has succeeded in reducing the destitution gap. In Namibia, 25% of the pension is spent on education for children, demonstrating that social pensions can make an important contribution to the household, not just the older person. Lesotho

has the world's newest universal social pension. Implemented in the face of scepticism and limited fiscal resources, it is having a significant positive impact.

There is a concern that social pensions reduce the impetus to look for work. The research to date does not support this concern. Social pensions can provide people with the money to enable them to look for work and evidence shows that it hasn't led to people dropping out of the labour market. The research also shows that social pensions are an effective way of redistributing wealth. Poorer people spend their money in-country on local goods, leading to an expansion of local resources and therefore economic growth.

Poverty is multi-dimensional and social pensions cross-cut poverty, impacting on health, nutrition, education, vital services and human security. In South Africa, most recipients of social pensions are women, and more of the pension is spent on food and the home. The impact of social pensions on poverty is comparable to that achieved in other countries through the use of equivalent resources on child health and education. Social pensions also lower the burden of poverty on government, as for example, through increased school attendance and the concomitant reduction in children having to repeat school. Social pensions can create fiscal effects that support sustainability, conserving resources through social transfers and supporting a virtuous circle of growth.

Krzysztof Hagemejer – highlighted that in developed countries, the period following the Second World War saw an expansion in social security programmes, both in terms of coverage and the allocation of money. Currently, Africa is the least covered population by social security. The International Labour Office (ILO) has carried out a study on 7 African countries, examining the affordability and feasibility of introducing social pensions, with a comparative study on Senegal and Tanzania. The research shows that the introduction of a universal pension in Senegal and Tanzania would have a substantial beneficial impact on households with elderly people. It also shows that the cost, excluding administration, would be less than 1.5% of GDP, and that it could lead to a 20% reduction in the total poverty gap. This looks affordable: both now and in the future. However, 1% of GDP may be a large amount of the public money available to government in some countries and it should be recognised that external support may be needed to introduce a social pension.

The study also shows that policy instruments such as social pensions are desirable, effective and affordable, as well as being feasible administratively. While targeting the pension may be tempting, it's also costly and challenging administratively: a universal pension is easier and cheaper to administer with a high impact.

Semakula Kiwanuka – noted that the critical question for developing countries is how to reduce poverty and what role can social pensions play. The culture in government is to focus on pensions in the formal sector – public and private. Government, employers and unions provide pensions. They are important for economic growth, provide a resource for investment, and encourage people to save. However, the majority of people are outside the formal sector - how do we encourage them to save; how do we raise awareness in this sector? It is the responsibility of government and civil society to raise awareness and to educate people as to the importance of saving.

The commitment by government to a social pension is a critical issue: while technocrats are the implementers, only government policy can make it happen. Donors are channelling funds to developing countries and government funds are available - so the money is there. The mechanism used to deliver social pensions is also important. In Zambia, a new approach using cash transfers, is proving effective, helping stimulate growth and production. Government commitment is needed to redirect resources in a more productive manner; the Livingstone 'call for action' is a timely and positive step in the right direction.

Universal primary education was introduced in Uganda in 1996. This led to a dramatic rise in enrolment but even though the burden of fees was taken away from the household, this wasn't reflected in an increased standard of living. Local health centres were also introduced and were expected to impact positively on household poverty, but again, people didn't feel better off. People wanted money in their pockets that they were in control of and that they could choose to spend as they wished. Government initiatives reducing fees for people didn't give them more money, just a different set of choices for spending. People want to increase their purchasing power and a social pension is one way of achieving this.

Discussion:

- Technical and political triggers usually bring about the introduction of a social pension and it's usually a simultaneous process. In Lesotho, the trigger was political; in South Africa, there was a political expectation that increased democracy would enhance the pension. However, in Botswana where there was a lack of political will, the pension languished. Political will and commitment is important for a successful social pension, as well as good technical support to deliver it.
- More countries in southern Africa are developing social pensions than in northern Africa. This may be because the southern African countries are influenced by the positive impact it is having on their neighbours.
- Five years ago there were limited options for cash delivery of pensions, but recently there have been several innovative developments, including:
  - Pay-points with finger print recognition
  - Somalia - delivery of cash by Western Union
  - South Africa – introduction of a smart card system

- Lesotho - the defence corps deliver cash as part of their training in helicopters.

There is a decade of experience in finding the best logistics for delivering cash.

- Universal social pensions may be preferable to means-tested pensions. The money for non-contributory pensions needs to come from somewhere and usually it's the better-off people that are paying for pensions through taxes. If the pension is universal (rather than means-tested), even if it's at a very low level, this is likely to increase the political support for it. It is also much less costly to administer, so you may be saving more by paying everybody than putting in the necessary resources for targeting.
- Calculation by the ILO of the cost of giving pensions to the poorest 10% of people in Sub-Saharan Africa, shows that it would cost a small percentage of the additional aid commitment following Gleneagles. So - it is affordable.
- The take up rates are very high – 90% in Namibia, 100% in South Africa, but the rights-based approach is still important so that people have recourse if they don't receive their pension. There is some exploitation of older people receiving a pension and there is a need for support to these people. However, the overwhelming majority of recipients gain elevated status in the household as they are no longer a burden. The household has a vested interest in keeping the older people alive.

Conclusions:

- Social pensions have a positive social, economic and fiscal impact.
- Social pensions are effective, affordable and can be delivered.
- Universal social pensions are easier to implement and usually have more support than targeted pensions.
- While political commitment is essential for the introduction of a social pension, capacity has to be built to ensure it is administered effectively and efficiently.

Who's Going To Pay – Reapportioning Cost & Risk

Chair: Ed Tamagno (Caledon Institute - Ottawa)

Panel Members: Georg Fischer (European Commission - Brussels)
Michal Rutkowski (World Bank - Washington)
Ole Beier Soerensen (ATP – Denmark)

The session explored the social and political implications of pension reforms which challenge long-held assumptions about the distribution of risk between government, employers and different generations of workers and pensioners, who meets the cost of retirement benefits, and how the cost of these benefits can be met.

The case for public pension systems is universally accepted, and for well over a century, countries have been seeking systems that are socially equitable and financially sustainable. Different models have emerged at different times, all with some merit, none perfect, and each with its ardent advocates.

Population ageing and declining rates of economic growth have demonstrated weaknesses in national pension systems which have prompted many countries to undertake pension reforms. In transition countries, the introduction of market economies made it necessary to reform their public pension schemes.

These reforms can involve changes in the social contract – the long-held assumptions about how the cost of pensions and the risk of uncertainty should be shared among governments, employers, and different generations of workers and pensioners. What are the social and political implications of these changes?

Ed Tamagno – identified economic, demographic and political risks. In many countries, government has borne the risks of defined benefit public schemes, which provide benefits financed on a pay-as-you-go basis or sometimes using a system of partial funding. In some countries, the public schemes are supplemented by employer-sponsored schemes and tax-favoured individual retirement accounts.

Reforms have resulted in workers and retirees assuming more of the risks associated with their retirement pensions. The level of public pensions has been reduced in many countries, and in some, defined contribution schemes which can result in less predictable pensions have been introduced. Workers have been encouraged to take more responsibility for their own retirement incomes through personal savings.

Does this mean that the implicit social contract is no longer applicable; if it does, is there a threat of intergenerational conflict over the distribution of output between active workers and pensioners? Is the transfer of more risk to workers for the adequacy of their retirement incomes the only solution? Is it possible to build a national consensus on the need for reform of the public pension scheme and on acceptable reforms? If workers and pensioners are expected to bear more risks, how can they learn how to manage the risks? What happens to those who are unable to handle the risks? If the social contract has indeed been changed, what is the government's role in the new arrangement?

Georg Fischer - referred to the European Commission's *'open method of co-ordination'* which, through policy dialogues and benchmarking in European Union member states, seeks to encourage adequate and sustainable pensions that conform to national socio-economic realities.

There has been no fundamental change in EU states' acceptance of responsibilities for public pensions; rather the issue has been how to maintain

their commitment, and all states have been grappling with how to provide adequate and sustainable pensions. As part of the response to population ageing, many countries have increased the statutory retirement age. However, the real issue is raising the actual age when persons leave the labour force and begin to draw their pensions.

In general, reforms have involved reductions in replacement rates, strengthened links between contributions and benefits, and the introduction of multi-pillar systems of retirement protection. Where reforms have increased pensioner poverty, minimum pensions which may be means tested have been introduced.

Michal Rutkowski - observed that in respect to public pension risks, the former non-actuarial approach is being replaced by an actuarial approach, low levels of funding are being replaced by higher levels, and individuals are being given greater choice in how they manage the risks associated with their retirement benefits. Greater levels of funding have no effect on demographic risks and could exacerbate political risks, but they could lead to increases in economic growth which are necessary in order to pay future pensions. Overall, risks are being faced more honestly, and this has been a major change from the opacity of the traditional social contract.

He challenged the alleged reliability of defined benefit pension promises, since when crises arise in public pension schemes, the promises are not kept. It is a myth that the government bears the risk in a public pension scheme since the government changes the system when it faces a crisis. In the end it is the individual who bears the risk, and reforms are giving individuals risk management tools such as the multi-pillar system of retirement pensions.

Retirement pensions have a different risk profile from other social security benefits, since retirement pensions are payable from a specific age, while other social security benefits – for example, benefits in case of short-term sickness, disability, work injury, or death, or the need for medical care – can become payable at any time. In order to make resources available for these ‘insurance’ benefits, it would be better to concentrate on savings programmes for retirement benefits. It is appropriate that greater freedom of choice be given to individuals regarding their retirement protection than for the insurance benefits.

And - social policy involves labour markets, social security and welfare. While each component deals with poverty reduction, labour market and social security also focus on lifetime income smoothing. The relative weights to be given to poverty reduction and income smoothing have to be decided.

Ole Beier Sorensen - cautioned that the Danish experience has been unique and unlikely to be transferable elsewhere. National political cultures and the legacies of earlier public pension strategies play an important role in the

pension reform process. He identified three misconceptions which influence the pension reform debate:

- Public is good and just, whereas private is bad and creates inequality.
- Funding pensions is good, whereas pay-as-you-go financing is bad.
- Defined benefit schemes are safe and predictable, whereas defined contribution schemes expose individuals to risk and uncertainty.

Such extremes are false and misleading; rather there is a wide array of methods, combinations and opportunities to explore between the extremes. It is a question of finding the right mix.

The context in which a public pension scheme operates – for example, the quality of the scheme's management and administration, the existence of sufficient and appropriate regulation of market-based arrangements for providing retirement protection, and the stability of national politics – is a critical determinant. There are social security responsibilities which are best met by a public system, since they involve social solidarity which cannot otherwise be provided. But public responsibility has limits, and a strict and clear division of responsibilities and application of different systems and methods are necessary.

In Denmark, the public scheme has gradually evolved and its focus is on poverty alleviation and the provision of universal, basic financial security. Income replacement above this minimum level is left to workers and employers and to individuals.

In the course of this evolution, a number of lessons about the choice and design of pension benefits have been learned. Employer sponsored and guaranteed defined benefit occupational pension plans expose the employer to financial risks, and workers risk losing all or part of their expected pensions if the scheme is closely tied to the solvency of the employer. In Denmark, the cost of occupational pension schemes is set at a standard share of the wage bill and pension funds are maintained separate from employers. These measures have also increased labour market flexibility and labour mobility.

In Denmark, reapportioning pension risks away from the state and employers has not resulted in individuals being unduly exposed to additional risk and uncertainty. Denmark has adopted defined contribution principles without transferring market and longevity risks to individual workers, by applying collective insurance principles so that financial and social risks are shared by all members and by using deferred annuities to provide pensions. Risks have not been individualised, in particular the investment risk – the risk with which individuals are least capable of coping. The defined contribution approach can result in portability of benefits, equality of coverage for all workers, transparent and secure benefits, and labour market flexibility and mobility.

There are three critical elements in any pension reform:

- Pension arrangements have a pervasive influence on retirement decisions. Consequently, reforms which create modest increases in the age when

workers actually withdraw from the labour force and are in line with increases in life expectancy, are an important element of pension reform.

- Pension reform should be undertaken along with labour market reform, and the effects of pension reform on the labour market must be taken into account.
- To be successful, a pension reform must achieve both financial and social sustainability.

Discussion:

- The public pension system is part of the national social security 'package'. Pension reform should not proceed in isolation from other social security benefits. This requires setting social policy priorities in advance, including for example: old-age poverty reduction and the desired distribution of benefits, financial sustainability and transparency.
- With respect to increases in retirement age, under the notional (non-financial) defined contribution system, the annuity factor for new pensioners is adjusted regularly to take into account increases in life expectancy. The system also has an automatic stabiliser mechanism which takes into account subsequent increases in life expectancy and thereby avoids periodic renegotiation of reforms to the system.

Working Longer

Chair: Mark Keese (OECD - Paris)

Presentations: Robert Anderson (European Foundation for the Improvement of Living & Working Conditions - Dublin)
Sara Rix (American Association of Retired Persons)

Current discussion about pension reform is increasingly focusing on extending working life. To design sustainable pensions systems, it is essential that people work into later life, so that the share of the lifespan spent in retirement remains roughly stable. In many parts of the developed world, people have begun to work for longer, but significant barriers remain, including individual and employer attitudes, and inappropriate pension and education policies.

Mark Keese - across OECD countries population ageing means that, if nothing changes, labour supply will grow more slowly or even contract and there will be a doubling in the ratio of retired people to workers. Therefore, it is crucial to mobilise more fully the labour resources of older people. Employment rates for 25-49 year-olds are similar between countries, but rates for 50-64 year-olds vary from 40% to 80%, largely because of differences in public policy.

The OECD has just completed a major study *Ageing and Employment Policies* with 21 separate country reports and a synthesis, *Live Longer, Work Longer*. There are three key barriers to work in later life:

- Financial incentives – most people stop working before official pension ages because of incentives within formal or informal early retirement schemes.
- Employer barriers – employers are discouraged from recruiting and retaining older workers by negative prejudice, and in some countries by the high costs of older workers and strict employment rules that encourage early-retirement practices when workforce adjustments are required.
- Weak employability – barriers include inadequate help for older jobseekers, poor lifetime working conditions and obsolete skills.

In response to these barriers, he proposed three directions for public policy:

- Reward work – reform pensions to cut the 'implicit' tax on working; restrict early retirement pathways; improve options for phased retirement.
- Change employer practices – tackle age discrimination; reform wage setting to align salaries with productivity; shift focus from protecting jobs to improving employment opportunities.
- Improve employability – suitable training opportunities at all ages; better support for older jobseekers; improved occupational health and safety.

Sara Rix - in the past older workers were 'eased, enticed and kicked out' of work to make way for younger employees and boost productivity. But pensions were generous and the majority of people jumped at the chance to retire on the right terms.

Today, governments question the wisdom of early retirement and aim to promote longer working lives to ensure pensions are sustainable. In recent years, employment rates for older workers have improved in many but not all European countries. In the United States, there has been major growth in post-65 employment. But age discrimination remains a major barrier, especially to recruitment, with younger people 40% more likely to be offered an interview.

Employers have good things to say about older workers (e.g. loyal, experienced, good with customers) but they also have negative perceptions, some of which are partly based on fact (e.g. poor skills, chronic health problems). Many employers are not actively recruiting older workers because they are not aware of their future labour market needs.

Many of the myths about older workers can be tackled:

- Productivity – differences between age-groups are small compared to the huge differences within age-groups. In recent years, pay has increasingly been linked to productivity, not length of service. Recent American Association of Retired Persons (AARP) research showed that older workers only cost 1-3% more than younger adults (even taking account the cost of private health insurance in the US).

- Recruiting older workers is not a wasted investment – retention rates over 5 years are higher for older workers than young people. AARP has calculated that the savings linked to reduced turnover are much greater than the cost of slightly higher pay for older workers.
- Health conditions related to age – health conditions can reduce work-ability (e.g. heavy manual labour, stamina, increased risk of injury) but most health needs can be accommodated. Older workers often compensate for health problems through greater expertise. Successive cohorts of older people are becoming healthier.
- Cognitive abilities – the American Academy has suggested that abilities do decline progressively, but in most jobs people do not regularly operate at 100%. Evidence within workplaces does not suggest declining capability or productivity. There is an important distinction between 'fluid' and 'crystalised' cognition – conceptual and knowledge-based thinking. Age-based decline tends to occur only in the former.
- Obsolete skills and inability to learn – obsolete skills are a risk for all age groups, which can be addressed by regular training. Older workers are just as capable of learning (including gaining skills in new technology) but they may take slightly longer to acquire skills. Further research is needed in this area. Barriers to training mainly relate to the 'style' of provision and older workers' concerns about their own abilities; there are few complaints of discrimination.

There is no single answer to promoting longer working lives. Older people are very diverse – between 50 year-olds and 70 year-olds; in different sectors; and between developed and developing countries. In general, special programmes for older workers should be discouraged as they can stigmatise, may be unfair to younger people, and have 'deadweight' effects by helping people who do not need support. Priorities for public policy are:

- Outlawing mandatory retirement ages and introducing age discrimination law
- Reforming pensions so they reward work
- Preventative healthcare
- Phased retirement – but not by forcing workers out of permanent contracts
- Performance management that is consistent and robust over the whole working life
- Promotion of two-way mentoring so younger and older workers can learn from each other.
- Diversity programmes that include older workers, alongside people facing other disadvantage, rather than trading one group against others.
- Support for entrepreneurship

Robert Anderson – highlighted the new report from the foundation: *A Guide to Good Practice in Age Management*. Working longer is rising-up the social policy agenda, for Governments and the EU, with a focus on pensions, employment and health. However, it is not a big issue for employers and trade

unions. This needs to change. The Foundation has concluded that it is not enough to focus on exits from work in later life. Instead, employers need to adopt lifelong ‘age management’ by investing in the employability and health of their whole workforce, and in accommodating other needs, such as caring responsibilities. The Foundation had been researching age barriers to employment since the mid-1990s; the recent research follows up on 100 employers involved in earlier studies - to identify changes in recent years. Alongside the new guide, the Foundation has produced a database of good practice and a report on progress in EU25 countries.

The foundation has identified a range of good practice, with the most common initiatives relating to training and flexible working. Other good practice includes adjusting recruitment, career development, occupational health, workplace design, redeployment and retirement policies. In the last decade, employers have moved to more comprehensive measures, and paid less attention to recruitment and redeployment.

Business benefits are the key driver of age management practices (e.g. skills shortages, retaining experience, returns on investment). Benefits for staff and employers are widely reported but there is little robust evaluation. Talking in general terms about the ‘business case’ for age management is often met with scepticism. Instead employers adopt measures to meet clear short-term needs. This can lead to ambivalence or contradictions, for example good and bad practice in different parts of the same organisation. There are also significant concerns about the legal and practical implications of age discrimination law, even though the principle is accepted.

Successful age management in organisations is associated with: a supportive national policy framework, committed and competent management, careful planning and implementation, co-operation between employer and staff of all ages, and robust evaluation. Challenges organisations face, include: communicating with clarity and consistency, developing measures that are consistent with other policies, negative reactions from colleagues and management (e.g. stigma or envy relating to special treatment), poor general working conditions, and prevalent expectation of early retirement. These challenges can be best overcome by a preventative, all-age approach, set within a broad Human Resources strategy. Remedial support for older workers is needed for people who face specific barriers.

Discussion:

Competition between generations?

There is still much concern that retaining older workers will reduce opportunities for younger people. Economic analysis disproves the ‘lump of labour’ theory (early-exit policies have clearly not improved employment for youth). However, more research is needed on the interaction between longer working lives and ‘off-shoring’ jobs to the developing world, immigration and the informal

economy. Work is also needed on ‘job blocking’ within workplaces (people should stay in the labour marker longer but not necessarily in the same job).

Developing & transition economies

The issues are very different in developing countries where retiring is often not an option. The priority is developing pension systems rather than promoting longer working lives, which are already long in many developing countries.

Individual attitudes

Policy needs to be reconciled with individuals’ preferences about retiring. Many people want to leave work early and lead an active life in retirement. On the other hand, these expectations have been created by pension arrangements that are increasingly unsustainable. Often people are unaware of, or disbelieve, evidence about their own life expectancy; they are anxious about working longer and having little time for retirement. There is also a miss-match between rhetoric and reality on pension reform. The public debate is about working to 70, but the main policy focus is on raising average retirement ages from the European average of 61 closer to official pension ages.

Financial pressures

There is evidence that the ‘baby boomer’ generation wants to work past traditional retirement ages. But it is hard to say whether this is because of financial needs or personal preferences regarding lifestyle. The performance of stock markets in recent years may have led to some people delaying retirement. The shift to defined contribution pension schemes may also mean that more people are making a direct link between working longer and increased retirement income. Increasing personal debt may also be a factor.

State pension ages

Increasing state pension ages is a clear and simple solution to extending working life but often unpopular, difficult to implement in practice, and one which reinforces the notion of a standard age at which all workers should retire at.

Lifelong learning

Making a reality of lifelong learning poses challenges. People with the highest skills and qualifications tend to be most likely to participate in training. One challenge is to identify future skill needs and offer appropriate training to older people. The key question is ‘who pays?’ Employers and trade unions want governments to pay, but it is employers and individuals who gain. Access to learning could be built into collective bargaining alongside pay and benefits. France has a national collective agreement on access to training and assessing the training needs of older workers. Another answer would be to offer tax incentives to employers and workers. Suitable training opportunities also need to be in place, that recognise prior learning and experience and which are adapted to the needs of different workers, e.g. shorter, more work-based courses for older workers as opposed to longer, classroom-based courses.

Family friendly policies

Promoting family friendly policies and support for caring is critical for working longer. People in their 50s and 60s may be looking after parents, adult children still in education, and grandchildren. Working carers often take jobs below their potential, wasting their skills. Greater labour market attachment of women at younger ages, by making it easier to combine family and employment responsibilities, will also feed into greater attachment for women at older ages. The OECD has recently carried out a major review of family-friendly employment policies. Trade unions have recently woken up to the importance of supporting carers alongside parents.

Conclusions:

The session highlighted three inter-dependent drivers for extending working life:

- Public policy – there should be reform of pension and social security systems to provide adequate incentives to later working; the performance of education and employment services needs to improve.
- Attitudes & expectation – the attitudes of both individuals and employers need to change, to come to terms with the reality of longer lives and longer careers.
- Employer practice – for people to remain in work for longer, workplaces need to be flexible, healthy and skills-focused for all age-groups.

Pension Reform – Making It Happen

Chair: Dalmer Hoskins (American Association of Retired Persons)
Panel Members: Jordan Hristoskov (NSSI – Bulgaria)
Semakula Kiwanuka (Finance Minister – Uganda)
Robert Laslett (Department for Work & Pensions – UK)
Lars Rohde (ATP – Denmark)
Thabo Thulo (Pensions Commissioner – Lesotho)
Andrew Biggs (US – Social Security Administration)

Chair - Dalmer Hoskins:

"As regards pension reform: What do the panellists think should happen in their own countries and what can happen over the next two years?"

Robert Laslett - UK

What should happen? - implementation of the *Pensions White Paper* issued by the UK Government in May 2006. There are five inter-linked reforms and for the first time, private and state systems have been addressed together:

- Automatic enrolment into personal accounts
- The state system becomes a more solid foundation and is linked to earnings

- Increased coverage of the state system which particularly benefits women
- Extension of working life with the increase of state pension age
- A stream-lined regulatory environment.

There are likely to be two rounds of legislation: state reforms in 2006 and private reforms in 2007. There had been an open debate politically. In fact, there has been more division within the government than between the government and opposition. There is a technical agenda and there is also a political agenda and it is important to keep pensions to the fore.

Lars Rohde - Denmark

There is a disease and cure. In relation to the disease: the Danish Welfare Commission reported (Autumn 2005): the workforce is reducing and people are living longer. Denmark has, though, a high participation rate for women, but has difficulties integrating immigrants into the workforce. There are also high income tax rates and little room to manoeuvre to get the workforce growing.

As regards the cure: the main element is to raise the participation rates of immigrants and to raise the retirement age. ATP is unusual in having almost the whole population as members. And "people are not dying the way they are supposed to do'. We have a fully funded system. Over the last six years, liabilities have grown 10% due to ageing alone. We have a hard time to secure pensions. The main cure would be to increase retirement age. However, people are looking forward to retirement and it is hard for people to find work. And – "people under 40 think pensions are boring".

How do we get the public involved? We need to raise awareness of the issues and to stimulate the debate. Otherwise, it is easy for politicians to defer making the necessary hard choices. Pensions need to be at the top of the agenda or there will be a severe crisis in the system.

Jordan Hristoskov - Bulgaria

Bulgarian reforms: structural changes to the existing first pillar; creation of a second mandatory pillar and a third voluntary pillar. Preservation of the first pillar reflects the long tradition of a solidarity pension in Bulgaria (established 120 years ago); and can be relied on for a replacement rate of 45-50%. It is very generous, access is easy and the retirement age is 55 for women and 60 for men. We persuaded people of the need to increase pension age rather than decrease pension value, and we did that with social partners. The new pension formula is close to the Notional Defined Contributions model and links participation to the higher level of pension. The new mandatory second pillar enables people to choose a pension fund and is established for everyone born after 1960. Between 65% and 70% of the population are

covered. This enables people to build a life-time pension of an additional 20-22% replacement rate above the first pillar. This is a special kind of occupational pension fund. In effect, we managed to privatise early retirement and move it from the first pillar to the second pillar. The voluntary third pillar existed but we established strong regulations and unified the regulator. We also addressed general insurance and security market.

It is difficult to keep pension reform going; it is an ongoing process - not a one-off set of reforms. There are a number of political risks: the pressure to introduce early retirement schemes, to increase the minimum guarantee pension, and to decrease social insurance contributions which will benefit those who work. There is also the institutional risk, relating to IT systems and communications.

Semakula Kiwanuka - Uganda

Although my ministerial portfolio is "investments", a key responsibility of the role is pension reform. Looking at the reforms, there are two different approaches: OECD countries – where pensions are increasingly important; and developing countries – where the critical challenge is poverty reduction. At least 50% of the population in Uganda is below the poverty line. Contributory pensions cover only 20% of the population: those employed in the formal sector, including civil servants and those working in the private sector. The rest of the population is outside the legal framework.

Is it possible to make social protection available to every citizen in Uganda? Yes, I believe it is. African countries – Lesotho for example, show it can be done. If there is a political commitment by governments to introduce social protection schemes, then it can be done. We do so in the context of the Millennium Development Goals and we are only a few years short of the 2015 targets. We need to focus on households. And cash fund transfers to the most vulnerable, poorest people, of around 15 US dollars a month, can go a very long way to transform the situations in households. Older people are more affected: they take care of extended families (due to AIDS), they have less capacity to produce, and they have no pension to draw on. The Government needs a new strategy around cash transfers to address chronic poverty in households. If people have the money to buy household goods: they don't feel a burden, they feel more capacity to produce, which impacts favourably on economic growth and benefits the Government. In Uganda, while we have invested in universal education, health centres, and have a commitment to micro-finance projects in every sub-country: we need to introduce cash transfers and look at the models developed by other countries in southern Africa. There has been a helpful role played by donors like Denmark and the UK but we need a new mechanism. The question for Uganda is: should cash transfers be universal or targeted? In our approach: cash transfers will be targeted and the community will determine who should be on the programme. There will be no age limit.

Thabo Thulo - Lesotho

In November 2004 Lesotho introduced an old age pension. This was in addition to the many social assistance schemes, including: pensions for war veterans, a non-contributory pension scheme for civil servants (with a retirement age between 55 & 60, although for teachers it was 65, for judges 70 and for the armed forces it was optional at 40). Traditional social protection for villages was delivered through the chief who would distribute surplus produce to the elderly and disabled. However, more people have moved from rural areas to cities and the elderly are left with young children to look after.

The old age pension was included in our campaign manifesto: we promised to make one available to everyone over 70; the only qualification being citizenship. Post offices are located in each district and are used to deliver the pension: the cost of delivery is 2.8% of the cost of the pension and that is paid to the post office. Local community councils are the registration points but there a significant challenge is confirmation of when people die. It is a household pension rather than an individual pension, as children have been orphaned by AIDS and older people are carers.

Andrew Biggs - US

President Bush made social security reform his top domestic priority and in 2005 ran a vigorous campaign to try and sell his plan which was ultimately unsuccessful. The US has more favourable demographics (for example, higher birth rate) and our initial cost rates are lower (circa 12% of payroll). It's a strong political issue: there is a strong preference in the US for low taxes, the baby boomers are coming up to retirement and we have increasing social security costs, which are likely to rise to 18% of the payroll.

We can't get increased taxes to pay for the increasing social security costs, and we don't want to reduce benefits for retirees. We have a number of choices about the programme: it could either be more money going in, less money going out, we can have longer working lives or we could increase the risks in the hope of achieving higher returns. President Bush wanted to target resources on people who needed it most. There would have been reductions in benefit for people at the top and a more progressive formula. This was likely to solve 60% of the financing difficulty. President Bush also wanted to allow people to take part of their payroll taxes and invest it into personal retirement accounts. The rationale was portfolio diversification. President Bush has ruled out raising payroll taxes but may be open to raising the ceiling at which taxes are paid.

The President's campaign to promote the proposals, was opposed by bodies like AARP and the labour unions, and ended in a stalemate. A reform like that proposed by the President, can't be passed purely on party lines. Meanwhile

the Democrats are more likely to solve the problem by increasing the revenue side. But that won't be passed either. We now need fresh thinking:

- To think holistically - look at retirement security overall and not just social security.
- To think conceptually, not technically. What is the problem that we are looking to solve?
- To educate the public about the choices we face. An adversarial approach is not a good way to make policy, it cheapens political debate.
- To make things as simple for the public as possible.

President Bush is now talking about the appointment of a bipartisan commission to address the challenge.

Chair - Dalmer Hoskins.

"Over and over again, in multi-pillared systems, poverty alleviation is the big goal but in many places people want security, adequacy and there is the opinion that the individual should take on more responsibility for achieving adequacy. But there is also scepticism. Young people are not interested and there is public ignorance.

- *Are we seeing a shift towards more individual responsibility?*
- *Can people take on this responsibility and do they want to? "*

Robert Laslett - UK

The UK Government has set out five tests for its reform package and one of these is "to promote personal responsibility". People want to avoid decisions, so we have changed the pattern of default. Now the default is that people will be automatically enrolled into a personal account, unless they opt out. We will also increase information, but we acknowledge that "information alone won't do the trick".

Lars Rohde - Denmark

Information in itself is not enough. There are psychological barriers to take decisions when people are under 40. People will default – I am interested in the UK approach of auto-enrolment.

Jordan Hristoskov - Bulgaria

We issued a personal identification number to everyone so they could check their details on a website. Many young people are using the facility.

Andrew Biggs - US

It is difficult for government and business to handle demographic risks: it is inevitable that the individual will have to take more responsibility. However, we need to recognise the limits of individuals, as well as that of government and employers. The question is how should individuals prepare? Reducing the number of choices would help.