



Sustainable pension systems

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Moderator: Peggy Hollinger, Paris Bureau Chief, *Financial Times*
Martine Durand, Deputy Director, Employment, Labour and Social Affairs, OECD
Philip J. Jennings, General Secretary, UNI Global Union
Enrico Letta, Member of Parliament, Italy
Lu Mai, Secretary General, China Development Research Foundation
Ladan Manteghi, President, AARP Global Network

With the number of people over 60 years of age projected to double over the coming decades, pension reform is set to become a huge challenge.

For panel moderator **Peggy Hollinger**, the challenge is nothing short of keeping the world's aging population out of poverty and has, thanks to the crisis, "taken on greater urgency than ever before".

Martine Durand supported her contribution to the panel with findings from the OECD's recent major review, [Pensions at a Glance](#). "Private pension losses have been dramatic" Ms Durand said, noting that pension funds in the OECD countries experienced a 23% drop in asset values (amounting to \$4.3tn in losses) in 2008. She also drew attention to another finding of the pensions review: a list of the groups of individuals that were most adversely affected by the financial crisis. This includes workers nearing retirement, people with riskier assets in their investment portfolios, those in countries reliant only on public pension systems, existing retirees who did not annuitise their pension assets, and those living in countries where social safety nets are weak.

Thankfully, some countries have already implemented appropriate policy responses. Ms. Durand mentioned broad policy goals governments ought to strive towards, such as stronger safety nets for old-age incomes, naming a few exemplary countries in the process (Australia, Belgium, Finland, France, Spain and the UK in this case). Ms Durand concluded by saying that "pensions are not a short-term contract", but "a long-term issue" requiring long-term solutions.

For **Ladan Manteghi**, the scope of this particular issue is increasingly broadening, as shown by the ever-expanding numbers of non-retired workers among the AARP's membership. Ms Manteghi provided an American perspective, noting that the impact of the economic crisis in the US has been "worse than anywhere else". Statistics point to a destruction of value in the stock market worth about \$7 trillion, of which \$5 trillion affected people over the age of 50. Workers over 45 are concerned about having a large enough private pension pot, but also about the sustainability of the public pension system.

Ms Manteghi found solace in the opportunities that the current crisis offers for pension reform, and in the lessons that can be learned from it. For instance, retirement will need to have some element of employment for many people in the future. “Financial literacy is no longer just about saving for retirement”, Ms Manteghi also asserted, “it’s also about not over-indulging”, and needs to be encouraged from an early age. Furthermore, there is a need for shared responsibility, encompassing both public and private systems, as well as employers, partly reversing the recent shift towards greater individual responsibility for pension arrangements. In particular, a basic safety net is a necessity, so that people in poverty are guaranteed an income to pay for their basic necessities. Ms Manteghi cited the example of Chile, which restored its social safety net in 2007 to improve a system that had previously been entirely private.

Enrico Letta contributed to the debate by offering a more European perspective on the issue. According to Mr. Letta, pension systems face four main challenges. Firstly, the financial crisis has prompted many to question the future of private pensions systems, leaving a need to rebuild confidence. Secondly, ageing populations in Europe and elsewhere and the fiscal challenges they represent mean there is a pressing need to find solutions, but few countries have so far done enough to address this. Thirdly, while Europeans are used to standardised public provision of pensions, this may no longer be enough, pointing to a need for a new paradigm that puts greater emphasis on individuals. Finally, the increasingly blurred line between what used to be three distinct periods of one’s life (education, then work, then retirement) has changed the way we have to think about retirement. Training and education need to be provided throughout working lives, and retirement is no longer a definitive thing, as for many it will need to be interspersed with periods of work.

“Finding solutions at the national level is no longer sufficient”, Mr Letta said, and shared responses coordinated by the EU or other multinational bodies are needed. Some of the goals that such groupings ought to strive towards include raising retirement ages, increasing life-long learning, providing more retraining, and creating more comprehensive safety nets.

According to **Lu Mai**, China faces the same problem as OECD countries, since its stock market dropped to a third of its former value during the financial crisis, damaging pension savings. Furthermore, China also faces severe demographic problems, partly due to its one-child policy. In 2007, 180 million Chinese were aged over 60 (13% of the population). This number is set to rise to 530 million by 2050, amounting to 30% of the population. The government has no choice but to start increasing savings now.

With this in mind, China has already changed from a universal pension system to a three pillar system: comprising a basic state pension, a nominal individual investment account (administered by local governments), and finally private fully-funded retirement accounts. In order to counter the effects of the financial crisis, the government intends to boost the state contribution from around 20% to 30%, thereby reducing the required level of private contributions. It has also transferred 10% of state-owned listed company shares into the state pension fund, which will boost it’s assets significantly. Moreover, more remains to

be done, and other public assets are available to boost the pension system. Mr Lu also recommends shifting the management of nominal accounts to a higher level of government (national or regional, rather than local, for instance), noting that China will continue to learn from other countries' experiences.

Philip Jennings, speaking on behalf of UNI Global Union, adopted a more critical approach tone about what he described as a market failure. Workers hit by the turmoil are angry since they have the feeling they are paying for the bankers' mistakes, first with their taxes and now with their jobs. Business leaders have acted irresponsibly, paying themselves big pensions while others have to do without. In Mr Jennings view, the G20 ought to focus on a coordinated approach to employment issues as well as on financial and economic matters. Financial illiteracy must be addressed: when pension fund managers don't understand financial products, union members are very unlikely to understand them either. Investors, including workers' pension funds, have to become a lot more active in the area of corporate governance, and prevent pension fund managers from taking excessive risks.

In questions from the floor, panellists were asked how regulators can reduce risks taken by pension funds managers, Ms Manteghi acknowledged the need to rein in activity in some way, but also noted that managers should not be constrained too much, since portfolio diversity is an insurance against risk in the long run. In Mr Jennings' view, too few pension funds take a long-term perspective, and too many are swayed by financial fashion. Governance guidelines should be more specific in fostering a long-term view and supervision should be tighter. Ms Durand added that, in fact, most pension funds do have a long-term strategy and have largely avoided toxic assets: only 3% of pension funds assets were invested in hedge funds for instance. For Mr. Letta, regulators relaxed their vigilance during the years of strong economic growth, and there is now a strong case for a unified regulatory framework.

Another questioner from the floor asked how far governments should go to prevent individuals from taking risks and investing in inappropriate assets? For Ms Manteghi, the focus of protection efforts should be on ensuring proper governance of investment funds rather than trying to influence individuals' investment choices. A life-stage balancing approach could be part of the solution; encouraging savers to shift towards less risky assets as their retirement approaches. Mr Lu added that a government's main responsibility is to provide macroeconomic stability, and noted that the Chinese government has adopted a cautious approach to allowing different types of financial institution to operate in the country.

On a more upbeat note, Ms Durand reminded delegates that the reason that pension systems have become such an issue is because people are living longer and are in better health!

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