

AGEING WORKING PAPERS

Maintaining Prosperity In An Ageing Society: the OECD study on the policy implications of ageing

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ADEQUACY AND SOCIAL SECURITY PRINCIPLES IN PENSION REFORM

This is one of a series of analytic papers that supported the OECD's ageing study, a "horizontal" project in the sense that it involved a number of OECD directorates. The results of the entire project are summarised in *Maintaining Prosperity in an Ageing Society*, OECD 1998.

This paper aims at reviewing the role that internationally accepted social security principles could and should play in such major reforms with special reference to pension schemes. Four main factors and trends seem to exert a major influence on the advocated need for and the content of contemporary pension reforms. These are the aging of national populations; a growing interest for privatization, including in the social sphere; the globalization of markets, which brings labour and social costs under close scrutiny; and the growth of the so-called informal sector which leaves unprotected large sections or even the majority of the active population. Pension reforms have been designed to take account of these factors. The first section of this paper provides a typology of these reforms. The second part identifies the major guiding principles which should, at least in the opinion of the ILO, continue to be used as benchmarks for assessing the value of proposed social security reforms, whatever the motivation behind these reforms may be. In the third part, an attempt is made to better clarify what is really at stake, in terms of income replacement and income support, when designing pension reforms at the national level.

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TABLE OF CONTENTS

Adequacy and social security principles in pension reform	3
I. Main motivations underlying on-going or planned social security reforms	3
(a) A closer relationship with social needs.....	3
(b) Cost/economic efficiency ratio.....	4
(c) More scope for individual choice	5
(d) An innovative mix of reforms	5
II. Major guiding principles for pension reforms.....	6
III. Income replacement and basic subsistence levels	9
Conclusion	13

ADEQUACY AND SOCIAL SECURITY PRINCIPLES IN PENSION REFORM

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Adequacy and social security principles in pension reform

1. Social security is at a crossroad. After decades of overall stability, most of the countries in the world are now in the process of implementing, or are seriously contemplating major reforms. No branch or aspect of social security systems may be considered as immune from this generalized process of changes.
2. This paper aims at reviewing the role that internationally accepted social security principles could and should play in such major reforms with special reference to pension schemes.
3. Four main factors and trends seem to exert a major influence on the advocated need for and the content of contemporary pension reforms. These are the aging of national populations; a growing interest for privatization, including in the social sphere; the globalization of markets, which brings labour and social costs under close scrutiny; and the growth of the so-called informal sector which leaves unprotected large sections or even the majority of the active population.
4. Pension reforms have been designed to take account of these factors. The first section of this paper provides a typology of these reforms. The second part identifies the major guiding principles which should, at least in the opinion of the ILO, continue to be used as benchmarks for assessing the value of proposed social security reforms, whatever the motivation behind these reforms may be. In the third part, an attempt is made to better clarify what is really at stake, in terms of income replacement and income support, when designing pension reforms at the national level.

I. Main motivations underlying on-going or planned social security reforms

5. Generally speaking current or planned social security reforms openly search for a new distribution of responsibilities between the State, the social partners and individuals insured persons and citizens in general as part of an apparently integrated economic and social approach to the social protection system as a whole, viewed in the context of minimum growth, increased competition on the global market, deregulation in the labour sphere and breakdown of family structures. This leads to a broad classification of reforms into three main basic categories of policy-makers preoccupations, viz. to ensure a closer relationship between social security schemes and actual social needs, to take into account the relationship between social costs and economic efficiency; and to provide more scope for individual choice. As a matter of fact, however, actual reforms are usually a blend, reflecting all of these three types of preoccupations, albeit with variable emphasis.

(a) *A closer relationship with social needs*

6. Existing systems are often described as unable, in a context of limited public resources and scope for levying compulsory contributions, to meet the real needs of a large part of the population in an efficient manner. In this approach, the prime targets for change are the categories of persons and the contingencies covered. Also open to question is the capacity of existing social security systems to keep

AWP 3.1

pace with the fundamental changes affecting today's society, for example those relating to the fight against poverty or the efforts to achieve equality of treatment between men and women.

7. Reforms based on this line of argument give higher priority to what are called targeted benefits, that is those subject to means testing or other conditions. This may be done by tightening existing conditions (for access to a minimum pension or social assistance, for example), by laying down conditions where there were none previously (for example relating to medical care, family benefits or compensation for loss of a job) or by abolishing universal benefits, then introducing new entitlements that are restricted to the most vulnerable categories (guaranteed income or minimum income for social integration).

8. This type of approach obviously raises questions as to the resulting value of compulsory social protection, whose scope may be affected in two ways, either in terms of the persons covered, or in terms of the level of income replacement or compensation, by gradually shifting whole segments of the social protection system from a social insurance approach to one that often more closely resembles social assistance.

(b) Cost/economic efficiency ratio

9. Reforms based on a primarily economic and financial approach to the role of social protection systems are prompted by a threefold argument: the excessive level of obligatory expenditure that could not be brought under control; the increasingly unfavourable demographic ratio, seen as inevitable; and the perceived negative impact of existing systems on national, regional or even global economic growth.

10. Reforms based on these premises mainly focus on the conditions for entitlement to benefits, as well as the levels of income replacement or reimbursement of expenses. Often, and this is especially the case of pensions, they also aim to replace defined-benefit methods of calculation (where the result for a given insured career is legally guaranteed) by defined-contribution methods (where the absolute and relative levels of benefits vary according to real interest rates). What this amounts to is in fact replacing the usual pay-as-you-go method of financing by funding, which is perceived as more favourable to growth and less vulnerable to population ageing. Lastly, this type of reform sometimes also seeks additional sources of financing through taxation to supplement contributions levied on wages or earnings.

11. The question most commonly raised by this economist's view of social protection is whether it runs the risk of diverting the system from what should be its primary objective, i.e. to provide adequate and reliable benefits, towards considerations that have very little to do with the social ends justifying the compulsory levy of contributions towards the coverage of those insured. Moreover, the gradual alteration of the method of calculating benefits raises the question whether the results obtained in terms of replacement income in so far as they are predictable can continue to meet the criteria laid down in the Social Security (Minimum Standards) Convention, 1952 (No. 102), and by the standards, known as the higher standards, that were subsequently adopted for the different branches, as well as the similar requirements prescribed by the European Code of Social Security, the revised Code or its protocol¹.

¹ Grosso modo, and depending on the instruments, replacement of previous income computed according to prescribed conditions should range between 40% and 55% after 30 years of insurance (or 20 years of residence).

(c) *More scope for individual choice*

12. Reforms intended to maximize the scope for individual choice while limiting as far as possible the compulsory, universal component of social protection generally open up a wide range of opportunities for private initiative, either in the form of complementary or supplementary schemes or as the main or sole provider of benefits. Under this approach the State still has, in theory, an important role nevertheless, being responsible for establishing and enforcing the applicable regulations as well as directly administering part of the new system (basic or minimum benefits), or even offering a similar product to those offered by private providers (a symmetrical phenomenon to that known as opting out).

13. Moving away from the exclusive or predominant role of the public or parapublic sector in the field of compulsory social security should make it possible for insured persons (the consumers) to shape to a certain extent their demand for social protection according to their own perception of what their needs are. Moreover, competition between the different products that would become available on the social protection market would result in a more efficient system at a lower overall cost, since both supply and demand sides would be seeking the optimum solution in both economic and social terms.

14. Opening up social protection to the interplay of market mechanisms raises familiar objections. Those focus essentially on the actual responsibility of the State and the involvement of the social partners in administration, the real cost in both economic and social terms of the overall operation of the system, and the question whether the protection afforded in this way is really reliable and efficient, in terms of the guarantee it provides to the most vulnerable groups and in terms of the level of replacement or compensation income.

(d) *An innovative mix of reforms*

15. In practice, the reforms of national social security systems carried out in recent years have drawn on each of the three components described above, i.e. targeting of benefits, increasing prevalence of economic over social concerns and the promotion of individualized options, where possible not provided by the State, with the aim of achieving a level of protection perceived as more effective than that provided under the previous systems.

16. The result has been the emergence of renewed systems of social protection, some of which display characteristics which do not appear a priori to have been foreseen by the international instruments that still nevertheless provide the basic principles for the law. Some examples that come to mind are the growing influence of the private sector in the overall structure of the systems (in Chile and other Latin American countries, as well as Switzerland, the United Kingdom, Australia, etc.), the declining role of the social partners, in some cases (France) as a corollary of a certain form of privatization, the increased share of basic anti-poverty benefits in public systems, often accompanied by more stringent conditions of entitlement (OECD member States), decline of the income replacement aspect of benefits in favour of a stronger individual or other similar savings component (China, Germany, Sweden, Latvia, Poland, United States, Latin America), the emergence of non-statutory supplementary schemes with a growing impact on the overall level of protection (all countries), a combination of active and passive forms of protection, including, but not limited to the employment sphere (Europe), etc.

17. When considering the social validity - and not only but also the economic viability of schemes resulting from such reforms, some of which represent a major, unprecedented departure from past practice and traditions, one needs obviously to rely on a set of established guidelines, or benchmarks. Those are the

commonly accepted general social security principles, which are summarily described in the following section of this paper.

II. Major guiding principles for pension reforms

18. Social security systems are a reflection of the political, economic and social environment but they also have the opportunity to influence that environment. The social security concept emerged in difficult historical circumstances, when fight against extreme poverty was a key preoccupation of many Governments. The fundamental instruments defining social security therefore insisted strongly on issues such as the scope of coverage (personal and by contingency) and the level of protection afforded by the State. Social security, and first of all its basic social insurance component, was further acknowledged as a basic human right.

19. Since then (i.e. since the late thirties-early forties), the world has been constantly changing: needs, values, economies, demography, politics have evolved considerably. Social security is now challenged on the basis of this evolution.

20. Social security appears, as a fundamental concept of protection of the workers and their families against certain risks inherent to their social condition as early as in 1919 (Preamble to the ILO Constitution). This approach was confirmed and strengthened by the ILO Declaration of Philadelphia (1944) and the United Nations Universal Declaration of Human Rights (1948). Basic social security principles were embodied progressively in major ILO Conventions and Recommendations adopted between 1944 and 1988, and simultaneously in the European Code of Social Security adopted by Council of Europe in 1964, including its Protocol, and revised in 1990.

21. The objectives assigned to social security according to these fundamental instruments are the following:

- guaranteed and universal access to health care services;
- guaranteed and adequate replacement of lost income;
- guaranteed basic resources; and
- guaranteed social insertion or re-insertion.

22. While these objectives of social security are clearly identified, there remains considerable flexibility as to how to achieve them: social insurance, social assistance, public services, all become techniques supporting a broader objective.

23. However, a few guiding principles emerge from theory and practice, which help to identify appropriate ways for social security institutions to meet their objectives.

24. These principles are:

- equality of treatment, between nationals and non-nationals, as well as between men and women;

- the solidarity principle, which stems directly from the recognition of an individual right to social security protection for all human beings;
- the principle of compulsory affiliation, which is in fact derived from the solidarity principle; as well as
- the general responsibility of the State and democratic management, which also stem from the above.

25. **Equality of treatment** corresponds to the fact that the Universal Declaration of Human Rights², according to which every human being, as such, has the right to social security, prohibits discrimination of any kind as to race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status (art. 2.1).

26. In the social security field, this type of preoccupation is of particular importance concerning discrimination based on sex³, on nationality and on residence. These factors have obviously, given their fundamental importance, to be carefully taken into account in the design of social security reforms. They are of particular relevance in the case of pension reforms.

27. The **principle of solidarity** is what justifies the existence of social security schemes in addition to individual protection measures, including those relying on insurance mechanisms. This solidarity principle applies first and foremost to financing techniques. Irrespective of the approach chosen for the financing of social security, including pension schemes (full or partial funding, pay-as-you go, taxation, or a combination of those) collective financing is indispensable to ensure that the most vulnerable categories enjoy a real access to the social protection they require. This does not necessarily apply to a priori only low income categories, but to all those who, through the occurrence of social risks, lose a substantial apportion of their earning capacities.

28. The importance of collective financing is often misunderstood, and State intervention, inter alia through social assistance, is sometimes described as a tool to supplement individual protection against social risks which would suffice to provide adequate coverage to the vast majority of the population.

29. It has to be noted however that social assistance, despite its merits, cannot be considered as a reasonable substitute to collective financing, by reason of the limitations inherent to such schemes (inter alia budgetary constraints and discretionary access). As a reaction to some of these deficiencies, a few schemes (e.g. UK, South Africa) have set a guaranteed minimum income level and have thus eliminated the discretionary element and replaced it with a statutory entitlement. This in fact brings such schemes under the general umbrella of the solidarity principle i.e. beyond special assistance in the traditional sense of the term.

30. Further, it has also to be noted that, in cases where, due to the absence or the inadequacy of collective financing, huge parts of the working population cannot afford to buy a decent protection in case of old-age, invalidity or death of the breadwinner, it is up to the State, according to its constitutional

² And the associated International Covenant on Economic, Social and Cultural Rights, 1966.

³ Art. 11.1 of the UN Convention on the Elimination of All Forms of Discrimination against Women, 1979, makes an explicit reference to social security (retirement and disability pensions).

AWP 3.1

mandate, to guarantee that those affected still enjoy acceptable living standards through expensive minimum pensions, without earmarked resources for the financing of the required interventions⁴.

31. The debate surrounding the **principle of compulsory affiliation** does not focus so much on the need to maintain this principle, but on the extent to which optional, voluntary coverage may be accepted as a suitable supplement to compulsory schemes, to ascertain the global social efficiency of national systems. Suffice here to say that, according to international instruments, and notably ILO C. 102 and the European Code of Social Security, voluntary coverage may be taken into account to evaluate global levels of social protection only when

- controlled by the State or managed by representatives of the social partners;
- also applicable to low-income workers;
- meeting to the general requirements of compulsory social insurance schemes (inter alia collective financing, periodicity and predictability of benefits, legal protection, financial guarantees etc.).

32. The **general responsibility of the State** derives from the human rights nature of social security. The practical levels of intervention of the State in social security management will obviously vary according to national traditions and circumstances. It may be noted however that this responsibility goes, according to all international instruments, beyond the mere adoption of legal frameworks. The State is in fact to accept general responsibility for the overall management of schemes which were, through its legislative action, rendered compulsory for the workers and their employers.

33. **Democratic management**, i.e. the participation of workers (and possibly employers) representatives in the management of social security schemes is the direct consequence of financing through contributions. This aspect is a crucial one, since it makes reference in fact to the principle of free use of salary, which suspension through the introduction of compulsory social security contributions (deferred salaries) becomes acceptable only when workers have, through their representatives, the right to be heard concerning the use of what, at the end of the day, remains money.

34. Pension reforms should obviously abide by the few general principles (equality of treatment, solidarity including collective financing, compulsory affiliation, State responsibility and democratic management) which have just been recalled. Special attention should also be paid to the situation of the current pensioners and of those in the generation approaching retirement age, which corresponds to the respect of acquired rights or rights in the course of acquisition, an equally fundamental general principle in labour and social law⁵.

35. This being said, the fundamental objective of pension schemes remains to guarantee decent levels of income to those who have to rely on the benefits they provide and/or promised. The debate around the expected level of protection in monetary terms or in terms of living standard is one of the most vocal ones in any pension reform. It is therefore important to address this issue in the light of the possible consequences of a shift from techniques where pensions are mostly determined by length in covered employment and previous earnings, to situations where contributions paid and interest rates become

⁴ This may happen in particular in compulsory saving schemes. See for example C.Gillion and A. Bonilla, Analysis of a Private Pension Scheme: The case of Chile, ILO, International Labour Review, 1992.

⁵ This is often referred to as the transition period , the cost and foreseeable length of which several decades is often considered as a strong deterrent for major or almost complete overhaul of existing pension schemes.

decisive factors for the computation of individual pension benefits. The next section of this paper addresses the issue, by providing some general indications on possible characteristics of benefit formulae which could meet the basic objectives of pension schemes in terms of income replacement and guaranteed income, while putting more emphasis on possible remedies to the identified inconsistencies or draw backs of many existing pension schemes, whatever the merits of the criticism of such schemes may be.

III. Income replacement and basic subsistence levels

36. According to ILO Recommendation (n 67) on Income security, 1944, social security schemes should (Guiding Principles, General, §1) relieve want and prevent destitution by restoring, up to a reasonable level, income which is lost by reason of inability to work (including old age) or to obtain remunerative work or by reason of the death of the breadwinner .

37. The challenge currently facing many countries is in fact to reconcile the respect for existing provisions in terms of levels of benefits or the reliability of future pensions levels, with the strong appeal from many circles to create benefit formulae which ensure more predictable and long-term sustainable cost.

38. Such formulae should satisfy at least three, apparently conflicting, criteria:

- economic and financial affordability;
- individual equity; and
- social efficiency.

39. In this context, **economic and financial affordability** means that contributions should remain reasonable, otherwise their levels would not be politically acceptable, inter alia, to enterprises **and** to citizens. **Individual equity** means that a clear link should be maintained between pension amounts and contributions paid throughout the career. **Social efficiency** means that the schemes should be designed in such a way, that they avoid poverty, ensure decent and reliable standards of living to all pensioners, **and** have a strong redistributive effect. The challenge facing the designers of such schemes is therefore to reconcile within one conceptual model three equally important objectives. This in turn implies that all such models are by necessity hybrids, and the result of social compromises between diverging interests of the various partners involved.

40. **Economic and financial affordability** is prominent in the debate around social security reforms, often to the detriment of the consideration which ought to be given to the primary, social goals of such schemes. In this respect while the **pattern of financing** social security obviously affects the relative costs of the production factors, influencing their weight in the production process and thus having an effect on labour and capital markets as well as, indirectly on productivity, it has to be noted nonetheless that social protection in operation basically remains a redistributive mechanism, from the active to the non-active segments of the population. Beneficiaries, at the end of the day, do nothing else but use, for their own consumption, goods which are being produced by others. What matters therefore is not so much the absolute or relative share of social security financing, expressed as a percentage of salaries or of GDP, but what remains to cover other basic needs once the size of resources allotted to social protection has been decided upon. In other words, there is no absolute figure, or threshold, which would form an objective limit to what a society, or a group can afford to spend for its social protection.

AWP 3.1

41. A pension system is one of the income redistribution devices of a national social protection system. It is essentially a set of legal rules which govern the functioning of that redistribution. In effect the legal rules determine how much the active (insured) population has to allocate to the non-actives. It is the outcome of that redistribution (the individual benefit levels and the distribution of income within the inactive group) which is crucial from a social point of view. While the overall cost clearly matters, the actual pattern of financing despite its role in the present public debate is of secondary importance in this respect.

42. **Individual equity** in turn represents the need, for any insured person, to see a clear link between what he or she (or his or her employer) earmarks for social protection purposes, and what benefits are derived from this contribution. As a matter of fact, individual equity is in a way what fundamentally differentiates social insurance from social assistance. In the latter, contributors are usually the tax payers, and what beneficiaries receive from the system has, by definition, no relation with what they put into it. As a matter of fact, social assistance beneficiaries are very often those who paid the least amount of taxes during their active life. Conversely, social insurance is a system where, again as a matter of principle, benefits go first to those who contributed or to their dependents. It is therefore considered as usually normal that those who contributed more should receive more when a covered contingency occurs.

43. Beyond this basic point, the question remains of how strong the link between levels of contributions and benefits should be. In certain areas, such as medical care, the link is normally very weak⁶. In others, such as short term cash benefits, this question is apparently irrelevant. The most difficult aspect in this area is obviously that of pensions, more specifically that of benefit formulae.

44. Among existing schemes, the range of solutions for long-term benefits varies between a very strong link (provident funds and saving schemes) and almost no link at all (flat rate pensions; relatively high minimum pensions; relatively low ceilings).

45. In defined benefit schemes, which express the amount of entitlement with reference to past earnings, the key factor appears to be that of the reference period used for the computation of benefits. Here again, there is a wide range of possibilities, varying between calculating the pension on the basis of the last (usually gross and annual) salary, and computing it on an average of salaries over the whole career.

46. What matters when taking a decision in this respect is consideration given to the following three elements:

- It is more difficult to base calculations on a longer than on a shorter career, since this entails more record keeping; *contributions-defined benefits require in this respect a high level of managerial skills*
- It is imperative that past earnings be reevaluated to take *at least* inflation into account, otherwise pensions lose *already when granted* their relevance for the maintenance of adequate (not too markedly different) standards of living;
- Special provisions have to be designed to cater with the needs of those who, for external or unpredictable reasons, could not accumulate enough insurance periods to benefit of a decent pension (transitional provisions for first generation of pensioners; coordination mechanisms

⁶ Although some experiments are on-going in a few countries to base at least some of these benefits on a savings approach, where the **accumulated** amount of benefits is limited by that of previous contributions.

for migrant and other workers; credit periods, including for child caring; minimum pensions).

47. Whatever formula is chosen, it has to be noted that the relevant ILO instruments provide useful benchmarks against which the results achieved may be evaluated. As already mentioned, the Social Security (Minimum Standards) Convention, 1952(No. 102), for example, stipulates that after 30 years of coverage, a retirement pension should not represent less than 40% of previous earnings computed according to prescribed rules .

48. **Social efficiency.** *When considering the possible reconciliation of these three criteria (affordability, equity, efficiency), one could envisage going a step further, and consider favorably systems which combine, in one, two or more schemes, flat-rate and earnings-related components. The number of tiers, pillars, components part to the pension system is in a sense not relevant to a debate on social security principles.*

49. *What matters in the end is that, at the core of the system, clearly appear the two main **functions** of pension protection, which are the basic needs satisfaction (anti-poverty) and the income-replacement approach (living standards) and that these fundamental components be actually guaranteed, which makes them belong to social security. Guaranteed clearly means in this context devices which are established by law, compulsory, placed under the responsibility and close guidance of the State while not necessarily directly managed by the State or its subsidiary bodies, and include as build-in elements a certain number of safeguards concerning notably good governance, financial viability, predictability and adequacy of benefits.*

50. In this approach, a **flat-rate component** could play the role of an explicit anti-poverty safety net and be such, after 30 years of coverage, that it results in the payment of benefits which are comparable to the level accepted for the definition of the poverty line. ILO Convention No.102 makes reference to a threshold of 40 % of past or other earnings as an acceptable replacement ratio after 30 years of coverage in old-age. It should be noted in this context that the 40 per cent of national average wage is within the normal range of relative national poverty lines used by UNICEF for different developing countries (the range is 35 to 50 per cent of national average wage)

51. In *such an* explicit anti-poverty approach, no increase for longer periods of insurance (more than 30 years in old-age) would be justified for the flat-rate component. *Not to override the equity concept through basic pensions seen as too generous in view of the actual level of previous income on which contributions were based, an absolute limit could also be set at, say, 80 per cent of last personal earnings (take-home pay) in which case however a minimum pension should also be introduced to address some specific situations. Reduction for shorter insured careers (less than 30 years) could be between 4/3 and 2 per cent per year missing. **This component has to be costed first all the more in a context where a threshold has been explicitly or even implicitly established to fix a maximum, considered as tolerable level of global collective financing for social security/pensions protection.** Given its basic characteristics, pay-as-you-go financing with built-in indexation should be foreseen.*

52. The same result could be achieved through other types of benefit formulae, which would amalgamate in a sense basic income and income-replacement functions, inter alia thanks to adequate minimum pensions and period crediting provisions. The main difficulty with this mixed approach is however that progressively, e.g. because of lack of systematic adjustment of income-related benefits, most pensions may become equal to the minimum pension, which would limit the guaranteed part of the system to the anti-poverty aspects only.

AWP 3.1

53. An additional interest in opting for a flat-rate component is that this element (if necessary limited to invalidity and survivors benefits) could represent a very attractive and affordable entry point for informal sector workers and the self-employed into organized social security schemes, thus paving the way for the desirable universalization of social security protection against old-age, disability and death of the breadwinner.

54. The **earnings-related legal and compulsory component** which would in this approach *be the first one to* supplement the basic/flat-rate pension could still be benefit-defined (PAYG or low level of funding) *and could be* based on career-long earnings.

55. *In a context where a given level of redistribution appears to represent a tolerable maximum, this also means* that accumulation rates should be decided upon on the basis of the residual part of the politically, economically and socially acceptable contribution rate available for pension purposes.

56. *The earnings-related component could equally* be based on individual savings accounts or contribution-related. If the latter option is retained, then *the safeguards inherent to a social security scheme would require that* a guaranteed interest rate should be decided upon **by law** for past contributions, to ensure that resulting pensions (i) do not fall short of what is considered a minimum return (e.g. a minimum real interest rate of 1 per cent to be used for the accumulation of savings and the calculation of the annuity factors) and (ii) remain in a sense predictable which is essential for the overall, lasting social acceptance of any national pension system. In case of demographic or financial difficulties, this parameter (guaranteed real interest rate) becomes a strategic variable (while under the defined benefit variant the accumulation rate is the strategic variable)⁷. Benefits should also be adjusted for inflation, irrespective of investment returns, which has some bearing on required rate of contributions. If the earnings-related component is benefits-defined, then adjustment on the basis of real wages would be congruent with the logics of the scheme.

57. Such an approach, combining traditional aspects of pension schemes (predictable income replacement; guaranteed subsistence levels; adjustment of benefits) with present-day requirements from some economic circles (promotion of savings; non-open ended commitments; flexibility in benefit formulae) would require of course for its implementation a number of additional studies at any national level, before being proposed to the social partners in search for a wide consensus.

58. Its compatibility with existing provisions, in terms notably of the required transitional measures, would also need to be carefully assessed.

59. Similarly, the type of management of the proposed scheme(s) (**which could be easily supplemented by a voluntary, third tier protection**) would be open for wide discussions nationally, it being understood that:

- the general responsibility of the State should not be limited to the first level of protection (flat rate), but include such key elements as adjustment mechanisms *and* guaranteed real rates of return if the contribution-defined formula is eventually retained;
- the role of the social partners, i.e. democratic management, should be carefully considered in the final design of the reformed pensions schemes.

⁷ Retirement age represents what one could call a general strategic variable .

60. Under such assumptions, it is important to note that such schemes could represent an efficient and promising way of reconciling within a single conceptual framework the three basic criteria to be met by pension schemes, viz. economic and financial affordability; individual equity and social efficiency.

Conclusion

61. This paper was only a general introduction to the global and most important debate of how to develop viable social protection strategies and pension reforms which are politically, economically and socially acceptable.

62. Its basic ambition was therefore to raise a limited number of critical issues, on which a clear decision should be made by policy-makers before embarking on any substantial reform of the social protection environment in their countries.

63. The ILO has accumulated decades of experience in the field of planning, implementing and monitoring social security schemes in all the continents. It may cite a number of success stories showing that, provided fundamental principles including that of full consultation with the social partners are respected, social security schemes can be designed, which at the same time satisfy the needs of a wide range of the working population, are financially sustainable, and enjoy a broad social and political acceptance.