The new “Age“ for Social Security and how we can get there

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A brief note on this paper *

The paper explores the complex demographic, economic, and institutional challenges facing European social security systems, as outlined in the European Commission's 2024 Ageing and Pension Adequacy Reports.

In particular, it provides an actuarial perspective on declining fertility, increasing longevity, migration trends, labour market transformation and shifting societal norms.

As social security actuaries, we do not claim to offer ready-made answers – let alone solutions – for society's well-being. But we need to ask the right question:

Where would we like the world to be in 2070?

** AAE publishes discussion paper "The new 'age' for social security and how we can get there" - Actuarial Association of Europe*

The new “Age” for Social Security

Old-age life expectancy is improving more rapidly than active-age life expectancy.

The ratio of the old-age population to the working-age population from 36% in 2022, is projected to reach 59% by 2070.

Attitudes toward childbearing and family life are changing across Europe. Broader cultural shifts – including the rise of non-traditional family structures, family breakdowns, and evolving career patterns – have contributed to persistently low birth rates.

Labor force participation is projected to rise, driven by older workers and women, but not enough to compensate for the decline in the working-age population. Amid a decline in hours worked, labor productivity will become the sole driver of GDP growth

Migration can help relieve pressure on traditional pay-as-you-go pension systems by expanding the labor force and strengthening the base of contributors. However, its effectiveness depends on various factors, including the skillset of migrants, their employment rates, and their integration in the host country’s economy.

The new “Age” for Social Security and how we can get there

Concerns about the future of a “longevity society” should not, in our view as SSSC, be interpreted as evidence of crisis, at least not in the sense that there are no better alternatives available.

Risk Mapping for Social Security Systems

Risk management and social security are both complex concepts.

- Social security: A mandatory system covering the entire working population and retirees, bound together by an intergenerational social contract.
- Risk management has become an integral aspect of all organizational governance and operations.

Establishing a Risk Management Function in the organization and preparing regular Own Risk Assessment reporting framework involving actuaries, would be beneficial for social security administration's systems.

The general principles of Enterprise Risk Management can be applied to pension systems, acknowledging the distinct features of social security schemes.

Social security actuaries are well placed to support the adoption of a holistic risk management approach that enhances both governance and outcomes for beneficiaries.

Solidarity across generations

During the active and retirement stages of pension provision, external factors shift and crises occur – regardless of generation

From a collective and solidaristic point of view*, the evaluation of social fairness in relation to pensions may also include the rules on the basis of which pensions are granted, such as pensionable age and minimum length of service. Moreover, different entries into the labor market, career breaks for the care of children or relatives, different typologies of contracts and different levels of physical strain associated with different jobs also have to be considered. The fundamental challenge is to find the right balance between actuarial fairness and social justice. This can be achieved by transparent, socially agreed and accepted *redistribution*. Social security provides by far the most important framework within which the issues of fairness across generations can be addressed.

The role of actuaries is crucial in securing transparency by measuring generosity and redistribution. Recognizing this, pension risk management can help smooth the impact of sudden adverse changes through risk-sharing tools, thereby also supporting intergenerational equity.

** Pension Adequacy report 2021*

The planet we leave behind

The climate crisis is creating an increasingly uncertain future for people in most parts of the world. Climate change is not only an environmental issue. It affects health, productivity and pension financing.

As Social Security Actuaries we are aware that long-term projections of social security plans should be considered within the context of climate change and other global environmental challenges.

The Actuarial Association of Europe - AAE supports, among others, the transparent classification of savings, pensions, and investment products by Environmental Social and Governance (ESG) criteria and the clear and informative sales process for the saving products; as long-term investors, pensions and insurance play a relevant role in financing the climate change transition.

The International Social Security Association – ISSA and the International Labor Organization – ILO Guidelines recommend incorporating natural environment accounting as part of a broader commitment to sustainability and social justice.

United in the Diversity

Across Europe, reforms have been introduced to allow pension systems to respond more flexibly to demographic and economic shocks.

Even though the central concerns around pensions, the short- and long-term financial and social sustainability, are similar in all member states, the reasoning and the measures discussed are different.

As Europeans, we are all connected to our country's national pension system which has its own unique – national - pension identity; i.e. a shared understanding among us, each country's citizens, of what the concept of a pension represents.

It is crucial to take into account how nationally constructed ideas and local institutions frame and shape the different logics and justifications due to the existing underlying pension concepts.

Understanding the various pension concepts will enable us to understand better why different countries opt for different types of reforms. In addition, it will enable us to contribute more effectively to social dialogue in raising public awareness about pensions.

Good advice for challenging times

The long-term resilience of social security systems across Europe depends on finding ways to ensure that solutions to address both long-term financial prospects and the near-term concerns with coverage, adequacy and effective delivery, are mutually reinforcing.

- Lifelong Learning Education plays a vital role in preventing the intergenerational transmission of poverty. Among the key policies to improve the future-readiness of adult learning systems, the following are highlighted: a) Designing targeted programmes b) Providing adequate public financing c) Creating incentives for employers and for individuals to contribute

Our role as actuaries is necessary in order to: a) Ensure the sustainability of those plans, b) Evaluate the cost of current and proposed measures, c) Ensure transparency, d) Act as expert advisors for policy development and Quantify the associated risks

- Pension Tracking Services - PTS: should help citizens a) Obtain an overview of all their pension entitlements in one place b) Understand their expected

Good advice for challenging times

retirement income and raise their awareness on whether this will be sufficient and

c) Engage with and improve their understanding of their pension situation

Our role as actuaries in the development of PTSs is essential to: a)Define pension product categories, b) Propose standardised actuarial assumptions c) Define the data requirements needed to support accurate projections

- Evolution of supplementary pensions

Robust funding of second- and third- pillar pension arrangements could potentially enhance adequacy, contributing towards the key policy objective of maintaining standards of living postretirement.

To evaluate fully the role of supplementary pensions, a clear picture of the long-term financial outcomes should be developed forthwith. On that basis, regular actuarial review of long-term financial progress of social security pension schemes is an essential tool of financial governance.

Our Common Agenda

- *Which are the ageing challenges and opportunities?*
- *How we can defend the public pension systems?*
- *How (and why) people's awareness on pension issues should be raised?*

With these questions, the Actuarial Association of Europe addressed to colleagues, actuaries and non-actuaries working in ministries, governmental organizations and institutions, universities as well as insurance companies and pension funds – who participated in the Social Security Forum in November 2023 to engage in a discussion on the future of social security. From this fruitful and open discussion, the following priorities were set:

- To address the challenges of ageing: a) Consider innovative forms of employment that use technology, when necessary, of the transition to jobs suited to older workers b) Support the educational institutions to enable the breaking down of boundaries between age groups.

Our Common Agenda

- *How we can defend the public pension systems?* Cater for the diversity of profiles amongst individuals protected under social security when designing policy
- *How (and why) people's awareness on pension issues should be raised?* seeking to explain issues around balancing the concerns of different generations

To face the challenges facing Social Security in our times, we as social security actuaries seek to strengthen our problem-solving approaches. This includes steps to clearly define the requirements for recognizing and measuring social benefits.

Utopia for realists

Europe has historically been home to some of the most advanced social security systems in the world.

A fundamental challenge is the future of the welfare state – a defining European achievement that proved to be an unsung hero during recent crises and a cornerstone of social cohesion and development.

Our effort to respond to the challenges facing Social Security, is rooted in our overarching objective: “In the long run, to guide the provision of pension benefits that are sufficient, first and foremost, to prevent poverty — and beyond that, to ensure human dignity in old age.”

Poverty elimination is our great milestone to reach– a goal that may at first carry a whiff of utopia.

‘Progress is the realization of Utopias’ Oscar Wilde wrote many years ago.

We are aware that to translate our utopia into reality, the key is this: to keep moving forward.

- **Thank you for your attention!**

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