



Social Security Reforms in LATAM – Actuarial Guidelines

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Introduction

1.- Current Problems in Pension Systems

1.1. Pay-As-You-Go Systems

1.2. Individual Capitalization Systems

2.- The Actuarial Function – Guidelines

2.1. Context

2.2. Guidelines

3.- Conclusions

Introduction

- **Aging**
- **Pay as you go systems – Defined Benefits Plans**
- **Defined Contribution Plans**
- **Disclosure: The actuarial matter.**

1.- Current Problems in Pension Systems

1.1. Pay-As-You-Go Systems

- Lack of a suitable (even no existence of a) Technical Memorandum
- Problems related to Administration
- Problems related to Benefits (Anticipating – Disability)
- Problems related to Investments: Market Conditions / Investment Policy or restrictions.
- Accounting and Disclosing
- Great Expectations vs Resources

1.- Current Problems in Pension Systems

1.1. Pay-As-You-Go Systems: **Accounting and Disclosing**

- a) **Budgetary accounting**, with budgeted and executed amounts of income and expenses, and where applicable, the investment account.
- b) **Limited Financial Statements on cash basis** where contributions and investment results ("income") benefits and expenses ("expenses") are taken as gain/loss accounts, thus generating the Income Statement and the Net Equity Statement. Without specifying the value of the commitments assumed as a counterpart to the received contributions and ongoing benefits.
- c) **Financial Statements with full actuarial information**, where in addition to the above, a full specification of an actuarial valuation is included, with its mathematical reserve according to standards equivalent to ISAP-2, either as Explanatory Notes, or as Part of the Liability or Net Equity, even in cases where the mathematical reserves. In some cases, it is also possible to consider schemes where, succinctly, the indicated income and expenses are considered as movements of equity accounts.
- d) **Financial Statements with partial actuarial information on the actuarial situation**, either by presenting or including actuarial valuation results for limited cash flow/periods of time or including only the liability corresponding to ongoing benefits ("constitutive capitals").

1.- Current Problems in Pension Systems

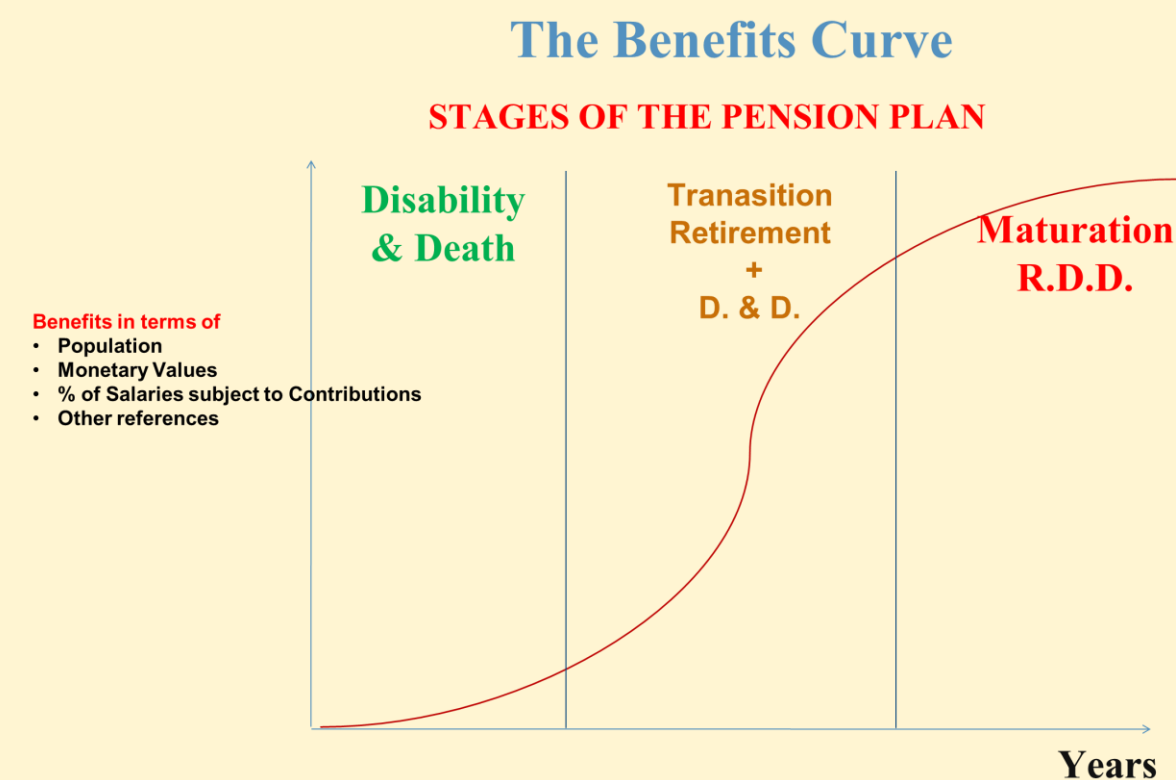
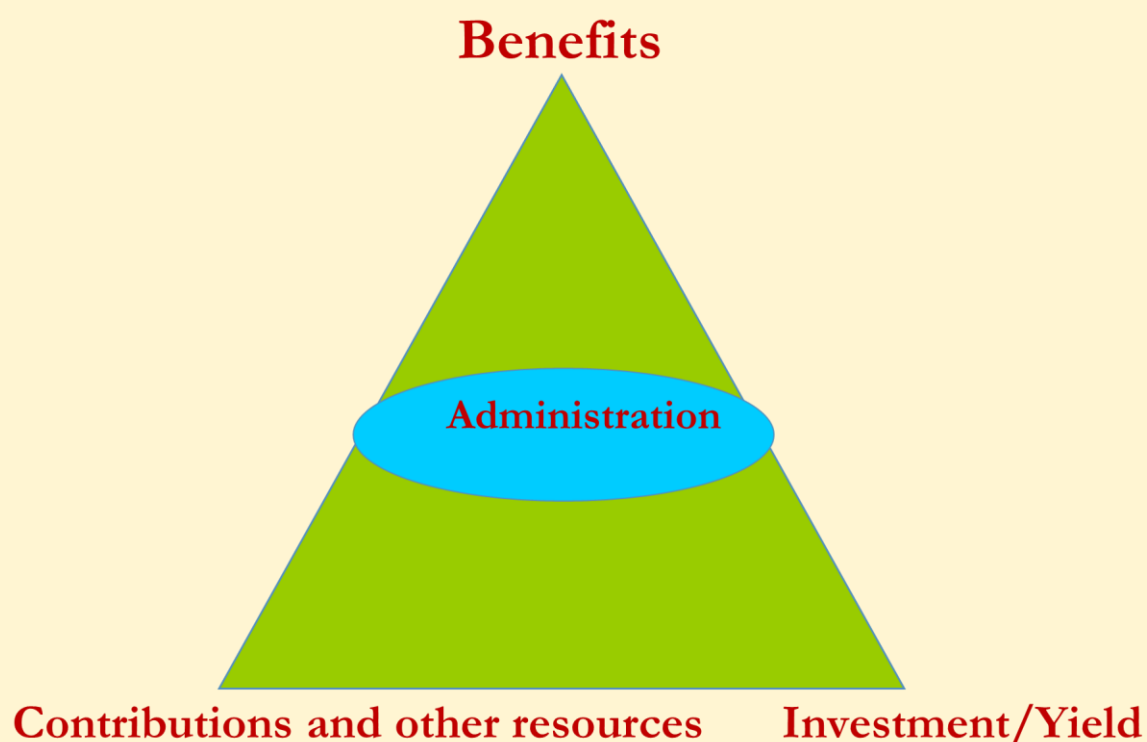
1.1. Pay-As-You-Go Systems: Actuarial Subjects

The beginning

A.- (non) Actuarial Equivalence between Contributions and Benefits

B.- (non) Initial Collective Actuarial Equivalence

C.- Partial /"Short Term": initial Cash Flow Projections vs. The Curve of Benefits.



1.- Current Problems in Pension Systems

1.1. Pay-As-You-Go Systems: Actuarial Subjects

The “Natural” Evolution

A.- Positive Cash flows (Contributions, Benefits, Expenses) and Investments

B. - Cash flows tending towards negative values

C.- Negative Cash flows consuming yield and principal

1.- Current Problems in Pension Systems

1.1. Pay-As-You-Go Systems: **Actuarial Subjects**

The “Actuarial” Perspective / Valuation – a priori or ex post

D.- Required level of Contributions

E.- Actuarial Valuations: “Cash Flow and Investments Projections” and “Present Values” generally with “Actuarial Deficit” (in Closed and/or Open Population Basis)

F.- Sensitivity Analysis

G.- Effects of Parametric Reforms

1.- Current Problems in Pension Systems

1.2. Individual Capitalization Systems

- Low Contribution Levels
- Low Minimum Required Time of Service / Retirement Age
- Government Guarantees of Minimum Pensions.
- Problems related to Investments: Market Conditions / Investment Policy or restrictions.
- Low replacement rates

2.- The Actuarial Function – Guidelines

2.1. Context

Tensions:

- **Deficit situations and effects on the Public Budget of Pay-As-You-Go Systems and those linked to Transition and Guarantees resulting from structural reforms.**
- **Benefit levels or replacement rates in terms of old-age pensions.**

2.- The Actuarial Function – Guidelines

2.1. Context

Conflicting Interests

- i. Affiliates desire benefit levels not lower than those promised and are reluctant to reductions in these, as well as increases in service time requirements or retirement age or other adjustments related to disability and survivorship.
- ii. Employers are generally reluctant to increases in their employer contributions, which in turn generate increases in the production costs of goods and services.
- iii. The State faces scarce resources and strong tensions in the preparation and management of the Public Budget.
- iv. Associations (civil, political, business, professional, labor, etc.) represent different interests and objectives regarding social security and their own purposes.

2.- The Actuarial Function – Guidelines

2.1. Context

Restrictions

- A constitutional framework, laws, and regulations,
- Financial situation of the regime, a general macroeconomic situation, and Public Budget,
- A history with the evolution of the regime, promises, and perspectives of interested parties (at individual and collective levels).
- Expectations vs State Financial Stability

2.- The Actuarial Function – Guidelines

2.2. Guidelines

- Standards
- Governance
- Multidisciplinary Groups
- Objectivity
- Coherent and Consistent Actuarial Valuations with Financial Statements and Demographic Data and Projections
- Effect of Ageing
- Interactive actuarial valuation models
- Communication and Negotiation Skills

3.- Conclusions

The **present crises** in various Social Security regimes in Latin America require actuarial participation, based on high levels of professionalism, considering both traditional terms of reference and capacities and skills to promote aspects of transparency, communication, and negotiation.

The **complexity in communication, formulation, and negotiation** for seeking consensus in social security reforms requires specific skills given the public order issues and interested sectors.

3.- Conclusions

Thus, we **must work in teams**, without losing our identity and professionalism, combining quantitative activity with soft skills, to achieve consensus and, at least, obtain a reasonable medium-term interim solution, and in this sense,

we have outlined certain guidelines that we consider fundamental for **actuarial participation**, with high added value, understanding that social security reform processes require socially acceptable and economically sustainable solutions.

Thank you! Obrigado!

Questions?

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