

ISSA Technical Seminar on pensions

Which retirement systems and which reforms for which pension?

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Final remarks

Your Excellency,
Ladies and Gentlemen,

I will be the only speaker not to thank the organizers, whom I nevertheless count amongst my friends, and who have invited me to undertake an exercise that is either futile (summarizing the interventions) or impossible (drawing up a synthesis of them). But I sincerely concur with all the speakers in expressing my pleasure at being amongst you over these past two days.

It appears to me that analysis of the reforms and situation of retirement schemes, particularly those that are funded, reinforces the community of all who administer such schemes.

John Turner was the first yesterday to demonstrate that this technique was not in itself achieving the expected results. Neither in social terms, as coverage remained partial and inequalities persisted, nor in economic terms, where it was characterized by the replacement of one form of saving by another and by high levels of administrative costs. Moreover, the complexity of decisions relating to investments places individuals in difficulty when it comes to making technically delicate choices on the basis of little or unsound advice.

The honest assessment made by Paula Benavides and Zofia Rutkowska, the representatives of Chile and Poland, respectively, clearly demonstrated the efforts that are necessary to re-establish universal rights, extend coverage to vulnerable groups and restore the State to its role of surveillance and regulation. Assessment of these efforts brings an end to passionate ideological debates which, in the final analysis, are of little benefit.

Can we therefore speak of a convergence of views?

Certainly not if the term is used to designate the development of similarities between the schemes in our various countries. So many factors go to make up a scheme, and often several schemes in the same country, that the number of combinations is very high. Similarity is almost impossible.

Reference may however be made to convergence to designate a lessening of the antagonism between pay-as-you-go and funded schemes, as well illustrated by the intervention of Erika Schnyder, the Swiss representative. I recall the bold but perceptive formula: Pay-as-you-go rhymes with fully funded. The formula is correct, even though poets will note that there is no rhyme, particularly in the English version. But is there anything poetic in our retirement schemes?

Reference may also be made to convergence to designate a community of concerns. On the one hand, schemes operated on the pay-as-you-go basis are now confronted by the concern of long-term financial viability, which is taking over from the sole concern of the redistribution of current wealth. They are also seeking to increase the account taken of contributions in their methods of calculating benefit levels. On the other hand, funded schemes are now concerned by issues of equity and are organizing the return of the State. We are seeing the implementation of a policy mix that seeks a balance between collective solidarity and individual responsibility. It would therefore appear that each type of scheme is being enriched by the virtues of schemes hitherto considered to be diametrically opposed.

Does this conclusion place too much emphasis on consensus? You will be the judges. We are at least able to welcome the intellectual modesty that is currently prevailing in analyses and exchanges. However, this modesty does not exclude invention, in which we were invited to engage yesterday by the French Minister for Solidarity, who called for reflection without taboos.

What contribution have these analyses and exchanges made?

What is therefore at issue is no longer the superiority of one technique over another. Moreover, such a judgement frequently ignores the historical circumstances and socio-economic context of our retirement schemes, as well as their cultural framework. I noted with particular interest John Turner's analysis that the defiance of Americans in the United States towards the State in any case prevented the development of major systems of solidarity. Furthermore, techniques are becoming more diversified, blurring simple classifications: Reserve funds, administered as funded schemes, are being established in support of pay-as-you-go systems, and funded schemes are including redistribution mechanisms. Different techniques are also being applied within the same scheme, as illustrated by the famous notional account schemes, which have been widely discussed over these past days (and might perhaps more accurately and honestly be termed "virtual accounts"). Indeed, this type of scheme involves the combination of pay-as-you-go rules in the financing of benefits and the funded system in their calculation. Which completely blurs the boundaries. Raoul Briet was right to speak of ambivalence.

And the issue of oversight therefore takes on central importance. And its importance is all the more central since reform is a continuous process, as Krzysztof Hagemeyer wisely noted. The question therefore arises as to how the various mechanisms available to administrators and politicians can best be used in these diverse schemes, which are the products of national history and specific contexts.

This issue was addressed principally through the analysis of adjustment mechanisms. There can be no doubt that the seminar has provided all of us with much information, particularly through the contributions of John Woodall and Doug Andrews, and the results of the fascinating survey described to us by Jean-Claude Ménard. But could the profusion of data have dampened the

rigour of our analysis? I would like to place particular emphasis here on self-adjustment mechanisms.

It appears to me that two criteria have to be advanced to justify the quality of self-adjustment: Its progressive and its automatic nature. The other characteristics appear to me to be less discriminatory. Equity, viability and transparency are now the objectives of any retirement system. Admittedly, speakers drew a distinction between ad hoc or temporary adjustments and truly automatic adjustments, without perhaps drawing all the relevant conclusions. For example, it appears to me, if the terms are applied rigorously – but I am not the best expert – that France cannot be counted among the countries that have adopted self-adjustment mechanisms. The criterion of automaticity is missing, even though progression is present.

But is the debate of interest over and above the academic beauty of classifications?

The question that arises concerns the limits of self-adjustment mechanisms. The case of Sweden is illustrative, as indicated by Yannick D’Haene in the introductory remarks. Any government anywhere would take control once again in cases where one of these mechanisms might have disastrous social or economic consequences. And that cannot be criticized either in light of democratic principles or effectiveness. This does not however take away from the value of seeking procedures that protect retirement schemes from the vagaries of political decisions which put off difficult choices and lock the administrative timetable into electoral calendars. In the same way as Raoul Briet, I would ask you not to quote me in high places, as I have not yet acquired all my pension entitlements in my pay-as-you-go scheme.

Nevertheless, the question deserves further examination, including the possibility of entrusting to what in France would be termed a Higher Authority, or an administrative body that is independent of the political authorities, the responsibility for deciding upon adjustment measures which, without being really automatic – as legal measures would be required for their implementation – could be adopted rapidly, unaffected by any pressures, within the framework of principles set out by law. So that political decision-makers can have the final say, the government would have the power of veto, which it could only apply if it gave the reasons for so doing. The Higher Authority would also be responsible for proposing stronger measures, where necessary, outside the scope of its autonomous action. The government would be required to provide a public reply to its proposals. The Higher Authority would have the necessary means to organize public debates. Indeed, many speakers rightly emphasized the need for transparency and informative dialogue. It is a pity that Paula Benavides did not have the time to describe the Retirement Preparation Fund, a vital initiative to reduce the gap between the technical complexity of the subject of retirement and its tangible and everyday consequences for millions of people. The lack of transparency of certain operators can only be regretted. On a personal note, I might have another opinion of funded plans if I understood the documents sent to me by my banker on the modest investments that I have made.

In practice, sound reforms have to be based on:

- the credibility of those in control;
- the setting of clear and sincere objectives (resulting in the need to take them out of the hands of communication specialists and other spin doctors); and
- a long period of dialogue during which it is possible to discuss options rather than simply complying with a uniform solution.

However, the possible delegation of responsibility for the general management of retirement schemes to a Higher Authority involves the need to specify clearly their terms of reference. These have to be both precise and global: precise so that they do not encroach upon political responsibilities, and global so that they are not confined to certain parameters, and therefore to a particular category of the population (which would be the case, for example, if such a body were only responsible for the adjustment of pensions). It is necessary to avoid the issue confronting the members of the European Union, or at least those in the euro zone, concerning the mandate of the European Central Bank, which is limited to combating inflation, while “ignoring” the issue of unemployment.

All this raises the question of the objectives of a retirement scheme. What level of pension, to take one of the aspects covered by the title of this seminar?

On this subject, Rafal Chomik summarized the very knowledgeable analyses of the various mechanisms for the indexation of pensions in an extremely vast and varied panorama. Of course, this approach is entirely necessary to assess the consequences of the various methods on pension levels. And these consequences do vary considerably depending on the method selected. But it is first necessary to be modest enough to recognize that the choice of method depends firstly on considerations related to the current situation, and that it is therefore necessary to be able to change method when appropriate. For example, the choice of indexation to prices made in France for many years was justified by the need to attenuate the effects of rules for the calculation of pensions which could result in recent retirees having a higher purchasing power than that of employees in the same social category. Its application over a long period may now raise the question of whether a rule should not subsequently be adopted that is more effective in maintaining the relative living standards of retirees. A choice cannot be imposed between receiving a low pension today, which is guaranteed to rise, or being paid a high pension, the level of which is not to be guaranteed over time. This would place future retirees in a difficult dilemma.

It is first necessary to reply to the question of what replacement rate for wages should be guaranteed by pensions? And here, without closing the discussion before it is even opened, it has to be said that the reply is clear.

It is difficult to imagine any other response than reaffirmation of the requirement to guarantee retirees living standards that are compatible – I am not necessarily saying comparable – with their former earnings. In the same way, it is impossible to deny the need, which is quite simply humane, to maintain this living standard throughout the period of retirement, or at the very least while the person retains her or his faculties. Moreover, can we overlook the prospect of raising pensions to take into account the growing wealth of the country, so as to maintain the level of retirees in society? It can therefore be seen that the ambition of a retirement scheme is to go beyond the provision of a subsistence minimum and that it is necessary to remove doubts surrounding the overly vague notion of a decent income. However, this requirement does not prevent account being taken of the reduction in certain of the costs that have to be borne by retirees and the accumulation of capital during their active life.

It is not conceivable in this context that reflection concerning the general management of retirement schemes should be based on a postulate – or in other words, a position that has been neither proven nor discussed – which would consist of the arbitrary definition of a level of

collective contribution, and then afterwards – but only afterwards – the distribution of this contribution in the best possible way. At the very most, it is possible to envisage the containment of contributions until the rules governing the various schemes have been harmonized, particularly with regard to the pensionable age. However, it would be a rather brutal method to limit a priori the solidarity contribution. In exchange, it is necessary to offer prospects during this difficult time if we want to avoid violent opposition. This does not involve denying the financial realities. And the French national that I am is well aware of the serious threat to collective well-being of large public deficits. But we cannot confine ourselves merely to financial sustainability. We also have to be concerned with political sustainability, and it is therefore necessary to raise the issue of the primary objective of a retirement scheme.

And, unless the period of retirement is to be transformed into a period of individual and social despair, it can only have the ambition of guaranteeing the elderly the possibility to live to the full their last years when they can experience the happiness of being active without constraints while, in most cases, being in possession of all their physical and intellectual faculties. This appears to me to be the meaning of Monika Queisser's words this morning, which were clear and full of humanism.

And if a retirement scheme cannot itself respond to this requirement, reflection is needed as to what else can contribute from the outside. Reference is traditionally made to pillars in the field of pensions and, to pursue this architectural metaphor, I would raise the issue of the construction of buttresses for schemes. And I will refer rapidly to two:

- an employment policy which, taking into account the employability of individuals and their life expectancy, ensures the possibility of combining paid work and retirement pensions for as long as possible. Monika Queisser referred clearly to the numerous social needs, particularly in relation to caring, which could be covered by retirees, or at least the youngest amongst them; and
- a housing policy guaranteeing that all retirees own their house when they cease working.

But perhaps our reflection on the future of retirement schemes also needs to take into account the foreseeable reduction in consumption levels – in the industrialized countries clearly – which will be necessitated by the preservation of our planet's resources. An approach that takes into account material wealth, as well as the time available, would place retirees higher on the income scale.

These are vast issues which may justify your coming back to continue your unending visit to our capital ... I realize that I have let myself become embroiled in quicksand. The clock will offer me a lifeline by forcing me to bring an end to my bold conjectures. But I still have a few seconds in which I would ask you to understand that these thoughts were constructed based on stochastic methods, as Professor Doug Andrews might call them, and that they may therefore have disregarded the science contained in your reports. Thank you for your attention.