The Four Pillars Newsletter
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The Geneva Report N° 6

Forthcoming Conferences of The Geneva Association

Editorial

by Krzysztof Ostaszewski*

It is my honour and pleasure to bring you this 51st edition of The Four Pillars Newsletter. This year, 2012, marks the 25th anniversary of the Four Pillars Programme. The programme was set up in 1987 with the aim of studying the key importance in the new service economy of Social Security, Insurance, Savings and Employment, the four key components of retirement systems. The programme focuses on the future of pensions, welfare, insurance and employment.

This year was also marked by a change in the leadership of The Geneva Association. Patrick Liedtke resigned from the position of Secretary General and Managing Director of the Association, and this issue of the newsletter appears as the first one under the leadership of the new Secretary General, John Fitzpatrick. We thank Patrick Liedtke for his service and great contribution to The Geneva Association. We also welcome John Fitzpatrick and are looking forward to future years under his leadership.


The publication of the report on 6 June 2012 was accompanied by a press conference at the National Press Club in Washington, D.C., where the following four speakers presented the document to the public: Patrick Liedtke, Secretary General and the Managing Director of The Geneva Association; Dr Nikolaus von Bomhard, Chairman of The Geneva Association and Chairman of the Board of Management of Munich Re; John Strangfeld, Vice Chairman of The Geneva Association and Chairman and Chief Executive Officer of Prudential Financial, Inc.; and, Dr. Richard Jackson, Senior Fellow at the Center for Strategic and International Studies, where he directs the Global Aging Initiative.

The research report, the press conference (in the form of a webcast), and additional information can all be accessed at a special microsite created specifically for this special event and document: http://www.globalageingchallenge.com/. The event was supervised by Anthony Kennaway, Head of Communications at The Geneva Association, who can be contacted for additional information.

We are also planning a special conference celebrating the 25th anniversary of the Four Pillars Programme, which will be held 3-4 December 2012 at the Intercontinental Hotel in Geneva.

Confirmed speakers, at the time of this publication, include: Professor Elsa Fornero, Minister of Welfare of Italy; Bruno Pfister, Chief Executive Officer of Swiss Life; Johannes Lörper, member of the Board of ERGO, President of the German Actuarial Society; Dr Klaus Miller of Hanover Re; Dr Stephan Erik Oppers, International Monetary Fund, Washington, D.C.; Andrew Rear, CEO of Munich Re London, Life Branch, and Head of Life 2; Torben Thomsen, Chief Pricing Officer, Life & Health, Swiss Re Services Ltd, U.K.; Dr Kurt Karl, Head of Economic Research and Consulting, Swiss Re.

More information about the conference is given on p. 23.

We will also have a special issue of The Geneva Papers on Risk and Insurance—Issues and Practice dedicated to the Four Pillars Programme. The call for papers is reproduced at the end of the newsletter.

In this issue, we also present the following articles:

- We reprint Chapter 6 of The Geneva Report No. 6, “The holistic view: why all pillars need to work in concert”, by Krzysztof Ostaszewski, an important reminder of why we firmly believe in the Four Pillars idea.
- Joachim Wenning of Munich Re discusses the challenges of ageing societies for the insurance industry.
- Carl Friedrich, Principal, Consulting Actuary, of Milliman, U.S., presents an innovative idea for a combination of life annuity and long-term care products that can help address the challenges that retirement systems face.
- Chris Ball presents the story of The Age and Employment Network, an organisation working towards prosperous retirement and continued employment for the silver workers in the United Kingdom.
- Nicolas Jeanmart and Olav Jones of Insurance Europe present a discussion on the important question facing European regulators and pensions: should Solvency II principles be applied to Europe’s pension funds?
- In a new feature, we present interviews with key decision-makers in the global life insurance industry and global retirement systems, addressing the serious challenges we are facing, and we begin with an interview with Mr Johan van Zyl, the CEO of South Africa’s Sanlam.

The World Demographic and Ageing Forum (WDA Forum) is an organisation which is dedicated to the study of global demographic changes and global ageing. The WDA Forum recognises that this demographic change offers not only a formidable challenge, but above all a unique opportunity to develop sustainable solutions through an integrated approach. The WDA Forum highlights the societal, economic, health and educational-political impacts of the foreseeable change. With its Forum taking place every year at the end of August at the University of St. Gallen, it has established an international, inter-generational and permanent platform for questions pertaining to ageing and generations, offering the possibility for a worldwide coordination of efforts and activities concerning this range of topics.


The Holistic View: Why All Four Pillars Need to Work in Concert

by Krzysztof Ostaszewski

1. The world of finance and the real world

The relationship between the financial world and the world of the real economy has been both admired and cursed, with the cursing becoming more common recently. The financial world encompasses two areas:

- the question of how the funds needed for economic projects are provided and channelled and,
• the question of how the results of economic activity are distributed.

The credit crisis of 2008 was preceded by waves of what was widely perceived as great financial innovation in the housing market in the United States. According to the proponents of that view, finance was making a contribution to the real economy by making it possible for the previously excluded poor to be able to afford the American Dream of owning a house. Following the credit crisis debacle, opponents of that financial innovation presented it as mismanagement at best, and fraud at worst. In that view, finance destroyed economic value. Of course, these two “before and after” views are directly contradictory: the method of financing housing can destroy value or add value, but not do both at the same time. Whatever the view, it is important to note that while we decide about the financial structure of an economic endeavour at its beginning, its value will be revealed later on, when the effects in the real economy become known.

The design of a retirement system is not unlike the design of other parts of economic systems. We decide about the funding upfront, and after some time we experience economic consequences. The four pillars of pension planning—the compulsory pay-as-you-go state pension, the supplementary occupational pension, individual savings (personal pension and assets and life insurance) and the flexible extension of work-life, mainly on a part-time basis—are all a result of legal and institutional design, including the finance part in the first three, that are given to every generation as they enter the labour force. But the real economic consequences of that design, including the finance part, become fully visible later on, when the generation enters the retirement years.

In the chapter “The financial crisis: impact on the four pillars of old age protection” of The Geneva Report No. 6: Addressing the Challenge of Global Ageing—Funding Issues and Insurance Solutions we discussed the theoretical foundations of the Four Pillars Framework and pointed out that the recent credit crisis and the subsequent sovereign debt crisis have affected all four pillars in a negative fashion. We have also suggested possible ways to improve the current situation. In this chapter, we suggest that an institutional design in which the four pillars work in concert is likely to deliver better real economic results, while designs that pit these four entities against each other are likely to cause imbalance and weakness in the real economy.

We should not assume that retirement systems are immune to producing negative impacts on the real economy and cannot play a similarly devastating role to that of the housing market in the U.S. We must therefore create a four pillars system whose design and financial structure has a positive impact on the real economy.

2. Greece: bump in the road or “we are all Greek now”?

As of early 2012, the country of Greece was in the headlines of the economic news worldwide (The New York Times, 2012). After months of negotiation, eurozone finance ministers approved the second bailout package for Greece in exchange for austerity measures under strict conditions imposed on that country. When the Greek parliament was debating the austerity deal, tens of thousands of protesters demonstrated in Athens, expressing extreme frustration with the fact that the people were forced to pay for past financial dealings that compromised their jobs, livelihoods and future. The financial side was seen by them as robbing the real economy.

The Government of Greece, on the other hand, found itself in the impossible position of having to meet financial obligations with shrinking revenues, and seeing its financial obligations increasing in size because the increased riskiness of Greek government debt resulted in dramatically higher interest rates on new borrowing. The “world of finance” in Greece affected its real economy in a highly negative fashion.

It is common to assume that, since Greece is a small country on the periphery of the world’s great economies, its problems can and will be addressed if enough resources are mustered. However, we would like to propose that the problems of Greece in early 2012 are not unlike the problems that even the most developed economies might encounter in the future. And since retirement systems and policies are largely affected by what occurs in the world of finance, we should ensure that the impact of that world on the real economy is a positive one as opposed to the consequences of the developments in Greece. What happened in Greece, as we see it, was an unbalanced expansion of the first pillar of retirement systems which removed incentives for the building of the other three pillars as well as entrepreneurial activity.
For people employed in the financial sector of an economy, finance often seems to be the highest, noblest calling, something akin to being the captain of an economic ship. For many poor people, far removed from the global markets and only engaged on the ground with the real economy, finance often seems like a sordid gambling house that forces everyone to participate and randomly throws numerous victims out of their homes during economic turmoil. Those victims are prone also to fall prey to ideologies promising a dream world where money will be easily available thanks to the efforts of a new type of political leader, who abolishes the artificial world of financial shenanigans and lets ordinary working people keep the fruits of their labour.

Alas, no such world exists. Every real economy comes with a conceptual finance economy. And the two always affect each other. The question of the relationship between the “finance” and “real” aspects of a business has, of course, appeared in theoretical financial literature. It is addressed in the Modigliani-Miller Theorem (Modigliani and Miller, 1958). This work, which covers most aspects of modern finance, shows that under specific conditions the value of a firm is generally invariant with respect to the leverage policy, or the method of financing of the firm.

The general thrust of the theorem (Stiglitz, 1974; Braouezec, 2008) is that in the absence of taxes, bankruptcy costs or agency costs, the value of a firm is fundamentally determined by its earnings, not by the way it is financed. Of course, the theorem is presented in a vacuum, because in the real world, taxes do matter; bankruptcy is relevant because even the remotest possibility of it occurring raises the cost of doing business and obtaining capital; and, most importantly, agency costs (i.e. arising from resources being managed and/or used by people other than their owners), are quite substantial.

This confirms that finance matters in the real world. And this can manifest itself in ways that often seem to defy common sense. Why is there increasing social unrest in Greece? There could be, as there always is in politics, an aspect of political opportunism to the protests, but we would venture that political opportunism alone cannot generate the level of frustration and despair one sees in Greece today. People are protesting about layoffs, higher fees and taxes because the unemployment rate exceeding 20 per cent and tight labour markets prevent many of them from earning income. Not only would they like their government to ease their economic suffering rather than add to it, they also blame the government for causing their pain in the first place.

Why then is the government imposing austerity measures on the already impoverished and often unemployed population? Because the government's tax revenues have been sharply reduced by low employment and low profits, while a shrinking economy further reduces value-added tax receipts (and, as some critics point out, there exist serious deficiencies in collection of taxes in Greece, as well). Furthermore, it has to spend more on social spending and on the cost of debt. The government is trapped in the same downward spiral as its citizens.

A government’s financial problems translates into real economic problems for the people—and these, in turn, further exacerbate government’s financial woes. Notably, private financial institutions in Greece are not part of a solution to this problem, as illustrated by massive cash withdrawals from the Greek banking system. Private financial systems exist, from the macro-economic perspective, in order to deliver capital from savers to efficient uses of it in the business sector; the Greeks, however, do not trust their financial institutions with their deposits, so even the first step of this crucial economic process is prevented from happening.

Retirement systems are most commonly analysed from a financial perspective, especially if viewed by institutions such as banks and insurance companies. The view of social science scholars, on the other hand, considers solely the social costs often removed from market realities. The painful story of the current economic situation in Greece illustrates this important principle: The conceptual world of finance and the social world of human needs collide in the real economy, and the objective of public policy, as well as the work of the private insurance industry, is to replace that collision with harmony.

One could argue that the key problem in Greece is chronic overspending by its government. But that is merely the symptom of a greater disease: the government of Greece has attempted to take on all four pillars of the retirement system (with an unhealthy emphasis on the first pillar), and many other parts of the economy as well. The government is therefore doing too much, and such an imbalance does too little to meet the people’s needs. The proper balance of the four pillars system needs to be restored.
Nassim Taleb (2012) points out that modern financial systems, especially because of interactions between large investment banks and governments and the “too big to fail” concept, have created a situation where the financial system and banks have become more vulnerable in a crisis situation. What the world needs, according to Taleb, is what he defines as “antifragility”, i.e. a financial system that becomes stronger and more stable in response to a crisis. The problem of a feedback loop between financial institutions that increases global financial risks is currently under scrutiny under the banner of systemic risk, but we suggest that the other feedback loop between the world of finance and the real economy is the one that matters the most.

The financial system should—and can—become a source of antifragility for the economy, and the private insurance industry is a key player in this mission. The Geneva Association (2010) points out that systemic risk does not originate from core insurance functions of insurance firms. In fact, insurance firms acted as pillars of stability during the Great Depression in the United States—as promoters of antifragility, using Taleb’s terminology (Ciment, 2001; Black and Skipper, 1982; and Porterfield, 1956).

As we have already discussed previously, the recent financial crisis has weakened all four pillars in areas related to the real economy. We should seek to build a system in which the four pillars work in harmony, because such an interrelation would have a stabilising effect on the real economy. When proposing reforms of retirement systems, we should therefore ask the following two questions:

- What is the impact of the financial aspects of the reform on the performance and incentives of the real economy?
- How do changes in one of the four pillars impact the other three, and what are the resulting effects on the real economy?

The design of a retirement system is a part of the financial system and the general institutional and legal design of the economy. Its results will not be judged, however, by its financial parameters or actuarial balances, but by the performance of the real economy at the time when retirement benefits are paid. Real goods and services will have to be provided to the retirees in the future economy at a time when they will no longer have the opportunity to redesign their retirement plans. The private insurance industry will also be held responsible for those results.

3. **The four pillars are not separate from one another, they serve the same purpose**

As the industrialised world prepares for the impact of the ageing of its citizens and the projected effects of large generations retiring, many steps have been already taken to address this issue. Whitehouse et al. (2009) provided an overview of pension reforms worldwide over roughly the last quarter of a century. Their paper describes reform packages that have taken place in 38 industrialised economies, some of them involving incremental changes to existing provision, others an overhaul of the entire retirement income system.

The changes had various objectives:

Firstly, improved coverage of the pension system, especially of voluntary private pensions, was a common goal. This meant that a larger percentage of the population was brought into the market-based retirement system, in which they could participate in mapping their future. Of course, this change provided better incentives for work and savings, with a positive impact on the real economy.

Secondly, some reforms focused on improving the adequacy of retirement benefits to combat old-age poverty. It should be noted that while seeing the results of one’s work is a motivator for work, there are exceptions to that rule. One such exception is when the situation appears hopeless: if working hard means remaining in poverty regardless of one’s efforts, incentives for work disappear. If instituted carefully, reforms that alleviate poverty can have a positive impact on the real economy by improving incentives for work and by greater inclusion of all groups of a society in its economic system.

Thirdly, the pressure of population ageing and the maturing of pension schemes meant that concerns for fiscal sustainability of public pensions, expressed through reductions in future benefits, were common. Often, the improvements to long-term finances are to be achieved by encouraging people to work longer, increasing pension eligibility ages and adjusting pension incentives to retire. Overall, such reforms have resulted in more efficient labour markets, again with a positive impact on the real economy.
Finally, some reforms focused on streamlining the administration of retirement income provisions and improving the security of benefits in the face of different risks and uncertainties. These efficiencies should also help real economic performance.

The crisis that started in 2008 revealed many problems. One such vulnerability was the dire state of public finances in many countries. Greece is an extreme case but social spending increased as a percentage of GDP in all developed economies during the growth period preceding the crisis, so that when the crisis hit and the perceived need for social spending became an absolute necessity, many countries found themselves in a highly vulnerable state of public finances. We present below the history of expenditures for social protection in six key European countries as a percentage of their GDP, based on data from Eurostat (2012).

**Expenditures for social protection as a percentage of GDP**

Clearly there was an increasing trend in those expenditures even before the crisis, and the crisis exacerbated that trend. Economic performance has recovered, at least somewhat, in 2010 and 2011, but the impact of that improvement on social spending is not yet known as of this writing (Freysson, 2011).

If the real economy is performing well, the first pillar of social security may be very important for the poor but it is only a part of the picture for the rest of the society. Also, a growing economy should provide an opportunity for employment to grow, the ranks of the poor to shrink and for employer-sponsored pension coverage to assume greater significance. Furthermore, under conditions of economic growth, most people should be able to save and invest. Additionally, a growing economy improves the stability of financial institutions and expands the size of the private insurance industry. This means that there are ample opportunities for the second and third pillars to play their roles. And an improved labour market helps strengthen the fourth pillar: continued employment of silver workers, i.e. the elderly in general, and retirees in particular, who should be able to continue working part-time and still make a contribution to the society and to their own well-being.

If, however, during the expansion, social protection expenditures expand by as much as 3 per cent of GDP as they did in Greece, and then the recession forces another increase of 3 per cent, as in Greece and possibly other countries, the public sector crowds out the private sector by expanding greatly in response to the crisis. In addition to any financial impact of public sector spending, increased uncertainty may reduce or stop private investment and even, in extreme cases, cause private disinvestment, with the resulting contraction of the economy, and very painful real economy adjustments, as well as negative feedback for public finances.

Insurance is a “superior” good (or, more precisely, service). The demand for private insurance will tend to grow faster than the incomes of consumers of insurance (if their incomes grow) and often also falls faster than their incomes fall. The job of the first pillar is, in a sense, to provide balance in this situation. In a time of crisis it is natural for the first pillar and all social expenditures in general to play a greater role in the economy and in the retirement systems in general; but during a period of economic growth, we can expect the institutional private-sector parts of the second and third pillars (i.e. private pension
plans and private insurance firms) to grow faster than the economy. If the first pillar attempts to match that growth or even exceed it, it will find itself overextended during any future crisis. Proper balance between the four pillars is restored only if the first pillar plays a smaller, more tempered role in times of growth and allows other pillars to take over.

What about the balance of the second pillar with regard to the other pillars? The second pillar provides pension benefits based on the record of employment and is tied to the history of employment with one employer. As such, it promotes long-term careers and the building of human capital of employees by employers. It also provides incentives for employees to build the value of their human capital and to pursue long-term employment goals. These are very valuable incentives for both the employer and the employee, and they contribute to the stability of the overall economy. Let us also note that employment-based benefits lower the needs for social security payouts, while the permanent nature of employment provides funds for the employee’s personal savings. Finally, long-term accumulation of human capital provides skills and experience for continued employment after retirement.

It should be noted, however, that many traditional defined benefit plans capped benefits at a certain maximum, preventing the accrual of additional benefits beyond a specified number of service years. That design effectively punishes continued full-time employment afterwards and is a punitive feature targeting the fourth pillar. Its continued existence in private pension plans is unjustified. Furthermore, the last quarter-century has brought about a substantial decline in private defined benefit plans, and an increase in the relative importance of defined contribution plans, especially in the United States. But defined benefit plans are more effective in providing retirement security and stability. Given the uncertainties of the next quarter-century, the commitment to such security and stability for employee benefits should be re-examined.

The third pillar—private savings—is where private consumers and financial institutions interact. The recent credit crisis has also brought about great uncertainties and reservations concerning financial institutions. We have already pointed out that the role of financial institutions, including insurance firms, is to create a situation where finance facilitates the real economy instead of impeding it. In a well-balanced free market system this is achieved merely by providing competitive rate of return, but this picture may be too simplified for the reality of many competing interests, and global competition. High returns may also be realised by rent-seeking or by pursuing public sector subsidies or bailouts. While such practices might benefit individual firms pursuing them, they are likely to result in lower economic growth, lower employment and the subpar investment results of other firms.

Furthermore, many consumers have lost trust in the fairness of both the political process and financial institutions. Lack of trust lowers economic growth. Trust can be viewed as an economic lubricant, reducing the cost of transactions, enabling new forms of cooperation and furthering business activities, employment and prosperity. Hence, a significant body of research suggests that a higher level of social trust is positively correlated with economic development (Knack and Keefer, 1997, Zak and Knack, 2001, also Fukuyama, 1996).

Public policy decision-makers often argue that they prevent this type of outcome, and that governments serve their citizens with dedication and integrity. We should hope that to be the case, but Public Choice Theory (Tullock, 2008) warns us otherwise, especially with its concerns about regulatory capture. And the effects of those negative public choice effects may be even greater than we tend to estimate, as the distrust of banking institutions generated by the recent economic crisis shows us. The insurance industry must adhere to the highest ethical standards in order to earn and keep the public trust.

The shattering of public trust also calls for a serious re-examination and revitalisation of the regulatory framework. The crisis has already brought about major changes in financial regulation, e.g. the Dodd-Frank Act of 2010 in the United States. A major thrust of any new framework should be the rebuilding of public trust with stable and viable social security systems and regulators who can make financial institutions reliable and trustworthy.

Much has been written about the importance of the third pillar for economic growth. A high savings rate is sometimes prescribed as a panacea for all economic ills. On the other hand, Keynesian policy perspective argues that excessive savings are the cause of painful prolonged recessions in capitalist economies. It should be noted, however, that the Keynesian argument is rooted in a proposition that excessive savings are a manifestation of underinvestment, resulting from fear, uncertainty or lack of trust in future economic prospects.
If consumers and firms act this way, this is an indication that they lack faith in the protection provided by the other two pillars. They can’t risk committing their savings because social security benefits may not be available in the future, financial institutions may become insolvent or labour markets will be too right and too rigid to meet their needs. In such a situation, the innovative investment of private savings may actually be the best way to start the process of healing the economy.

Public policy decision-makers and the private insurance industry should encourage such developments by removing barriers to entrepreneurial innovation. After all, in the midst of a prolonged slump in business investment since 2008, Apple Computer was able to attain record profitability by creating innovative products, which are bought without hesitation by consumers who are otherwise very careful with their money.

Of course, a private savings pool is created by the individual decisions of consumers who must look to their savings and continued work to provide for themselves in retirement if the political process and financial institutions fail them. Liedtke (2001) points out that the ageing challenge facing those individual consumers (and retirement systems in general) is somewhat misnamed by its sole reference to ageing. We have witnessed great increases in longevity in the 20th century, from life expectancies of just under 50 in 1900 to around 80 in 2000. And those increases in longevity are continuing unabated.

On the other hand, during the 20th century we have also witnessed the expansion of universal education and lengthening of the education process. In 1900, retirement age of 65 was way beyond the life expectancy of a newborn, but it was also often close to 50 years after the age at which many workers entered the labour force. Now we live in a world in which many workers enter the labour force as late as 25, and we could reasonably argue that by the logic of the late 19th century their normal retirement age should be close to 75.

But we do not live in the 19th century. Increased productivity and the general economic prosperity of Western Europe, Japan and North America following World War II allowed many people with advanced degrees, high productivity skills and greatly improved working conditions to retire as early as 55 even though they did not join the labour force until the age of 25. Now we are beginning to realise that this was a temporary luxury afforded by the coincidence of a large generation of baby boomers joining the work force and large parts of the world (e.g. the communist bloc, the Middle East and Africa) pursuing ill-advised economic policies resulting in no growth and lack of competitiveness. The current world of global competition and ageing of the developed world looks dramatically different.

It is often argued that the main private retirement product, life annuity, provides insurance against living too long. Liedtke (2001) points out that the key measure of the challenge of retirement is measuring the time that remains in terms of years of productive work, not just living years. That time interval is uncertain because it ends at some undetermined date in the future. Together with the information about one’s productivity, it provides us with the value of our human capital, i.e. the present value of all future income that one can generate through remainder of one’s life. Workers must, of course, manage their financial capital, which derives from the value of their social security benefits and of the future income they will receive from pension and private insurance contracts and the value of future income provided by other savings and investment. But they must also manage their human capital.

The human capital value of a silver worker is in fact equivalent to the fourth pillar value for that worker. It is determined not just by skills, education and character of the worker but is also influenced by public policy, the employment practices of employers and the overall labour market. Workers face a lot of risk in deciding how to utilise their human capital. By far the greater risk is the timing of their decision to exit the labour force. Life annuity is not just a protection against living too long, it is also a protection against foolishly leaving the labour force too early. When is “too early” for this purpose? One could argue (somewhat one-dimensionally, on a purely economic basis) that it means any time when the human capital value is still positive. Or one could say that “too early” means that the human capital value exceeds the utility of leisure in retirement.

The decision about timing of the exit from the labour force is difficult enough because such a calculation is immensely complex. But it is additionally complicated by the fact that the decision to exit the labour force may not be voluntary and it is often difficult or outright impossible to reverse, even if the worker is healthy. A worker who exits the labour force for a long time loses skills and contact with newly developed technology, as well as with work practices and procedures.
Let us stress this again: the decision to exit the labour force is extremely risky and it is perceived as such by most workers. Private insurance industry should consider all possible methods in helping people manage that risk. Innovative approaches have already been developed in disability insurance, where insurers may be willing to finance training and education if it results in return to work, even part-time. Silver workers looking for an opportunity to re-join the work force can also be helped by education and training, or simply by being offered opportunities for part-time work with their insurance company.

Public policies and employment practices can also greatly affect the riskiness of exiting the labour force and the value of human capital. If workers cannot retire gradually but must instead switch from full employment to no employment, their human capital value is forcibly reduced by the entire future part-time income stream. In some cases, especially for poorer workers, this could amount to more than the entire wealth of the worker. One could hardly imagine anyone running for public office on the platform of taking several hundred thousand dollars from every poor worker without benefitting anybody else. That is, however, the implication of forcing elderly workers to retire fully.

We should also note that such policies have secondary effects, as retirees who suffer such a fate often reduce consumption upon retirement and resulting drop in aggregate demand could ultimately cause the jobs left behind for younger workers to disappear. The net result is greater social security expenditures (and we should include the cost of lower tax revenues due to reduced employment and unemployment benefits), lower rates of return for pensions and insurance firms investment portfolios due to lower economic growth and greater social costs.

In a simplified world, disregarding any non-economic factors, workers should retire only if their human capital value drops to zero. If their income from work is not sufficient for their needs, they should enjoy easy access to their personal savings and investments and to their pension and insurance benefits. If those are not enough, they should be able to tap social security benefits. This ideal world is hard to bring about because, among other reasons, it assumes no agency costs, no abuse of social security benefits, no mismanagement and no fraud on behalf of financial institutions. But it may be a world worth considering because it assumes that workers utilises their human capital to the fullest.

Conclusion

In the debate on technical and financial issues pertaining to retirement systems, we should never lose sight of the fact that the financial world shadows the real economic world. The retirement system exists for the purpose of serving the needs and dreams of retirees, and is a part of the overall economy. We argue that the system should fully utilise all four pillars in that function, because in a well-designed retirement system the four pillars work in harmony to support the real economy and silver workers.

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Invited Article I

The Challenges of Ageing Societies for the Insurance Industry

by Joachim Wenning*

One of the major challenges for governments in the industrialised countries, and to a lesser extent for those in emerging markets, is ageing societies. People are living longer and at the same time birth rates are falling. Society’s ageing is particularly noticeable in countries where population numbers are falling, primarily in industrialised countries. However, emerging countries such as the BRICS are also affected and are facing these challenges at a comparatively early stage in their economic development. The chart below shows population growth from 2010 to 2050 by age band in different countries and/or continents.

Population growth 2010-2050 by age band


Not surprisingly, the chart shows that the European population will stagnate/decrease in the younger ages and increase in the age range above 65 in the period in question. The expected population increase in older ages, however, is much more pronounced in the other parts of the world. China is moving from a young population to an old one with a speed rarely seen elsewhere. Within one generation, China is ageing to an extent which has taken Europe 100 years. It is expected that the number of Chinese over 65 will exceed 200 million before 2030, which is more than the current total population of Western Europe.† This development will lead to a dramatic old-age care problem. According to UN projections, the proportion of Chinese over 65 in relation to those aged 15 to 64 will increase from 11 per cent in 2010 to 42 per cent in 2050 (see chart below). This means that only about two members of China’s working population will be available to support one retiree by then. With this old-age dependency ratio, China will have surpassed North America and almost reached the same level as Europe, where a ratio of 47 per cent is expected in 2050, rising from 24 per cent in 2010.

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* Member of the Board of Management, Munich Re.
† Definition of Western Europe according to United Nations, Department of Economic and Social Affairs, Population Division (2011): Austria, Belgium, France, Germany, Liechtenstein, Luxembourg, Monaco, Netherlands, Switzerland.
Old-age dependency ratio (proportion of population >65 to population 15–64)


It is obvious that these developments pose a serious problem to pay-as-you-go social security systems. When social security contributions reach the limit of what is affordable for employers and employees, governments rely on private insurance products to fill the benefit gaps. States subsidise products that qualify as substitutes for social security benefits via means such as tax advantages.

From the insurer’s perspective, the increasing need for annuities and living-benefits products presents a big opportunity and a challenge at the same time. On the one hand, the industry will benefit from a growing demand that is further fuelled by tax incentives and other state subsidies. On the other hand, this will come with the downside of potential government interference in product design, underwriting/acceptance rules or claims handling.

In our opinion, the main challenge lies in managing the long-term trend and tail risk of the underlying products, i.e. how to get the claims expectation right. Assumptions about longevity, morbidity incidence, persistency and claims continuation rates over the next decades are much harder to derive than for pure mortality products. This lesson had to be learnt by several living-benefits markets in the past.

Take long-term care in the U.S. for example. Long-term care insurance has consistently been seen as a market with great growth potential and indeed experienced strong growth in the 1990s. Since then, the market has consolidated considerably: A.M. Best reported in 2007 that “approximately half of long-term care policyholders have coverage with a company that no longer actively sells long-term care insurance”. In 2010, the market as a whole began to realise that the existing products were underpriced and took steps to adjust. Several insurers and reinsurers suffered losses due to massive reserve strengthening. Some companies reacted with considerable rate increases, while others stopped selling new long-term care business. Nevertheless, this is not the end of the long-term care market in the U.S. The risks inherent in long-term care policies are much better understood today. The exit of some market players presents an opportunity for others to step in, learning from the lessons of the past.

Another example is longevity. The trend risk, which is influenced by future medical progress but also by behavioural changes like smoking or eating habits, has recurrently been underestimated by scientists and insurers. Annuity tables for reserving are updated on a regular basis with higher mortality improvement factors, forcing insurers to strengthen their reserves for longevity business. In Germany, the most recent annuity table DAV 2004R was published in 2004, replacing the former table from 1994 and resulting in a reserve increase of about €4bn for the German annuity industry. So how can longevity business be written on a profitable basis? In the past, primary insurers compensated for biometric losses with investment returns above the guaranteed interest rate. In an environment of low interest rates and market-consistent steering, this market practice is challenged. Where annuity markets are still in development as in Spain, products may be designed with limited guarantees so that the biometric and interest rate risks are manageable for (re)insurers. In mature annuity markets like the U.K., pension funds and insurers are eager to offload the longevity risk onto reinsurers or the capital
market. But for the time being, demand far exceeds the available capacity. Reinsurers are cautious about exposing themselves to a risk that has proved to be underestimated time and again. Here further work is required in order to find sustainable solutions that meet the growing demand.

But disability products also have been affected by adverse experience in some markets, although the longevity risk is of minor relevance in this line of business. In the U.S., it turned out in the 1990s that many disability income policies with guaranteed premiums that were sold in the 1980s had been under-priced. As a result, many companies have left the disability market. Products have been changed since then: lifetime coverage is no longer offered, definitions have been adapted, and fewer policies with guaranteed rates are being sold. A similar development was observable in Australia in the late 1990s, when several players suffered losses from disability income products that were largely caused by poor product design. The situation improved with the abolition of lifetime benefits, the improvement of definitions, and considerable premium increases. Notwithstanding this, another wave of disability losses hit the Australian market in 2011. The reasons are manifold: they include an increase in benefits at no additional costs, relaxing underwriting standards due to competitive pressure, and an insufficient focus on claims management during recent years. Both direct writers and reinsurers have been affected.

These examples clearly illustrate the difficulty of managing living-benefits products and the need to limit the downside to protect oneself against major negative surprises. What does this mean for the emerging markets, where such products are still in their infancy? On the one hand, experience has shown that no living-benefits market is immune to the risk of change and the trend risk, which are influenced by such factors as policyholders’ behaviour, changes in society and economic development. On the other hand, emerging markets are in the lucky position of being able to learn from the experience of other markets. Reinsurers can support insurers by letting them benefit from their global know-how and experience and by sharing the risks with them. Although there is no easy recipe to get it right, there is a chance to enlarge the list of lessons learned with some success stories in the forthcoming years.

Invited Article II

Life/Annuity Long-Term Care Combination Products

by Carl Friedrich

Despite the ageing of the American population and the continued growth in long-term care (LTC) costs, sales of LTC insurance continue to lag behind expectations. Sales plummeted from 2000 to 2009, and, despite a slight uptick recently, they are still quite low. There are several reasons for this trend. For one, insurance companies seriously underestimated lifetime benefit costs in the early years of LTC insurance, due to lower lapse rates than projected, and were forced to increase rates, both for in-force and new business. Additionally, consumers have repeatedly shown reluctance to purchase LTC insurance when they are young and healthy enough to afford the premiums. Distributors of the product have in some cases found these factors to be too challenging and have refocused their activities.

However, there is at least one area of LTC insurance that is experiencing strong growth: combination products that pair LTC with an annuity or life insurance. Individual life combination products experienced double-digit growth from 2009 to 2011. Combination products represented total new premium in 2011 of US$2.2 billion with over 72,000 policies sold. Single premium products accounted for 61 per cent of the market in 2011 and experienced 46 per cent growth based on policies sold. What is driving interest in these products, and are they a viable solution to the slow growth of the LTC insurance market?

† FSA, MAAA.

‡ LIMRA statistics, 2011.
Why LTC insurance has not made as much progress as anticipated initially

While the senior market consists of more than 40 million individuals and continues to grow, some insurers still consider LTC insurance too risky to carry. One of the key factors is regulation that precludes scheduled premium increases after insureds pass 65 years of age. At the same time, claim costs increase significantly as individuals age. Level LTC premiums must therefore prefund future claims, resulting in relatively high premiums early in the life of a policy. Policyholders who lapse their coverage receive no cash value.

Level premiums on this product means that profitability is actually negatively affected by lower lapse rates. Those who don’t lapse and retain the coverage to very advanced ages are much more likely to realise benefits from their policies. The level premium structure also makes it more important for insurers to meet investment targets, resulting in high sensitivity to interest rates. LTC insurers have historically overestimated lapse rates. As the quality of insurers’ products and distribution systems have improved, lapse rates have decreased from the mid-to-high single digit annual rates to levels between 1 per cent and 2 per cent, and for some companies under 1 per cent per year. With larger-than-expected numbers of insured seniors on the books, claims are up and profitability is down.

These conditions have caused significant price increases as insurers have adjusted premiums to reflect experience. Higher rate levels have reduced affordability and further impacted the market. Consumers considering LTC worry that they are buying an expensive product with a use-it-or-lose-it value proposition.

The rise of combination plans

Combination plans provide an attractive solution to these issues. These plans feature accelerated payment of life or annuity benefits to cover LTC costs. One benefit of combination plans is that they provide a cash value even if LTC is not required, which is appealing to consumers. In the first phase of the LTC benefits, combination LTC plans function as a form of self-insurance. With combination annuities, the LTC benefit is paid on a monthly basis from the cash value of the contract. With combination life insurance plans, the LTC benefit is provided as a monthly prepayment of death proceeds and cash values. After the contract value is spent down to zero, ongoing monthly LTC benefits are continued under the second phase of the benefit per terms of the rider, supported by the assets of the insurance company. The cost of LTC is lower for buyers because of the self-insurance aspect of the first phase of LTC benefits.

Annuity combination products have an additional advantage. The Pension Protection Act of 2006 qualifies integrated LTC benefits as tax-free, even if the benefits are paid from account values of the annuity. This law became effective 1 January 2010. If the proceeds of an annuity are paid as qualified LTC benefits, an insured can receive the full account value tax-free even if the account value included what would normally have been taxable gains in the contract. Combined with LTC coverage that extends past the exhaustion of the annuity, combination products can enable annuity owners to realise double or triple the annuity’s face account value.

For annuity providers, combination annuities provide pricing synergies. LTC riders tend to reduce lapse rates, and lower lapse rates increase annuity earnings. This offsets the lapse-supported nature of LTC plans. LTC riders help insurers hedge against lapses in annuities that typically spike immediately after the end of the surrender-charge period. Insurers offering life combination products also benefit from the natural “hedging” effects of these plans. Higher-than-anticipated mortality hurts life insurance profitability because of the need to pay death benefits earlier, but such mortality shifts positively impact LTC profitability because they reduce the liability for LTC benefits.

The potential market for combination products is significant. If 1 per cent of the 95 million Americans between 45 and 70 invested US$50,000 in a combination LTC-annuity product, that would represent US$47.5 billion. A 3 per cent penetration rate with an investment of US$100,000 would be US$285 billion. Considering the US$750 billion invested in non-qualified annuities, these estimates look less outlandish.

Challenges for combination products

Disparate regulations surround LTC products when combined with life and annuities. There have been some challenges as state regulators work to determine how new products fit today’s regulations. There are also underwriting challenges. Annuity underwriting is brisk and financially oriented, while LTC underwriting is extensive and oriented toward medical data. Insurers continue working on innovative approaches that provide enough information to assess risk without hindering the sales process. Insurers can use mid-level underwriting that asks about pre-existing conditions and uses non-invasive, interview-based diagnostics. These include cognitive impairment tests that are administered telephonically. Prescription drug database information is another emerging tool.

Both stand-alone LTCI and combo plans are sensitive to investment returns. The level premium structure of stand-alone LTC insurance is extremely sensitive to interest rates due to the prefunding of costs over long-time horizons. If interest rates drop, so do profits. Combination plans tend to be single-premium and therefore have a somewhat lower degree of sensitivity to changes in investment returns. The majority of cash flows occur at policy issue. Still, investment returns are an important consideration.

Another very important consideration is that many annuity and life insurance providers are not experienced in the LTC realm. Some insurance executives not familiar with LTC products think that rising health-care costs can create substantial future liabilities. However, these products cap benefits at specified daily or monthly amounts, which helps keep claim costs in line with pricing assumptions. Increases in inflation rates therefore do not have a major impact on insurers’ results. However, it is still critical for insurers to understand the cost structures of plans before going forward. Access to a database of claim costs such as Milliman’s LTC claims database can provide real-world insights, and financial modelling can help insurers plan for different scenarios.

Comparing combination products to stand-alone LTC

The following figures from a 2012 study by Milliman sponsored by SOA and ILTCI Conference clearly demonstrate the potential of combination products to reduce the risk typically associated with LTC insurance.

Figure 1

Figure 1 compares the present value of after-tax profits for typical life and annuity combination contracts including a two-year accelerated death benefit rider and a four-year extension of benefits rider, versus values for a six-year stand-alone LTC policy. The key insight from this chart is not the higher value of life/LTC and annuity/LTC products (which is driven by the combination of the LTC with base life and annuity profits) but the decreased volatility under different scenarios. This demonstrates the built-in “hedging” effect of combining LTC with other products.
Figure 2 shows the decreased volatility even more clearly by demonstrating the percentage change from the base case in various scenarios. The stand-alone LTC insurance produces dramatically different results with even a relatively small increase in LTC incidence, as well as under scenarios of decreased earnings or high claim termination. Life/LTC and annuity/LTC products suffer much less under these scenarios. In other words, they present a much lower risk of poor performance given various possible future outcomes.

Figure 3

Figure 3 shows the same idea using a different metric—internal rate of return to the investor. Despite the higher baseline target return assumed for the stand-alone LTC product, given that it has higher risks, the results for the adverse scenarios in many cases are much higher under the combination plans than for stand-alone LTC. The takeaway from these projections is that combining LTC with either life insurance or an annuity eliminates a major portion of the kinds of risk that have caused past turmoil in the industry.

Conclusion

In the U.S., the growing senior population and rising cost of LTC means consumer need for LTC insurance is high and rising. However, high premiums, bad public relations image and consumer
perception of low value has inhibited the adoption of LTC insurance. Combination products offer a unique opportunity to address these issues. Compared to stand-alone LTC insurance, life/LTC combination products typically reduce volatility by 60 per cent to 80 per cent, while annuity/LTC combination products typically reduce volatility by over 80 per cent. They provide better value for consumers than “all or nothing” LTC insurance, and, in the case of annuities, enable owners to leverage their value far beyond the account value.

The combination products market is not without challenges. These products are complex. The salespeople promoting them must understand them thoroughly to sell effectively and answer consumers’ questions accurately. Additionally, underwriting has to be adapted to meet the needs of both buyers and sellers of the products. Lastly, these products are not for everyone, as not everyone needs the life or annuity coverage, and the single premium approach that is predominant could be too pricey for many. Despite these challenges, in the short time since their introduction, sales of combination products have grown dramatically. They offer a rare opportunity for insurers to meet a genuine market need while generating attractive returns and reducing risks.

invited article III

researching and campaigning for silver workers; the taen story

by chris ball

the geneva association’s 25th year—its silver anniversary no less— is worth celebrating, not least to honour its work with “silver workers”. for much of its existence the association’s course has been followed by another organisation, TAEN a U.K. based think tank and change agency focusing on a fairer labour market for people in mid and later life. With TAEN and The Geneva Association passing like eerily similar ships in the night, it may be appropriate to tell something of TAEN’s history for this issue of the four pillars newsletter.

TAEN—The Age and Employment Network—was established in 1992 as the Reaction Trust, described as “…an initiative by British industry and (the U.K. older people’s charity) Help the Aged.” Early supporters included the late Sir Campbell Adamson, former Chairman of the Abbey National Building Society and Director General of the Confederation of British Industry. The present name, adopted in 2006 is now a familiar acronym with TAEN recognised as the U.K.’s centre of expertise on age and employment.

Like all charities, TAEN tries to improve the lives of individuals, in our case by giving older and midlife people the option to work in later life; an aim consistent with The Geneva Association’s “fourth pillar” to secure income in retirement and later life. TAEN combines analysis and argument with practical support to individuals. Whilst the Silver Workers notion stresses the value of working in retirement as the fourth pillar of incomes, TAEN embraces this within the practical challenge that engagement with the labour market declines as people enter their fifties. It is this increasing marginalisation of workers before they reach state pension ages that first and foremost must be tackled whilst of course, increasing the possibilities for people to work longer, both in their existing jobs and by changing their roles or careers in later life.

TAEN supports these aims in numerous ways.

Help to individuals: This takes the form of telephone advice or emails supported by fact sheets and web-based information. (Our popular self-help resources include a skills self-assessment tool for older


Though legally independent, TAEN enjoyed a close, collaborative working relationship with Help the Aged until its merger with Age Concern England in 2009 to form a new charity, Age UK.

For clarity I will refer to TAEN throughout this article without reference to its longer name at the time.
workers and looking-for-work hints. Importantly however, we put callers in touch with locally-based organisations where they can meet someone face-to-face to help them further.

The TAEN network: TAEN’s member network is in fact an eclectic mix ranging beyond advice centres and employment agencies, to research centres, legal firms, employers, national government bodies, unions and others. All share an interest in employment issues for people in mid and later life. For an annual fee, members receive newsletters, bulletins tweets and blogs, benefit from TAEN events, gain opportunities for collaboration, contribute their views when TAEN comments in government policy consultations and importantly, support a charitable organisation helping to change the ways people remain in and exit the labour market in later life.

Changing attitudes: If people are to work beyond retirement they have to be valued (and kept employable) in the decades leading up to it. TAEN challenges the myths about the value of older workers by commenting in the media, disseminating information, providing case studies to journalists looking for interesting material on older worker issues. Many of the U.K. media stories about older workers are supported by facts or interviews laid on by TAEN. (See the news and media sections of our website). Our briefings and commentaries inform debates in Parliament, articles in the press and TV and much more.

Knowledge exchange and discourse: Explaining the macro-economic, organisational and individual cases for working longer is central to what TAEN does. Whilst active ageing may seem like a worthy cause to campaign for, people and organisations need objective explanations of facts and evidence-based research. TAEN’s resources including briefings, fact sheets, guides and newsletters make knowledge readily accessible and are produced to professional standards.

Research: TAEN engages actively with the research community in the U.K. and other European countries. We hold a termly joint seminar with the London School of Economics on older workers issues and host research conferences from time to time. Action-oriented research is particularly helpful. In one major project called “Challenging Age” some years ago, TAEN investigated the career guidance needs of older people and produced a number of seminal publications. We occasionally support individual studies, for example one publication, What does Career Mean to People in their 60th Year continues the later life careers theme.

Two reports, one on Older Women, Work and Health and the other on Older Men Work and Health reviewed the literature relevant to a gendered perspective on health for older workers and are examples of a long and continuing interest which TAEN has had on health issues.

Surveys: TAEN undertakes surveys both independently and under commission. TAEN’s 50+ Job Seekers Survey provides information on the problems older job-seekers face in getting back into work and how they assess the support rendered by employment services and welfare to work organisations. (A further edition of this survey will be undertaken shortly.) The insights of past surveys have been useful in many meetings with organisations and individuals supporting people back to work.

In 2009, TAEN undertook a survey of employers comparing the experiences of those using mandatory retirement with those who were not using it. This contributed to the evidence base which convinced the government to end mandatory retirement completely from April 2012.

Improving back to work services for older workers. The problem of long-term unemployment is acute among older job seekers. In the U.K., a third of 50 plus unemployed have been claiming benefits for a year or more—the largest of any age category. The European Social Fund (ESF) supports many locally-based back-to-work projects. Currently TAEN leads a technical assistance project supporting these ESF projects in England. TAEN’s role is to provide staff with a clear understanding of the needs of older job-seekers and how best to help them return to work. A website, newsletter and various

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8 http://taen.org.uk/resources/view/82.
9 Organisations generally join TAEN, not individuals, though we now plan to introduce a new membership category to address a growing interest from individual practitioners such as diversity professionals.
15 http://taen.org.uk/resources/view/73.
workshops and conferences have been the main means of support. One recent special publication\textsuperscript{16} and good practice guide describing projects which successfully address older job seekers’ needs is worthy of mention.

In 2010, TAEN was commissioned by the U.K. Department for Work and Pensions to produce a guide for the providers of welfare to work services, to support front-line staff helping older job-seekers. TAEN produced a user-friendly web-based guide 50+Works\textsuperscript{17} which has been widely acclaimed as a practical way of supporting advisor staff. It contains practical guidance, case studies and numerous tips and contacts to help the front-line adviser. While it was not designed specifically for individual job-seekers it has also become quite popular among them. A government evaluation\textsuperscript{18} of 50+Works has given it strong endorsement.

**Age management:** TAEN has been working with employers to promote good practice in age management—meaning the adoption of sustainable human resources policies and practice. Our paper Managing the Ageing Workforce: an introductory guide to age management for HR Professionals\textsuperscript{19} has been widely used to explain proactive HR approaches to extend working lives as one of the most readily understandable and accessible guides of its kind. A number of other resources support age management approaches including a workforce assessment tool\textsuperscript{20} and a guide to rethinking retirement\textsuperscript{21} (commissioned by the insurance and travel firm Saga) are examples.

TAEN has drawn on international examples to inform much of its thinking, including through supporting the U.S.-based AARP’s Best Employers for Workers over 50 International Award. In 2009 with funding from the Equality and Human Rights Commission, we held a conference on Age Management in the Downturn, with speakers from the U.S., Australia, Norway, Germany and several other countries.

TAEN is a contracted partner of the ESF Age Network\textsuperscript{22} and has been responsible for communications outputs of this multi-state project funded by the European Commission. One of its outputs includes a guide to good practice in age management for EU Member States and regions adopting ESF programmes.

In another project, TAEN has been working with the European Chemicals Industry social platform to research the extent of age management good practice in the European chemicals sector.\textsuperscript{23} A survey of employer practices\textsuperscript{24} across the sector will be accompanied by a series of case studies. We are seeing in detail some of the practical problems employers face in putting age management programmes together as well as inspiring examples of how they tackle them.

Several of our conferences and events have been illuminated by experts from overseas. Indeed, the traffic has become more two-way so that when I was introduced recently as the CEO of The European Age and Employment Network, the name was inaccurate but the description struck me as not far out. With this brief summary of some of TAEN’s work, I am struck by the potential for collaboration between TAEN and The Geneva Association. There are doubtless gaps in our respective activities which we would both like to have covered. Equally, there may be initiatives which could be disseminated further. Collaboration could lead to greater impact. The use of silver workers images on the occasion of the Geneva Association’s silver anniversary might even alert us to the idea that a rich lode of knowledge awaits some future prospecting adventure!

**More Information on TAEN—The Age and Employment Network**

TAEN’s funding comes from a mixture of membership fees, funded projects, commissioned research and consultancy. TAEN is eager to work with all organisations which share its values and interest in older worker/multi-generational workforce issues. Contact Dr Chris Ball FCIPD, Chief Executive, TAEN, Tavis House, 1-6 Tavistock Square, London WC1H 9NB, United Kingdom. chris.ball@taen.org.uk or visit www.taen.org.uk.

\textsuperscript{16} http://taen.org.uk/esf/resources/publications_view/168.
\textsuperscript{17} http://www.50plusworks.com/.
\textsuperscript{18} http://research.dwp.gov.uk/asd/asd5/report_abstracts/ihr_abstracts/ihr_008.asp.
\textsuperscript{20} Adapted from a version devised by the U.S.-based AARP. http://taen.org.uk/resources/view/127.
\textsuperscript{21} http://taen.org.uk/resources/view/140.
\textsuperscript{22} http://www.esfage.eu/.
\textsuperscript{23} http://www.esfage.eu/sites/esfage/files/attachments/Good%20Practice%20Guide%20draft%20%201%200106.pdf.
\textsuperscript{24} http://www.demographicsinchemistry.eu/uploads/tx_pdforder/Chris_Ball_TAEN.pdf.
Solvency II: Should Its Principles be Applied to Europe’s Pension Funds?

by Nicolas Jeanmart* and Olav Jones**

Introduction

Against the background of the rapid ageing of our societies and the increasing pressure that pension provision is in turn placing on national budgets, the European Commission (EC) issued its White Paper on Pensions An Agenda for Adequate, Safe and Sustainable Pensions in February 2012. The paper puts forward ways to guarantee the sustainability, safety and adequacy of pension systems across Europe. This includes enhancing the role of private retirement savings.

One of the key initiatives set out in the EC White Paper, and which is currently already underway, is the review of the Institutions for Occupational Retirement Provision (IORP) Directive. The current prudential regulatory framework for occupational pensions is incomplete and inconsistent across the EU, which means that occupational pensions are subject to significantly different regulations depending on the country, but also depending on the provider of the pension scheme. The key objective of the review is therefore to create a true European single market for occupational pensions which would guarantee an adequate level of protection to all beneficiaries.

The review of the IORP Directive is of particular interest to the insurance sector given the strong interdependencies between the insurance and pension fund sectors. While pension funds and insurance companies providing occupational pensions are not the same, they do often offer products and services which are similar from the beneficiary point of view. In many European markets, pension funds and insurance companies are also in competition, either directly or indirectly.

The fundamental question at the centre of the review of the IORP Directive is whether, and if so how to use as a benchmark Solvency II, the new comprehensive and risk-based regulatory regime in the process of being finalised for the insurance sector.

We believe the principles of Solvency II can be used for pension funds. However, Solvency II itself is not yet finalised. The key outstanding issue, relating to long-term guarantees and investments, is common to both insurance companies and pension funds and must be solved in the right way. In addition, there are some economically significant differences between pension funds and the occupational retirement business of insurers that must be taken into account.

Why EU lawmakers should strive for consistency between the EU IORP Directive and Solvency II

There are a number of reasons why EU institutions should strive for consistent regulation across the insurance and pension fund industries when reviewing the IORP Directive.

Firstly, both groups provide similar products and services to beneficiaries. The providers therefore face the same set of risks: market, underwriting and operational risks. The overall risks will depend on the details of the product design and the investment strategy, but there is significant overlap given the range of different products, guarantees and strategies across the European pensions market.

Secondly, the beneficiaries deserve the same level of protection for the same type of product, irrespective of the type of organisation providing the product. Beneficiaries would generally not understand why the level of protection differs by type of provider rather than type of guarantee offered.

There is also a degree of competition between insurance companies and pension funds, which however varies from country to country. This is acknowledged in the current IORP Directive, which through its Article 4 allows EU Member States to opt for the provision of occupational pensions by local insurance companies to be regulated by the IORP Directive. A closer alignment of Solvency II and the IORP

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** Insurance Europe’s Deputy Director General and Director of the Economics and Finance Department.
Directive would ensure that there is a level regulatory playing field for all occupational pension providers.

Finally, enormous efforts have gone into making Solvency II a complete risk-based system covering not just solvency but also risk management standards, the interaction with supervisors and reporting. Therefore, there should be no need to reinvent the wheel when building a risk-based supervisory system for IORPs. It makes sense to get the Solvency II type framework right and working as intended for both insurance and pension funds.

Finalising and adapting the Solvency II framework

Among the important remaining issues to address in Solvency II, many stakeholders have voiced the importance of ensuring an appropriate treatment of long-term guarantees and investments. One key aspect of this is to ensure that the ability of insurance companies to hold assets for the long term is appropriately recognised in the measurement of their exposure to market risk.

For example, holding bonds to maturity transforms the risk exposure from asset price volatility (due to spread movements) to volatility in the losses from actual defaults. It is important that Solvency II recognises that the capital needed to protect against extreme default losses is far lower than the capital needed to protect against extreme spread movements. The company’s own funds should also not be affected by artificial volatility caused by spread movements to which it is not exposed.

If this issue is not properly dealt with, insurance companies will be forced away from long-term guarantees and investment, as many products will be too expensive to offer due to artificially high capital charges and balance volatility. This would be bad for policyholders and bad for the wider economy, because the long-term nature of insurance helps fund growth and stabilises the economy. This long-term issue applies to pension funds as well as insurance companies. Potential solutions are under discussion, but no full solution has been agreed yet. Solvency II cannot be applied to either insurance companies or pension funds until this issue has been resolved.

Another general concern is that the costs of implementing Solvency II need to be kept at reasonable levels. In particular, the proportionality principle needs to be applied appropriately, to enable even the smaller companies to comply without unacceptable costs. There are over 5,000 insurance companies that will need to apply Solvency II and therefore the practical issues over implementation will need to be solved for them as they would need to be solved for the thousands of pension funds.

In addition to addressing the shared concerns, there are some important differences between insurance companies and pension funds that will need to be taken into account in the future IORP Directive. These include notably the differences in the nature of the guarantee to the beneficiary (claims can under certain conditions be reduced by the pension fund) and differences in the nature of funding (sponsoring companies can sometimes provide additional funding to the pension fund when needed). These differences have led to the development of the concept of the “Holistic Balance Sheet” by the European Insurance and Occupational Pensions Authority (EIOPA). This approach aims to capture the existing diversity of occupational pension systems in a single balance sheet. The capital requirements could be offset where there is flexibility to reduce claims and/or sources of additional funding. The approach will be tested as part of a Quantitative Impact Study in order to see if it can work in practice.

Conclusion

We strongly believe in the principle of “same business, same risks, same rules” and that beneficiaries deserve the same protection wherever they get their occupational pension. We also believe it is vital to make sure that Solvency II works as intended. The biggest outstanding issue for Solvency II is about making sure it can work for long-term guarantees and investments. Provided that the outstanding issues in Solvency II are appropriately resolved, that a solution is found for the specific features of pension funds and that there is sufficient testing, then the Solvency II principles can form the basis for the IORP Directive review.
An Interview with Mr Johan van Zyl, CEO of Sanlam, South Africa

by Krzysztof Ostaszewski

KO. The Four Pillars Programme of The Geneva Association is celebrating its 25th anniversary this year. We are very interested in your views on what we can expect to happen in the next 25 years in global retirement systems. Do you think the next quarter century will be dramatically different than the last one?

JvZ. We will likely face dramatic changes over the next 25 years. There are numerous forces impacting the concept of retirement as we know it today. Populations are ageing throughout the world and longevity rates are increasing. This is exacerbated significantly by declining fertility rates and social engineering like the one-child policy in China. The impact of this is that the worker-to-pensioner ratio is declining significantly.

Pre-funded retirement systems will be better positioned to deal with this change compared to a pay-as-you-go system, or a system where retirement benefits depend heavily on taxes. In many developing countries, people in retirement depend on their families for support, which is also a type of pay-as-you-go system. As the demographics in these countries change, the burden on the working members in these families will also increase.

Policymakers are now reacting by, for example, reducing state benefits, extending retirement ages, etc. Deferred retirement will in turn have an impact on employment opportunities for the younger generation. Unless rising unemployment worldwide can be turned around, it is quite possible that increasing pressure will be placed on the older working populations to vacate their positions so as to provide opportunity for younger members. This will again put pressure on retirement systems. A significant reduction in pay-as-you-go benefits therefore seems to be inevitable.

It is very likely that the next 25 years will be characterised by a move to pre-funded retirement income with a postponement of full retirement. Whilst in retirement, people may therefore be expected to continue with part-time employment. While the issues are complex and inter-related, it is unrealistic to expect to work for approximately 40 years, in many cases interrupted, and then maintain your standard of living, for another 30 or more years. The impact is not isolated to governments with off-balance sheet liabilities, but will also impact corporates, particularly those that have run defined benefit funds until recently.

Finally, changes to retirement age and forms of retirement will in turn increase labour supply and impact labour costs and thus earnings available for retirement funding.

KO. The credit crisis of 2008 has resulted in weakening all four pillars of retirement systems in North America, Europe and Japan, and since then, the sovereign credit crisis in Europe has added to the problem. How does this global economic weakness affect your business, and do you have any advice for other firms dealing with this difficult situation?

JvZ. As with previous downturns in the world economy, low economic growth and the consequent impact on equity markets impacts accumulated savings of customers. New business volumes are also under pressure in a low growth environment. Lapses need to be managed carefully, and costs need to be controlled. What is particularly noteworthy in the current downturn, is that due to quantitative easing policies, risk free yields are kept artificially low. This impacts various aspects of our business.

- Long-term savings do not thrive in an environment of (very) low nominal returns.
- Where we have guaranteed long-term liabilities, the present value of these liabilities increases significantly, particularly if those liabilities are very long-term in nature, for example annuities. While we match our in-force liabilities by purchasing bonds as backing assets, the value proposition for new business is impacted significantly. For example, annuity rates have reduced significantly.

KO. As we look at the world now, increased longevity combined with ageing of populations have brought about greater and greater need for retirement income exactly at the time when private insurance firms have to deal with an increased, and potentially even bigger down-the-road, regulatory burden. Do you have any suggestions for industry leaders and for regulators about addressing this challenge?
JvZ. The volume and pace of change driven by regulators is unrealistic and is bound to result in unintended consequences. It is doubtful that either companies or the regulators have the capacity to effectively implement and manage the new regulatory environment in the timeframes envisaged. While this is a complex issue, the following suggestions for regulators spring to mind:

- Engage with industry to agree on:
  - the intended outcomes of proposed regulatory intervention,
  - the most effective method to achieve this intended outcome,
  - the least costly transitional mechanism into the new environment.

- Prioritise regulatory intervention—implementing a raft of changes at the same time leads to duplication, unintended consequences and inefficient utilisation of specialist capacity.

- Aim to minimise regulatory uncertainty due to the long-term nature of our business model, it is not well-suited to an uncertain environment.

At best, boundaries can be set, and monitoring mechanisms can be implemented. The focus should be on transparency and portability and on creating an environment that allows the free market to operate effectively, whilst monitoring and managing excesses.

**KO.** What kind of innovative products does your company offer for customers saving for retirement in your markets? Do you have any advice for the global insurance industry about innovative products that can help address the global ageing challenge and increasing retirement needs?

JvZ. In South Africa we basically offer guaranteed annuities and investment linked annuities (ILLA’s). The latter is similar to a variable annuity, but without any guarantees, longevity protection, etc. The reason for this is due to an idiosyncrasy in our legislation, which prohibits the utilisation of retirement capital to purchase deferred benefits.

As a result, most of the innovation in our retirement industry is focused on funding long-term cash flows with growth assets, instead of bonds (which are used to match the liability in guaranteed annuities). Innovation is focused on the advice process where we are seeing the introduction of stochastic projection tools to enable advisers and their clients to optimise the asset allocation of their drawdown accounts.

**KO.** Do you have any wish list for insurance and banking regulators about what they can do to help the industry in creating better retirement systems?

JvZ. Allow the free market to demonstrate its ability to innovate, and meet the needs of clients. Regulators should focus their efforts on improving transparency and portability in the industry which will assist in facilitating the market to deliver the best outcomes for customers.

**KO.** Do you have any wish list about what the industry can do to make the job of regulators easier—given that regulators have had their hands full since the credit crisis of 2008?

JvZ. We should promote our successes more. The industry managed to steer its clients through the credit crisis remarkably well so far.

**KO.** One of the biggest current debates concerning financial institutions is on the issue of systemic risk. The Geneva Association has argued that traditional insurance products do not create systemic risk, and insurance firms can create systemic risk only by engaging in activities traditionally reserved for banks. But not everyone agrees with that point of view. What are your thoughts on this issue? Is it possible that retirement products can give rise to systemic risk? If that were the case, a potential retirement crisis in the future could become yet another global economic crisis, and regulators have every reason to be concerned. Can those concerns be addressed?

JvZ. I agree that, given their business model, insurance companies cannot create systemic risk in the same way that banks can and have. Our creditors are long-term, and our debtors are short-term. We also have significantly less interdependence between each other—one insurance company’s survival is not directly dependent on another’s ability to meet its contractual obligations. These issues are captured well in The Geneva Association’s response to the IAIS proposals on systemic risk in the insurance industry.

Whilst insurance companies are unlikely to create systemic risk, they are exposed to long-term risks (e.g. a reduction in mortality rates or periods of very high or very low inflation) that may impact the entire industry over a period of time, against which it is not possible to hedge. It will, however, be possible to deal with these risks as they unfold through targeted interventions.
Forthcoming Conference

25th Anniversary Seminar of The Geneva Association’s Four Pillars Programme
The Four Pillars: The Next 25 Years

Venue: 3-4 December 2012, Hotel Intercontinental, Geneva, Switzerland

The seminar is a special meeting to celebrate the 25th anniversary of The Geneva Association’s Four Pillars Programme. The seminar will bring together public policy decision-makers and experts, as well as insurance industry experts and academics with a close interest in retirement policy and the global ageing challenge. The style of the seminar is to facilitate an exchange of views and experiences on a number of retirement policy and retirement systems issues of global importance.

Confirmed speakers include, among others: Prof. Elsa Fornero, Minister of Welfare of Italy; Mr Bruno Pfister, CEO of Swiss Life; Mr Andrew Rear, CEO of Munich Re London, Life Branch; Dr Stephan Erik Oppers of the International Monetary Fund; Mr Johannes Lörper President of German Actuarial Society.

The number of participants for this seminar is limited to allow an active exchange of opinions and animated discussions. There are no participation fees involved. Should you want to pass this on to a colleague, please get in touch with The Geneva Association’s Conference Coordinator, Ms Barbara Botterill, barbara_botterill@genevaassociation.org so that we can arrange for an invitation to that person. Places are distributed on a first-come-first-served basis. For further questions, please contact Ms Botterill.

Preliminary Programme

Day 1, Monday, 3 December 2012

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<tr>
<th>Time</th>
<th>Session</th>
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<tr>
<td>08:00-08:30</td>
<td>Registration and coffee</td>
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<tr>
<td>08:30-08:35</td>
<td>Welcome and Opening Remarks</td>
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<td></td>
<td><strong>John Fitzpatrick</strong>, Secretary General, The Geneva Association</td>
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<tr>
<td>08:35-10:00</td>
<td>The Four Pillars, 1987-2012 and the next 25 years</td>
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<td><strong>Chairman: Dr Krzysztof Ostaszewski</strong>, Research Director, The Geneva Association</td>
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<td><strong>Geneviève Reday-Mulvey</strong>, former Head of Four Pillars, The Geneva Association</td>
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<td><strong>Orio Giarini</strong>, former Secretary General, The Geneva Association</td>
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<tr>
<td>10:00-10:30</td>
<td>Coffee Break</td>
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<tr>
<td>10:30-11:30</td>
<td>Keynote Address</td>
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<td><strong>Elsa Fornero</strong>, Minister of Welfare of Italy</td>
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<td>11:30-13:00</td>
<td>Session on the First Pillar</td>
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<td><strong>Chairman: Krzysztof Hagemeyer</strong>, Chief, Policy Development and Research, Social Security Department, International Labour Organization (tbc)</td>
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<td><strong>Christopher Daykin</strong>, Fellow, Institute of Actuaries</td>
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<td><strong>Eric Opper</strong>, International Monetary Fund</td>
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<td><strong>Dr Michael Wolgast</strong>, Chief Economist and Head of Economics Department, German Insurance Association</td>
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<tr>
<td>13:00-14:15</td>
<td>Seated Lunch</td>
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<td>14:15-15:45</td>
<td>Session on the Second Pillar</td>
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<td><strong>Chairman: Krzysztof Ostaszewski</strong>, Research Director, The Geneva Association</td>
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<td><strong>Torben Thomsen</strong>, Head of Continental Europe Life and Health Division, Swiss Re</td>
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**Dr Klaus Miller**, Member of the Executive Board, Life and Health Reinsurance, Hannover Re  
**Amy Kessler**, Senior Vice President, Head of Longevity Reinsurance, Prudential Financial Inc.

15:45-16:15  Coffee break  
16:15-17:15  Keynote Address  
**Bruno Pfister**, CEO, Swiss Life  
17:30  Cocktail Reception

### Day 2, Tuesday, 4 December 2012

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<tr>
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<tr>
<td>08:00-08:30</td>
<td>Coffee</td>
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<td>08:30-10:00</td>
<td><strong>Session on Third Pillar</strong></td>
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<td><strong>Chairman:</strong> <strong>Dr Anthony Webb</strong>, Research Economist, Center for Retirement Research, Boston College</td>
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<td><strong>Kurt Karl</strong>, Chief Economist, Swiss Re</td>
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<td><strong>Lorenzo Savorelli</strong>, Head of Research Department, Generali Group</td>
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<td><strong>Volker Deville</strong>, Executive Vice President, Allianz SE</td>
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<tr>
<td>10:00-10:30</td>
<td>Coffee break</td>
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<td>10:30-12:00</td>
<td><strong>Session on Fourth Pillar</strong></td>
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<td><strong>Chairman:</strong> <strong>Walter Stahel</strong>, Vice Secretary General, The Geneva Association</td>
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<td><strong>Chris Ball</strong>, Chief Executive, TAEN</td>
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<td><strong>Dr Juergen Deller</strong>, Professor of Business Psychology, Leuphana University</td>
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<td><strong>Dr Xenia Scheil-Adlung</strong>, Health Policy Coordinator, Social Security Department, International Labour Organization (tbc)</td>
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<td>12:00-13:00</td>
<td>Keynote</td>
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<td><strong>Andrew Rear</strong>, CEO of Munich Re London, Presentation on Global Retirement Issues</td>
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<td>13:00-14:30</td>
<td>Buffet lunch</td>
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<td>14:30-16:00</td>
<td><strong>Session on Longevity</strong></td>
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<td><strong>Chairman:</strong> <strong>John Fitzpatrick</strong>, Secretary General, The Geneva Association</td>
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<td><strong>Daria Kachakhidze</strong>, Head of R&amp;D, Centre on Longevity and Mortality Insurance, SCOR</td>
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<td><strong>Dr Astrid Stuckelberger</strong>, Lecturer and Researcher, Faculty of Medicine, University of Geneva</td>
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<td><strong>Johannes Lörper</strong>, Member of the Executive Board, ERGO ; Chairman of the German Actuarial Society</td>
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<td><strong>Prof. Dr P.L.C. Hilbers</strong>, Division Director, De Nederlandsche Bank</td>
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<td><strong>Makoto Okubo</strong>, Manager International Affairs, Nippon Life Insurance</td>
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Call for Papers

Special Issue of The Geneva Papers on The Four Pillars: The Next 25 Years

Call for Papers

The Geneva Association is pleased to announce a special issue entitled

The Four Pillars: The Next 25 Years

in

The Geneva Papers on Risk and Insurance—Issues and Practice

October 2013

We encourage you to submit contributions related to the following areas, but not necessarily limited to:

- Strategic issues in retirement systems worldwide in the next quarter century.
- Intergenerational equity and intergenerational risk sharing.
- Stability and funding of public and private pension systems.
- Pension issues and reforms, and the key role insurance can play in organising retirement systems.
- Prospects for continued employment of retirees and policies that promote it.
- Economic challenges and opportunities of an "ageing" society.
- Positive measures to deal with the "ageing" of the workforce in our economies and in particular in the insurance sector.
- Longevity improvement, its effect on retirement systems, and employment of “Silver Workers.”
- The consequences of current low interest rates environment, low growth, and potential rising interest rates for public and private retirement systems and the insurance industry.
- Prospects for product innovation in private retirement systems, and the contribution such innovation can make to the stability of the overall retirement system and the management of post-retirement financial risks.
- Interaction between retirement systems and other financial aspects of lives of workers and retirees, including welfare systems, public health systems, private health insurance and health-care providers, and long-term care insurance.
- The role of new methods of financial risk management in public and private retirement systems.
- The interplay between Four Pillars of retirement systems: social security, insurance, savings and employment.

All contributions will go through a refereeing process.

The Guest Editors for this Special Issue are:
Prof. Krzysztof Ostaszewski, Research Director for Life Insurance and Pensions at The Geneva Association, and Actuarial Program Director at Illinois State University.
Dr. Anthony Webb, Research Economist at the Center for Retirement Research at Boston College.

Papers should be submitted electronically via the website of The Geneva Papers (http://gpp.msubmit.net/cgi-bin/main.plex) by 15 January 2013 at the latest.

For further information on this special issue, please contact Krzysztof Ostaszewski at Krzysztof_Ostaszewski@GenevaAssociation.org
The Geneva Report N° 6—Addressing the Challenge of Global Ageing—Funding Issues and Insurance Solutions

The Geneva Association is pleased to announce The Geneva Report ª6

Addressing the Challenge of Global Ageing—Funding Issues and Insurance Solutions

Edited by Patrick M. Liedtke and Kai-Uwe Schanz

June 2012

Increasing life expectancy and falling fertility rates are creating a demographic situation that has become one of the greatest economic and societal challenges of the 21st century. No doubt, the drivers behind these challenges are major successes such as longer life-times reflecting better health and increasing affluence and education.

However, funding these longer lives will become increasingly difficult under current schemes. The sustainability of public and corporate pension schemes is at risk. Indeed, the cost of funding state pension benefits is set to rise dramatically—by more than double in some countries. This poses a considerable political and economic dilemma about how to keep the burden on the working population bearable whilst not sacrificing the standard of living for those drawing pensions.

Against this backdrop, governments and employers tend to shift responsibility for old-age security to individuals. The financial crisis has further accelerated the underlying shift in responsibility as governments face mounting fiscal pressures and employers contend with a low-growth environment. Insurers can make a meaningful contribution to old-age security if a conducive legal and regulatory framework is in place. So too can they devise and implement innovative solutions appropriate for the broadest possible spectrum of society. With papers from old-age security experts, industry practitioners as well as the IMF and Center for Strategic and International Studies, this report provides a concise and authoritative overview of the global ageing challenge, its funding and the insurance role amongst the solutions available for its resolution.

1. How demography is reshaping the economic and social landscape of the 21st century, by Richard Jackson, Senior Fellow, Center for Strategic and International Studies;
3. Insurance as a funding and risk transfer mechanism in old-age protection: positioning and track record, by Milka Kirova, Vice President, Economic Research & Consulting, Swiss Re;
5. Funding for old age: an overview and comparative analysis of the solutions, by David W. Parsons, Vice President and Senior Actuary, MetLife;
6. Insurance as a solution to cover long-term care needs, by Christophe Courbage, The Geneva Association;
7. The insurance industry’s role in addressing longevity funding issues: opportunities and limitations, by Greg Becker, Product Development Actuary at Reinsurance Group of America;
8. The holistic view: why all pillars need to work in concert, by Krzysztof Ostaszewski, The Geneva Association;
9. What should be done: some recommendations for key stakeholders, by Kai-Uwe Schanz, Special Advisor Strategic Research, The Geneva Association;
11. The challenge of public pension reform in advanced economies, presented by the International Monetary Fund;
12. Longevity risk and insurance solutions for U.S. corporate pension plans, by Christine Marcks, President, and Margaret McDonald, Senior Vice President and Actuary, Prudential Retirement;
13. Insurers and their role in the economy, by Patrick M. Liedtke, The Geneva Association and Philippe Trainar, Chief Risk Officer of SCOR SE;

The Research Programme on The Four Pillars

In 1987, The Geneva Association launched its “Four Pillars” Research Programme with the aim of identifying possible solutions to the problem of the future financing of pensions and, more generally, of social security in our modern societies. It saw in demographic trends—particularly increased life expectancy—not the catastrophe many feared, but a positive and formidable challenge for our communities and firms and for the workforces within them.

This challenge meant rethinking retirement in the context of a new design for employment throughout the life cycle so that people, rather than being relegated to a role of inactive consumers, could work later in life, remain socially integrated and continue to make a valid economic contribution to our service economies.

The concept of the Four Pillars owes its origin to the fact that, in most countries, the funding of pensions is based on three pillars: 1) the 1st pillar—the compulsory, pay-as-you-go, state pension; 2) the 2nd pillar—the supplementary (often fund-based) occupational pension; 3) the 3rd pillar—individual savings (personal pension and assets and life insurance).

In our publications and seminars, we have advocated the adaptation of the 1st pillar, a strengthening of the 2nd pillar and further development of 3rd pillar resources. However, our attention has focused above all on a 4th pillar, i.e. the future need for a flexible extension of work-life, mainly on a part-time basis, in order to supplement income from the three existing pillars. The reorganisation of end-of-career and the new age-management strategy—in which gradual retirement is destined to play a key role—involves in establishing this pillar, also correspond to many of the changes (for example in quality of work and the life cycle) that are specific to our contemporary service economies. The Geneva Association, together with other institutions in increasing numbers, believes that the thinking behind the Fourth Pillar concept should now be extended to employment as a whole as generalised part-time work is destined to become the key to reconstructing our welfare society in the new millennium.

The Geneva Association

The Geneva Association is the leading international insurance think tank for strategically important insurance and risk management issues.

The Geneva Association identifies fundamental trends and strategic issues where insurance plays a substantial role or which influence the insurance sector. Through the development of research programmes, regular publications and the organisation of international meetings, The Geneva Association serves as a catalyst for progress in the understanding of risk and insurance matters and acts as an information creator and disseminator. It is the leading voice of the largest insurance groups worldwide in the dialogue with international institutions. In parallel, it advances—in economic and cultural terms—the development and application of risk management and the understanding of uncertainty in the modern economy.

The Geneva Association membership comprises a statutory maximum of 90 Chief Executive Officers (CEOs) from the world’s top insurance and reinsurance companies. It organises international expert networks and manages discussion platforms for senior insurance executives and specialists as well as policymakers, regulators and multilateral organisations. The Geneva Association’s annual General Assembly is the most prestigious gathering of leading insurance CEOs worldwide.

Established in 1973, The Geneva Association, officially the “International Association for the Study of Insurance Economics”, has offices in Geneva and Basel, Switzerland and is a non-profit organisation funded by its members.
Forthcoming Conferences Organised and/or Sponsored by The Geneva Association

2012

September

17-19 Palma de Mallorca 39th Seminar of the European Group of Risk and Insurance Economists (EGRIE)

November

5-6 Paris 9th Annual Liability Regimes Conference on “Evolving Litigation Tactics and Procedures Affecting Liability for Insurers”, hosted by SCOR

8-9 Stockholm 9th Health & Ageing Conference of The Geneva Association on Genetics and Insurance, co-organised by Länsförsäkringar AB

28-29 Munich 8th CRO Assembly, jointly organised with Munich Re

December

3-4 Geneva The Four Pillars: The Next 25 Years, hosted by The Geneva Association

10-11 London 9th International Insurance and Finance Seminar of The Geneva Association, hosted by Lloyd’s

2013

April

11 Geneva The Geneva Association/IAIS Executive Committee High-Level Meeting, hosted by The Geneva Association (members only)

11-12 Geneva 29th PROGRES Seminar on Insurance Regulation and Supervision

June

5-8 London 40th General Assembly of The Geneva Association (members only)