

Pensions, Benefits & Social Security: Influence of the UN and its Agencies

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Supranational organizations, such as the United Nations (UN), the World Bank and the International Labour Organization (ILO), exert considerable influence on social and economic policy issues that affect the design and development of pensions, benefits and social security systems around the world. The United Nations Millennium Development Goals place a high priority on a number of health care issues. The World Bank and the International Labour Organization both operate with a set of principles for the design and development of social security systems that include various types of benefit provisions and delivery systems, embracing governmental, employment-related and individual elements.

The current era of globalization presents many challenges and opportunities for the professional benefits community that flow directly from the social and economic development activities that influence the areas of pensions, benefits and social security. It is particularly useful and important to explore these major contemporary challenges from a supranational perspective. They include poverty alleviation, old-age income provision, human rights issues, gender equality, employment opportunities, and work force participation and conditions. These issues are truly supranational in nature; they transcend national and regional boundaries and apply in varying degrees to all nations around the world regardless of their stage of economic and social development. In the context of these broad economic and social development issues, this article focuses more specifically on social security and pension arrangements.

In a world system comprising nation-states with a global population in excess of six billion, each individual nation will establish objectives for its population to achieve social and economic security. Local national objectives will typically include old-age income support and health care, and these will be set in terms of a country's own particular social, economic, and political conditions, as well as its culture and history. Nevertheless, it is informative from any nation's perspective to consider the international landscape to discern what might be useful or applicable from the relevant experiences of other nations. Countries can certainly gain insight and learn from the practices and experience of other countries with similar objectives regarding the provision of social and economic security.

International and supranational perspectives are valuable inasmuch as they provide insight into global problems and trends that may not be fully recognized or addressed with a narrow single-nation focus. In order to gain such a perspective on these various contemporary challenges and opportunities, it is appropriate to provide an overview of the major supranational organizations that represent the global leadership on social and economic policy development. These major institutions are the UN, the World Bank, the International Monetary Fund (IMF), the ILO, the World Health Organization (WHO), the World Trade Organization (WTO) and the regional development banks, such as the Inter-American Development Bank and the Asian Development Bank. At a more specialized level, the work of the International Social Security Association (ISSA) and the International Actuarial Association are noteworthy for their expertise and global reach.

The UN is a global association of governments organized for the purpose of facilitating cooperation in international economic and social development, law, security, and social equality. There are 16 UN agencies that coordinate their activities through the UN Economic and Social Council. These include the United Nations Educational Scientific and Cultural Organization (UNESCO), the World Bank Group, and the United Nations Industrial Development Organization (UNIDO), together with the WHO, the ILO and the IMF.

While the UN needs to adapt to changes in the world's social, economic and political conditions, the provisions of the UN Charter remain paramount. Its drafters understood the need for global economic formulation to be a prime responsibility of the UN and, for this reason, the Charter assigns to the UN the central role for global macro-economic policy and strategy formulation and guidance. Article 1(3) of the Charter includes, among the purposes of the UN, the achievement of international cooperation in solving global problems of an economic, social, cultural or humanitarian nature.

The World Bank, the IMF and the WTO have a powerful influence on global development, economics and trade. These three institutions are agencies of the UN that originated with the 1944 Bretton Woods Agreement. The World Bank Group includes the International Bank

for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and the International Development Association (IDA).

The IBRD provides loans or grants to member countries for specific projects that are typically linked to implementing policy changes in the development of the client country's economy. The World Bank's development programs are mainly targeted in the areas of infrastructure development, environmental protection, rural and agricultural development, human development and protection, and institutional governance and development. The IBRD aims to reduce poverty in middle-income and poorer countries by promoting sustainable development through loans and guarantees, and by providing analytic and advisory services. The IFC is the private sector investment entity of the World Bank Group; it invests in sustainable private enterprises in both developing and transition countries without accepting government guarantees; it provides equity, long-term loans, structured finance and risk management products, as well as technical assistance and advisory services. The IDA provides favorable financing to the world's poorest countries. The IDA's interest-free credits and grants, financed by contributions to the IDA from donor countries and by the IBRD's net income transfers, are vital because these poorest countries have little or no capacity to borrow on market terms.

The World Bank's strategic planning initiatives are based on the goals of supporting the creation of a favorable investment climate and empowering the world's poorest people. These initiatives include support for sustainable development, improved infrastructure, private sector development, job creation, delivery of social services, and sound governance. The major emphasis of the Bank's recent activity has been in the areas of poverty reduction, debt relief and specific Country Assistance Programs.

The United Nations Millennium Development Goals (MDGs) set the broad framework for much of the World Bank's development work. There are eight MDGs, as follows:

- to eradicate extreme poverty and hunger;
- to achieve universal primary education;
- to promote gender equality and empower women;
- to reduce child mortality;
- to improve maternal health;
- to combat HIV*/AIDS†, malaria, and other diseases; and
- to ensure environmental sustainability and create a global partnership for development.

In terms of reducing poverty and inequality, the Bank works with countries to prioritize their needs, articulate development strategies, and select financial instruments appropriate to fund those needs.

The IMF advises and assists member countries in implementing economic and financial policies that

promote stability, reduce vulnerability to crisis, and encourage sustained growth and improved living standards. It also promotes dialog among member countries on the regional and international consequences of their economic and financial policies, and reviews global economic trends and developments that affect the health of the international monetary and financial system. Promoting economic stability is partly a matter of avoiding economic and financial crises. As recent experiences have shown, crises can destroy jobs, reduce incomes, and cause human suffering, both nationally and beyond a country's borders if the crisis spreads. However, economic stability also means avoiding large swings in economic activity, high inflation, and excessive volatility in exchange rates and financial markets. Any of these types of instability can increase uncertainty and discourage investment, impede economic growth, and harm living standards. A dynamic market economy inherently involves some degree of instability, as well as gradual structural change. The challenge for policymakers is to minimize this instability without reducing the ability of the economic system to raise living standards through increasing productivity and economic efficiency, and the employment opportunities that this generates. Economic stability is also fostered by robust economic and financial institutions and regulatory frameworks that support transparency of financial transactions in the government budget, central bank, and the public sector, along with strong standards and systems for accounting, auditing, and data provision. The IMF also closely monitors economic and financial developments at the regional and global levels; among the initiatives used to promote economic stability are its assessments of countries' vulnerabilities to crisis and, in collaboration with the World Bank, the IMF conducts assessments of countries' financial sectors including capital market surveillance. The IMF also develops and promotes standards and codes of good practice in economic policymaking. It helps countries strengthen their capacity to design and implement sound economic policies. The IMF provides advice and training on a range of institutional and policy issues, including fiscal, monetary, and exchange rate policies; the regulation and supervision of banking and financial systems; and the development of statistical systems and of associated legal frameworks. Twenty-first century globalization is presenting the global community with new challenges and the IMF has an important role in fostering international cooperation and helping individual countries to meet these challenges.

The ILO is devoted to advancing opportunities for men and women to obtain productive work in conditions of security, equality and dignity. Its main aims are to promote rights at work, encourage employment opportunities, enhance social protection and engage in dialog on work-related issues. The ILO brings together representatives of governments, employers and employees to jointly shape policies and programs. It is responsible for developing, implementing and supervising International Labour Standards. In

* human immunodeficiency virus
† acquired immune deficiency syndrome

cooperation with its 181 member nations, the ILO seeks to ensure that labor standards are respected in both principle and practice. It provides technical assistance programs to governments, employees and employers worldwide, particularly in developing nations. Work is central to people's well-being in a globalized world economy. In addition to providing income, work can pave the way for broader social and economic advancement, thus strengthening individuals, families and communities. Such progress, however, depends on working conditions that are decent and that represent the aspirations of people during their working lives. These include opportunities for work that is productive and that delivers a fair income, security in the workplace and social protection for families. They also include better prospects for personal development and social integration, and freedom for people to express their concerns, have the ability to establish a union and participate in the decisions that affect their lives. Paramount among these aspirations is equality of opportunity and treatment for all men and women. Providing work opportunities is the key to alleviation of poverty and is the means by which individuals may share in the gains brought about by increased international economic integration. Extending opportunities for decent work to more people is a crucial element in making globalization more inclusive and fair. For these reasons, creating employment opportunities is at the heart of global development policy.

The WHO is the coordinating authority on international health matters within the UN system. Its experts help countries to address public health issues and, as a part of this process, the WHO promulgates health guidelines and standards. It also supports and promotes health research. Working in conjunction with the WHO, national governments can address the challenges of global health problems and seek to improve the health and well-being of their populations. At the United Nations Millennium Summit in 2000, 191 countries pledged to address the ambitious tasks of tackling poverty and ill-health and improving people's lives by 2015. The MDGs are derived from the Millennium Declaration. Health-related issues are at the center of the MDG agenda, with three of the eight MDGs directly health related.

The WTO, which was established in 1995 as a successor to the General Agreement on Tariffs and Trade (GATT), provides a forum for trade negotiations, administers trade agreements, monitors national trade policies, handles trade disputes, and provides technical assistance for developing countries. Its main purpose is to ensure that trade flows as smoothly, predictably and freely as possible in accordance with global rules of trade between nations, resulting in a more prosperous, peaceful and accountable economic world. At the heart of the WTO multilateral trading system are the WTO agreements that are negotiated by the majority of the world's trading nations. These agreements represent the ground-rules for international commerce and trade that guarantee WTO member countries important trade rights. Under the WTO agreements, the guiding principle is trade without discrimination; this implies that imported and locally produced goods should be treated equally; the same principle applies to foreign and domestic services. Countries cannot discriminate between their trading partners and are required to

extend the principle of most-favored-nation to all trading partners. Lowering trade barriers is one of the most obvious means of encouraging trade. Such barriers include customs duties, tariffs, and measures, such as import bans or quotas, that restrict quantities selectively. Indirect barriers to trade include administrative procedures and exchange rate policies. Other guiding principles of the WTO include encouraging freer trade through negotiation, achieving predictability through binding commitments and transparency, promoting fair competition, and encouraging development and economic reform.

In 2003 ISSA published a significant paper, 'Ageing and Social Security', which identified the main challenges of aging societies as:

- enhancing labor market opportunities;
- reversing the trend towards early retirement;
- meeting challenges of insecure employment;
- limiting individual risks in preparing for retirement;
- securing adequate income for old age through the mix of public and private arrangements;
- determining the role of the State in an aging society;
- ensuring gender equality in pension provision;
- providing sustainable health and long-term care to an aging population;
- addressing the challenges of aging in low-income and middle-income countries; and
- making social security a prerequisite for the financial security of individuals in aging populations.

Much of the discussion on old-age pension reform and cost containment in health care has revolved around the issue of economic sustainability in the face of aging populations. The future viability of aging societies will inevitably depend on whether the provision of social security is economically sustainable. Of equal importance is the social sustainability of an aging population. How can social security systems be adapted to the challenges and opportunities of aging societies around the world? How can the social security of the population be ensured in an efficient and equitable way? The future of aging societies depends on the success with which economic and social sustainability can be combined in a comprehensive approach to social security.

In recent years the World Bank has published a number of influential reports on the topic of pension reform. *Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth* (1994) advocated a system of mandatory individual accounts as one of the principal pillars of a pension system. *Old-Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform* (2005) reviewed the experience with pension reforms over the previous decade and presented an updated and broader view of pension reform issues based on the lessons learned from the experiences of

the World Bank in implementing reforms in a number of countries. The International Actuarial Association presented a response from the global actuarial profession to the World Bank's 21st century vision at the 2006 International Congress of Actuaries in Paris. This response commented on the problems and dangers associated with some of the World Bank's reforms, including the Chilean and Swedish social security systems, and presented an objective assessment of the defined contribution and notional defined contribution arrangements that, to a great extent, the World Bank has advocated as a panacea for pension reform around the world.

There are significant challenges presented by the demographic trends that are producing declining ratios of working-age populations to retired populations in many countries, due to increasing life expectancy and falling fertility rates. These challenges have produced a focus on reforms, both structural and parametric, including contribution adjustments, benefit adjustments, changes to retirement ages, financing methods, and funded complementary arrangements.

It is often said that demography is destiny. Demography influences economics; economics influences politics; and politics influences social policy. Together, these forces drive the relative wealth and geopolitical power of nations. In a global context, the two main demographic factors (increasing longevity and declining birth rates) impact the future population size and age structure of individual nations, geographic regions and, indeed, the whole world. The rate of world population growth has fallen by more than 40% since the late 1960s. Demographers at the Institute for Applied Systems Analysis predict that the global population will peak at around nine billion by 2070 and then start to contract. Some 59 nations, comprising about 44% of the global population, are not producing sufficient live births to avoid population decline. The changing economics of family life is the primary factor influencing falling birth rates. The world's current generation of women of childbearing age is having children at only about half the rate of women two generations ago. A dramatic example is Mexico where fertility rates have fallen substantially and the rate at which the population is aging is about five times faster than for the United States. According to UN projections, Mexico's median age will increase from about 22 to 42 over the first half of this century. These global demographic trends impact the world's economy and the geopolitical balance of power. Slower population growth is credited with the economic boom in Japan and other Asian nations from the 1960s onwards. In East Asia, the working-age population increased four times faster than the non-working population of children and seniors between 1965 and 1990. A lesser emphasis on family formation and raising children was a key factor in providing a large increase in the female labor force and freeing up social and economic resources for growth and investment. China's recent rapid industrialization is facilitated by its restrictive one-child family policy. Throughout the Middle East, the aging of populations is making more resources available for infrastructure and industrial development that otherwise would be committed to dependent children. Aging populations bring gradual changes in economic, political and social policy matters. Older populations place more emphasis

on issues such as health care and retirement income and savings. Political activism and violence are less in evidence among older populations than younger populations.

The 2005 World Bank report *Old-Age Income Support in the 21st Century* was both significant and influential. At its heart was a recommended multi-pillar approach for the structure of pension systems composed of a flexible and discretionary combination from among five basic elements, as follows:

- a non-contributory demogrant, or social pension, that provides a minimal level of protection;
- a contributory system linked to earnings to replace some portion of income;
- a mandatory system of individual savings accounts;
- a voluntary system that is flexible and discretionary that may take many potential forms, defined benefit or defined contribution, employer-sponsored or individual; and
- informal financial and non-financial support from intra-family or intergenerational sources to the elderly, including access to housing and health care.

Together, these five elements have become the World Bank's global standard or framework for comparative assessment and reform purposes in advising on old-age income security in countries where its influence is sought. The World Bank also presented four principles to be considered in setting the primary goals of a social security system, as follows:

- adequacy,
- affordability,
- sustainability, and
- robustness.

An adequate system provides benefits to the whole population that are sufficient to prevent old-age poverty in addition to providing a means to smooth lifetime consumption for the population. An affordable system is within the capacity of society and individuals and does not displace other social or economic imperatives or have untenable fiscal consequences. A sustainable system is financially sound and can be maintained over a foreseeable horizon under a broad set of reasonable assumptions. A robust system has the capacity to withstand major shocks, including those attributable to economic, demographic and political changes or trends.

Over the last 20 years, the World Bank has made more than 200 loans, involving over 60 countries, which were related to pension reform and development. The Bank has supported a diverse range of pension reforms within its multi-pillar framework. It has been influential in making several different types of pension system and social security reforms, including the following:

- parametric reforms that retain the basic structure of benefits, public administration, and the unfunded nature of the system, but where key elements of the parameters that define benefits, contributions and eligibility conditions are modified;

- reforms that change the structure of benefits that retain public administration and the unfunded nature of the system, but introduce concepts such as the non-financial or notional defined contribution arrangements into the system;
- market-based reforms that provide fully funded benefits of either a defined benefit or a defined contribution nature under private management arrangements;
- reforms that combine public pre-funding and public administration, again based on either defined benefit or defined contribution concepts; and
- multi-pillar reforms that diversify the structure of benefits, funding and administration of the system.

It is the stated policy of the World Bank to include in its reform proposals the needs of the main target population groups in client countries, including formal sector workers, informal sector workers, and the lifetime poor. Some observers have suggested that the World Bank has used its role as lender to impose its views and opinions relating to pension reform and system structure on client countries as a condition of making funds available for social and economic development projects. The Bank is sometimes criticized for its somewhat doctrinaire approach to economic and social policy development and, in particular, for its tendency to favor funding and individual account arrangements. A specific area of contention relates to its favoring of the notional defined contribution concept. Its goals of implementing adequate, affordable, sustainable and robust systems for providing old-age income support constitute the Bank's primary objectives. The World Bank also has secondary development goals that influence its policies. These secondary goals are intended to create positive developmental outcomes by minimizing the potential negative impacts on labor markets and macroeconomic stability, while emphasizing positive impacts through increased national saving and development of financial markets.

Another important source of research and influence is the ILO, which has a well-documented set of principles and standards that address the following five key objectives for social security:

- the extension of coverage to all members of the population;
- protection against poverty in old age, due to disability, or for dependents on death of the wage earner, for all members of the population;
- provision of an income, in replacement of earnings lost as a result of voluntary or involuntary retirement, for all those who have contributed;
- adjustment of this income to take account of inflation and, at least to some extent, of the general rise in living standards; and
- creation of an environment for the development of additional voluntary provisions for retirement income.

The ILO translates these philosophical principles into formal International Labour Standards. As an example, it advocates a target minimum level of benefits to provide income replacement in retirement at 40% of earnings. The focus of the ILO is very much on the primary social objective of providing adequate retirement income, whereas the World Bank's approach is also motivated and influenced by economic policy objectives and broad development goals. In general, for basic social security systems, the ILO favors defined benefit structures and unfunded pay-as-you-go financing arrangements.

One particular topic that represents a significant and major challenge in the area of social security and pension reform concerns the gender-related issues affecting women. As previously mentioned, one of the UN's Millennium Development Goals is to promote gender equality and empower women. In a recently-published book, *Lessons from Pension Reform in the Americas* by Professor Tapen Sinha and Stephen Kay, two chapters are devoted to this issue; one chapter discusses the gender impact of social security reform in Latin America; the other discusses the broader philosophical aspects of gender inequality in the provision of pensions. This is also an area that has been researched at the American Academy of Actuaries, resulting in the publication in June 2007 of an Issue Brief, 'Women and Social Security'; this Issue Brief concerns the United States Social Security system, but many of its findings and conclusions are relevant in a global context.

US Social Security provides benefits on a gender-neutral basis. Benefits are based on an individual's earnings record, employment history, and family composition. However, gender-related differences in the United States work environment mean that, in reality, Social Security provides different levels of retirement security for women and men. When the current benefit structure was set up, more than 70 years ago, the traditional roles of men in the family as primary wage earners and women as primary child care providers were well established. The system provides the highest benefits relative to contributions to married couples with a primary wage earner, presumed to be the husband, and their children. As women have taken on larger roles, as heads of families or as primary or co-equal wage earners, situations frequently arise where Social Security provides lower benefits for the same contributions, or requires significantly higher contributions with little, if any, increase in benefits compared with the traditional family. Factors that can affect these differences in the benefits women and men receive from Social Security include the following:

Employment history and earnings. Women tend to have more frequent breaks in employment due to child-bearing, child care, or care of elderly parents. When they are working, women on average earn less than their male counterparts. Thus, women generally receive lower Social Security benefits based on their own earnings histories, as compared with men.

Disability. Unpaid homemakers and caregivers do not qualify for coverage because they do not earn taxable wages, so some women are less likely to have sufficient recent employment to be insured for purposes of Social Security disability insurance benefits. If they

qualify, women are likely to receive lower benefits than their male counterparts.

Life expectancy. Women, on average, live longer than men. Therefore, a woman who retires at the same age as a man can be expected to collect benefits over a longer period. The majority of women have fewer assets than men and are more dependent on Social Security.

Marital Status. A woman's marital status affects her entitlement to Social Security benefits. Survivor benefits are designed to provide retirement security to widows and widowers, but provide no protection for the never-married or for divorcées if the marriage lasted less than 10 years. A higher proportion of women than men remain unmarried throughout life; women have a longer life expectancy than men; and women are, on average, younger than their spouses. In addition, older women who outlive a spouse are less likely than men to remarry. Women are consequently more likely than men to be single or widowed during retirement, particularly at the more advanced ages, and not receive adequate protection under Social Security.

The US Social Security system recognizes differences in financial circumstances among the employees and dependents it covers. As such, the current Social Security program provides certain safety net or social adequacy features to ensure that the less well off get enough benefits for retirement security. Although these features are not targeted at women, they often benefit from them more than men because of the factors mentioned previously. Some Social Security reform options currently being contemplated would change the social adequacy components of the program, with potentially disproportionate effects on women relative to men.

The American Academy of Actuaries' Issue Brief discusses the relative differences in the factors affecting men and women, as well as how these differences contribute to disparate benefits under Social Security. This includes the impact on the average woman of social adequacy provisions of the current Social Security program and various proposals to reform Social Security, including individual accounts. This combination of factors means that the average woman has a higher risk

of having insufficient income or depleted savings in her retirement years.

Recent pension reforms in Chile and the United Kingdom, for example, have acknowledged the need to recognize the special circumstances of women and to implement measures that are more equitable in providing adequate income support to women in old age.

There are many other challenges and opportunities facing the professional benefits community in a truly global context, a few of which are the following:

- ensuring the efficiency and adequacy of defined contribution systems where these have been adopted as part of reforms;
- extending social security coverage to a much greater number of individuals, particularly for workers in the informal economy;
- ensuring the deliverability of lifetime income during the post-accumulation phase;
- strengthening financial institutions that provide for delivery of annuities; and
- providing robust protection against longevity, inflation and market-related risks, such as interest rate changes and securities market valuations.

The world will increasingly look to members of the professional benefits community and the academic community who possess the essential skills and dedication to tackle these challenges, explore the opportunities that they present in collaboration with the leading supranational organizations; and devise solutions to meet the needs of providing economic and social security to the current and future generations of the world's population in a fiscally responsible and sustainable manner. The United Nations Millennium Development Goals provide a broad framework for much important work to be done to assist both developed and developing countries to achieve the humanitarian objectives of alleviating poverty, providing adequate old-age income support, increasing longevity and reducing morbidity through improved health care, and creating an environment of true gender equality and empowerment of women. Ω