



ILO FACTS

Accounting for the new Swedish old-age pension scheme A COMMENT

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ILO Convention no 102 on Minimum Standards in Social Security (art. 71 p.3)

- The Member shall accept general responsibility for the due provision of the benefits provided in compliance with this Convention, and shall take all measures required for this purpose;
- it shall ensure, where appropriate, that the necessary actuarial studies and calculations concerning financial equilibrium are made periodically and, in any event, prior to any change in benefits, the rate of insurance contributions, or the taxes allocated to covering the contingencies in question.

Advantages of the new Swedish approach:

- Simplicity,
 - and thus:
- More easily understandable to politicians and the general public
 - and as such:
- Helpful in improving governance of the Swedish pension system

Limitations of the new Swedish approach:

- Such a « powerful simplification » is not applicable to systems other than NDC
- Switch to NDC is not necessary an option for all the countries as not everybody wants to give up:
 - contribution rate as a policy instrument
 - redistribution via the pension system
- Very high data requirements

Is the balancing mechanism « insulating » pension system from the state budget?

- Maybe: with respect to its old-age NDC part
- But Swedish pension system includes also minimum pension guarantees
- State budget is thus not « insulated » from the fiscal implication of the old-age pension system

Balanced old-age pension system may still negatively affect balances of the state budget and of the other social protection systems

- More often balancing mechanism activated lower the pension levels and thus higher costs for public budgets to finance minimum pension guarantee and social assistance
- Tough eligibility rules in the pension system may lead to increased expenditure on other social protection schemes (disability, unemployment)
- Conclusion: additionally to budgeting individual schemes one needs « social budgeting » of the overall social protection system

Accountants and prophets

- Accounting principles of the new Swedish pension system go well beyond pure accounting: assumptions about the future are involved
- Above principles do not replace the need for actuarial valuations and actuarial/economic projections
- We need to know:
 - How finances of the system will develop depending on different demographic, labour market and economic scenarios
 - How pension levels and distributions will develop under these scenarios?

Accountants and prophets (2)

- Public pension systems (and defined benefit schemes in particular) need extremely prudent actuarial appraisals. However: the data necessary are not often in place. One needs to develop and implement standard statistical requirements
- Actuaries are not prophets but their work still can be trusted when it meets certain standards and is based on sound database
- ILO since years, in cooperation with ISSA and International Actuarial Association, aims at developing standards of practice for social security actuaries covering:
 - Required knowledge (more than pure actuarial)
 - Methods
 - Reporting

ILO work

- Developing tools (models, performance indicators)
- Training (Maastricht. Lausanne. Other)
- Textbooks
- Standards for reporting
- Statistical requirements
- Technical cooperation