Session 4A: Public Pension Reform Q&A

Presenters: Beverly J. Orth
Yosuke Fukisawa
Robert L. Brown

Presented at the Living to 100 Symposium
Orlando, Fla.

January 5-7, 2011

Doug Andrews: I could make comments for all of the speakers' speeches, but I'll limit my comments to two of them to allow other people time to participate. Beverly, I won't use the euphemistic language that Andy used, but I think that was an extremely bold paper that you made in the context of the United States that you were going to expand Social Security in so many different ways and raise taxes in a couple of ways. Congratulations! The points that you talked about were certainly the right ones to talk about. If only the solutions could be implemented, we might all be much better off.

Expanding the system to include long-term care coverage was a good suggestion. Adding employee contributions as a way of saving effectively and getting a defined benefit from it rather than just a defined contribution, that's something that's very much needed. Using Social Security as a possible annuitization option for employer contributions, that's brilliant. I didn't quite understand though why the benefit needed to increase at age 85. Andy says there has been talk about there's a need for the very old people to have an increase, but I'm not sure why the system is set in such a way that it needs that increase at 85, so that's my question for you and then I will have another question for Yosuke.

Beverly Orth: My thought there is that it would be like a form of longevity insurance, which usually is a deferred annuity to an older age. If you live to that age, then your annuity starts. I picked 85 as just kind of a nice age, I guess. There wasn't any magic to it.

Doug Andrews: But there's nothing built into the Social Security system that it's continuing to lose its effectiveness and it's lost a lot at 85 so it needs pumping up? There's nothing about that.

Beverly Orth: No, it's not really related to Social Security benefits. It's really related to people's other assets that this is a form of longevity insurance that they don't have to think about buying. It would just be automatically provided through the higher tax rates.

Doug Andrews: Bruce interpreted the adjustments of the indexing to only apply to pensions and payment, but I believe the adjustment and indexing also applies to the level of pensions that will be paid and in your analysis you started with the Japanese generally feel satisfied with the level of income or that they're not having a hard living and they're receiving 71 percent of average income. But the analyses I've seen indicate, by 2050 the level of income that could be expected to be received in pension is less than 50 percent and so on that basis, they might well not feel as comfortable in retirement. And I couldn't tell from your slides and your charts what level of average income you were projecting those deficits to be and I think that is where the rubber hits the road, if you like, that the level of pension you're receiving is how much you're able to spend and how comfortably you feel. Did you look at that aspect or can you convert these deficit numbers you have into an income that people are going to be receiving?

Yosuke Fukisawa: I didn't use them in this point, but my summarization is based on the benefits; it's about $20,000 U.S., so based on that hourly income, I see a deficit and various risks, so that's it.

Geoff Rashbrooke: The reason the New Zealand system is so cheap is because we don't need to keep records. We pay a demo grant. It's a flat, universal non-means-tested thing so it's cheap and easy as you can really run a system. In terms of qualification you have to have been a resident for10 years, just go through any questions it goes to the immigration records and they check it out.

The question for you, you were talking about the relative cost of the Canadian system compared to European systems, the OECD comparisons. One thing that always strikes me about those is that you've got to divide between the Anglo country systems and the European and other systems where the third pillar in the Anglo countries is generally taxed favored as is the case in Canada, where there's no equivalent system or hasn't been to any large extent in the European. So what would happen to that comparative cost if you actually included the cost of the tax benefits in Canada? I can't remember what they are, but those tax subsidies as a percentage of GDP do have a cost. In Australia they add another 2 percent of GDP to the cost of the pension system.

Rob Brown: I don't have the answer to that at my fingertips. Jean-Claude, do you have an answer to that? I can tell you that the last I looked it was something in the order of magnitude of $20 billion a year in what the federal government calls tax expenditures which is foregone taxation. I have tried though for a long period of time to get people to stop thinking about this as a tax expenditure and think about it as a deferred tax asset because when I take my money out it's going to be taxed in full. And with the rise of health care costs as the population ages, it would be really nice and, in fact, it will happen that we could get some more taxes out of registered money so it's the perfect deferred tax asset. So I didn't answer your question, but I did get a chance to get my plug in, thanks.

Jean-Claud Menard: Rob, you said that low income workers don't have any incentives to save in the current system. Could you say a word about the legislation introduced by the government in 2008 called the tax-free savings account?

Rob Brown: Yes, we do have a new savings system that does have some tax incentives. It's called a tax-free savings account. You put your money in and get no deduction so you're taking your after-tax money and putting it in. What you earn accrues tax-free. When you take it out, you don't pay tax on it so that this is a way for lower income Canadians to save for retirement, but further the legislation said what you take out of a TFSA (tax-free savings account) will not impact your guaranteed income supplement, so, in fact, they were very specific and I think that was the reason.

I'll bet though, in macro terms it's been very successful. A lot of people are using the tax-free savings accounts and there's a lot of money in there, but I'd be willing to bet a cold beer that it's exactly the people that don't need them who are using them, and that the low-income Canadians are not to any significant extent taking advantage of them, but that's just me projecting mentally. I have no data to support or not on that one.

Andy Peterson: Those accounts sound basically like a U.S. Roth 401(k). Is that the idea?

Rob Brown: Yes, yes.

Chresten Dengsoe: I just wanted to comment on what Andrew said. I think if I understood you right, you were talking about whether you should link retirement age to the improvement in life expectancy and I think you called it an actuarial solution to an actuarial problem. I don't know if I got that right. I just wanted to point out to you that there are several northern European countries that already do this. So for us it's a political solution to a political problem. It's just not actuaries who should be concerned around this.

And unfortunately I wasn't able to attend this morning's session, so maybe I didn't, but as I understood you, you said that there were discussions about whether this would be fair because the life expectancy of big subpopulations is so different, but I think that is kind of mixing things because some of the benefits we're talking about are universal benefits. It makes sense that you don't split today. You have only one age today. It's not like you have four or five different ages today so the thing about whether you want to index it or not with the life expectancy has to do with the fairness among generations.

Andy Peterson: Yes, I fully agree with you actually, speaking personally, not for any of the actuarial organizations. Whenever the increase in the normal retirement age of Social Security is brought up in the U.S. context you typically get very hard pushback from the liberal side of politics that that effectively is a cut in benefits for their workers who are blue collar and can’t afford to work longer, so that’s one of the challenges with it politically. One of the responses at least that I personally believe in is that you can’t set policy-based on one particular demographic group, you need to look at a whole and then you look at other solutions like additional disability or things like that for that particular subpopulation that perhaps isn’t benefiting from the increased life expectancy that other groups are.

Rob Brown: Just to add to the argument, if my life expectancy is 10 years and you raise the age by one, I’ve lost 10 percent. If my life expectancy is 20 years and you raise the age by one, I’ve lost 5 percent. So it’s not just the function, it’s the first derivative.

Craig Hanna: Two years ago the Academy came out with a pretty forceful statement in support of raising the retirement age and we’ve, in fact, engaged policy makers on ways in which to ameliorate that increase on certain populations. We, in fact, addressed some of those comments to the commission that came out with the proposal recently. Our solution to those criticisms is, let’s talk about which populations you’re talking about, what kind of relief you’re talking about and there are political solutions to a political problem.