



**Interamerican Conference
on Social Security**

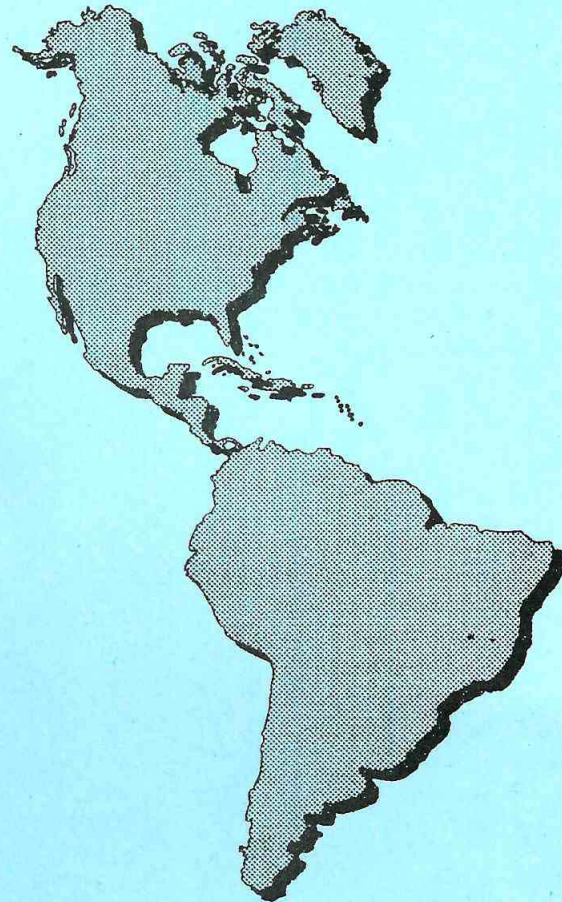


**Instituto Dominicano
de Seguros Sociales**

XL Meeting of the CPISS

XL/CPISS/XXXIII/CAAF/ RD.96/1

**"Social
Security Reforms
and
Economic and
Social Policies"**



Report of Activities 1996 and Work Program 1997

Comision Americana of Actuary and Finance
Elsebir Ducreux de Castellero

Santo Domingo, Dominican Republic, 25 - 29 November, 1996

Conferencia Interamericana de Seguridad Social



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**AMERICAN ACTUARY
AND FINANCE COMMISSION**

1996 REPORT OF ACTIVITIES

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- II. CAAF NEWSLETTER No. 1
- III. 1996 TECHNICAL MEETING
- IV. BALANCE OF THE BUDGET ALLOCATION FOR JUNE, 1995-JULY,1996.

1996 REPORT OF ACTIVITIES

I. FIRST INTERNATIONAL CONFERENCE OF ACTUARIALS

The most important event that the American Actuary and Finance Commission carried out was the **FIRST INTERNATIONAL CONFERENCE OF ACTUARIALS**, that was held in Panama City from May 16th to 18th. All CISS member countries were invited to send their actuaries, and the meeting's objective was as follows:

- Analyze present actuary and finance topics in depth.
- Share and gather all social security actuaries from all American countries along with international speakers.
- Gather information from the countries in the American Continent.
- Obtain feedback from the experience that other countries have gathered in connection with finance systems.

The four Commission Vice Presidents and the Technical Secretary attended the meeting.

Every one of the participants received a certificate of attendance to this important meeting.

We are very grateful to the Interamerican Social Security Conference represented by Ms. Maria Elvira Contreras, who gladly accepted our invitation to open our first Conference of Actuaries. We are also grateful to Ms. Ana Luz Delgado, Coordinator of the American Actuary and Finance Commission for the support she provided.

Mr. Fernando Argüelles, present head of the Actuary and Finance Division at CIESS, was also present representing the Social Security Studies Research Center. Therefore, the afore-mentioned research center of the Interamerican Social Security Conference was able to make a closer approach to the countries that attended.

Our speakers were well-known actuaries and one public accountant who dealt with the topics that are summarized as follows:

Mr. Robert Myers, Honorable Professor from Temple University, Washington, member of the International Association of Actuaries; spoke on "Social Security in the United States and Possible Changes."

The 1983 actuarial estimates showed that old-age, survival, and disability insurance (OASDI) would remain within the limits of actuarial balance in the coming 75 years. Later estimates show a less favorable overview. The estimates for 1995 foresee that the program will be financed only until 2030. This comes as a result of different elements,

including negative experiences regarding disability, greater life expectation, decreased birth rate, and less increases to actual salaries.

This situation does not mean that OASDI is destined to a collapse. Instead of that, small gradual changes will be made and even if they are legislated now, they can be anticipated. For example, the cost of benefits may be reduced even in the long term by a faster increase in normal retirement age.

It seems unlikely that there will be changes in OASDI's program in the coming years, with the exception of solving the problem regarding long-term financing. The program may be allowed to "settle" after the relevant amendments that were made in 1983 and until public confidence can be restored.

Mr. Chris Daykins is the United Kingdom's chief actuary and present Chairman of the Permanent Commission for Statistical, Financial, and Actuarial Studies of the International Social Security Association. He spoke on the subject of "Trends in Social Security Systems in the European Community."

In most of the European countries, social security is mainly granted through a national system at a rather generous level. In Italy, Spain, and Portugal the social security system's goal is to grant about 80% of the final salary as a pension benefit. Some of Europe's eastern countries, such as Hungary and Poland, already have a social security equivalent to 50% of their earnings and it is likely to increase substantially in the coming 30-40 years, unless they do something quite dramatic.

Sweden also has a very generous social security system, but it has decided to change to a payment system. Finland is another Scandinavian country with a long social security tradition, although it has a system similar to the United Kingdom's, with a basic scheme and a secondary revolving basis connected to the income provided by the employers. France has a complex supplementary mandatory system, which is a progressive aspect, and is organized at the industrial level. They have certain advantages over most progressive payment pension systems.

Mr. Alvaro Castro, Manager of the Regional Program for the Americas at the International Social Security Association, spoke about "Specific Benefits or Specific Contributions."

In the determined benefit system with variable payment rates, the individual knows the amount of the pension he/she will receive. On the other hand, it is not known what percentage of the present income will be affected as time goes by to finance the payment of pensions.

In the determined payment system, with undetermined benefits, the mandatory payment is fixed and is not subject to future changes. The person insured always knows what

percentage of his/her income will be used to finance his/her own pension. Regardless of eventual future adjustments in life-incomes, it is known how much will be paid but not how much will be obtained.

Both systems, specially the one with determined payments, must have a national capital market sufficiently developed as a possibility to diversify investments towards foreign markets.

A combination of a general system and a supplementary system may provide long-lasting solutions in the long run. How long "long-lasting" may be depends on the stability and actual economic growth of the region's countries. Social security undoubtedly represents a direct trend towards economic growth, but we must not forget that the latter does not have to reduce the first as a mere market tool.

Mr. Warren McGillivray, Head of Regional Activities at the International Social Security Association spoke about "The Relative Load Represented by Pension Holders and Estimates of the Amounts in Personal Accounts in a Fund for Determined Benefits."

An ample debate has been carried out about these determined benefit systems. Sometimes the debate has been due to deficient management and at other times it has been due to lack of payment. The systems have encountered some problems regarding time, because they have promised many benefits. All of these elements have contributed to create discrepancies in many country's systems. Therefore, it has created a lack of confidence in the system on the public's part. Instead of attempting to straighten out this system, a different system has been adopted.

Determined payments and benefits face common problems, such as demographic and economic problems. Nevertheless, there are two trends that combine different progressive payment systems and financing schemes. If a decision is made at the beginning that a progressive payment system will be adopted, then there is an awareness that there will be a determined payment system. If, on the contrary, a totally financed system is wanted, then a determined benefit system will be obtained.

Mr. Alejandro Bonilla, Chief Social Security Specialist, E.T.M. at the International Labor Organization, spoke about "Analysis of the New Coverage Systems Within Social Security in America."

The changes in pension systems in the American region are the core of economic strategies, of most countries' political agendas, and at the center of social debate. Questioning social security systems in the region has proven a point of agreement; an acknowledgement that there is a need to change. Regarding the direction, strength, and financial support for change, there does not seem to be a consensus.

In general, their behavior face outside and opposing positions between what is individual

or collective; what is immediate and what is lasting; what is public and what is private; management techniques and actuarial techniques, etc. Polarized debates do not seem to make much sense, since international experience shows that every pension system requires strong actuarial bases, efficient management, supplementing what is individual with what is collective, and a consensus between the public and private sectors. It is evident that it would be a mistake to try to relieve management inefficiency or corruption at the different institutions by changing actuarial bases. The actuarial system may be changed countless times, but if the reasons for inefficiency and corruption are not fought directly, they will not disappear. They will just change shape and procedure. Good management and administration, on their own, could be an efficient way as actuarial techniques that have been proven at international level.

Mr. Hernando Perez Montas, CAFF Vice President spoke about the topic "Complementary Pension Systems and Their Development in Latin America."

The changes in pension systems in Latin America force social security actuarians to upgrade their traditional tasks. It is not only required to redesign and readapt local pension systems in view of increasing costs that have exceeded original expectations (whether due to deficient management of investments, accelerated demographic ripeness, or other incidental elements), but also because it has been acknowledged that financial safety upon retirement cannot depend on only one thing.

The appearance of complementary, guaranteed systems that have tax incentives and that represent a supposedly positive influence on inner savings and on the securities markets, requires an actuarial activity. This has to include several ranges of requirements regarding designing and paying for pension plans, delayed savings, termination, supplementary funds, and other benefits by harmonizing expectations and complex laws. Also, it is required to prepare financial standards on actuarial financing, investments, etc.

Mr. Eusebio Perez, Technical Secretary of the American Actuary and Finance Commission, spoke on "Types of Investments Needed to Finance Social Security Regardless of Legal Limitations."

The importance of investing resources in connection with financing social security programs is a red-hot discussion topic.

The search of safe and profitable ways to invest social security resources represent an important requirement when financial reserves are matched with commitments made in different programs, especially if investment returns are taken into consideration. In comparison to demographic variables, they are more significant, at least regarding pensions and the value of benefits.

On the other hand, recent reports from the World Bank have revealed that the existence of securities markets represent a motivation for economic growth, since by creating

liquidity they have a positive influence on economic activities.

The meeting's moderator was the Coordinator for the Central American Subregion, Mr. Fernando Palma. Therefore, it was possible to coordinate the meeting between the American Actuary and Finance Commission and Subregion II.

Some of the main conclusions that were reached at the meeting were as follows:

- There are different trends and theories about the future situation of social security systems; however, there seems to be a consensus regarding the fact that no system is perfect. Therefore, there is no single formula that can be implemented in every country.
- It is important that the new systems do not neglect social security's basic principles, so that the reason for being of these systems will always be people as human beings, without discrimination and taking into consideration the impact on the different social levels and occupations that exist in every country.
- Social Security specialists face a challenge regarding the development of systems that combine both the advantages of determined benefit systems and of determined payment systems that will properly protect individuals who are incapable of saving and those who are able to do so. This must be tailored to every country's actual situation.

We would like to express our appreciation in public to all the staff from the Interamerican Social Security Conference and the Social Security Fund who were present, and those who were not, at the Actuarians Conference and who gave us their support to carry out this meeting, as well as to the outstanding speakers and the personnel that attended.

II. CAAF NEWSLETTER No. 1

We recently published the first Newsletter of the American Actuary and Finance Commission. Its main objective is to make known all of CAAF's activities and those it will carry out, as well as summaries of any Conferences that are held, the lectures, and discussions at technical meetings, and any articles that America's actuarians or other professional individuals may wish to publish thereby.

III. TECHNICAL MEETING

The purpose of the technical meeting that we held was to analyze financing models in the countries that have changed, or that are about to change, their benefit structure and

financial systems. This type of lectures are often given, but our interest in submitting them to CAAF was that more specific topics dealing with actuary would be presented in the same format. Our objective was fulfilled and we are certain that in coming years all social security structures will be changed.

IV. BALANCE OF CAAF'S BUDGET ALLOCATION FOR JUNE, 1995-JULY,1996.

The American Actuary and Finance Commission will carry out three Conferences for Actuarians during this period, therefore, the Chairwoman accepted this commitment and has obtained financial support from the institution where she works, the Social Security Fund of Panama, through its director Ms. Marianela Morales. This will allow her to comply with the objective of getting continuous, annual feedback for the Continent's actuarians about technical issues that are being addressed in our countries and in the rest of the world.

The following is our balance for the June, 1995-July, 1996 period:

BALANCE OF CAAF'S BUDGET ALLOCATION FOR
JUNE, 1995, TO JULY, 1996

INCOME

Allocation from CISS to CAAF B/.10,000.00

OTHER INCOME

Contribution from Panama's Social Security Fund for the Actuarians Conference 10,218.83

TOTAL INCOME B/.20,218.83

EXPENSES

CAAF Funds

- Book on "Demographic and Economic Model of Canada's Pension Plan" 965.00
- Spanish version of the above 1,656.00
- Translation of some chapters of the work from Spanish into English 628.00
- Style correction of the work in Spanish 135.00
- Simultaneous Interpretation 837.00
- Stationery and titles 583.41
- Appetizers and Dinner 2,195.39
- Other expenses 673.60
- Stationery for the Commission 645.20
- Translating lectures in Mexico 270.12
- Airline ticket Panama-Mexico-Panama 445.00
- Printing the Newsletter and other expenses 765.03

CISS FUNDS

- Airline Tickets 2,310.50
- Lodging and meals 2,839.50
- Buffet for participants 2,218.53
- Simultaneous interpretation 2,850.00

TOTAL EXPENSES B/.19,352.23

DIFFERENCE BETWEEN INCOME AND EXPENSES 200.85

1997 PROGRAM OF ACTIVITIES

- I. Publication About Social Security Indicators
- II. Second International Conference for Actuarians
- III. CAAF Newsletter No. 2
- IV. 1997 Technical Meeting
- V. Publication

1997 PROGRAM OF ACTIVITIES

I. PUBLICATION ABOUT SOCIAL SECURITY INDICATORS

We will soon publish a book about social security indicators that includes different areas. This first book represents progress in social security indicators, since they were outdated and needed to be changed. We hope that this publication will be of interest and that will become a part of the work that social security specialists carry out.

The objective is to submit social security indicators focused at management and operational levels on the following topics:

- Demographic indicators
- Economic indicators
- Financial indicators
- Actuarial indicators
- Health indicators

II. SECOND INTERNATIONAL CONFERENCE FOR ACTUARIANS

One of our goals for 1997 is to hold the Second International Conference for Actuarians, which is planned for the first or second week of May. The final date will be advised in the coming weeks, since we want to make certain that all speakers are available for that date. The Second Conference will be sponsored by the American Actuary and Finance Commission of the Interamerican Social Security Conference, Panama's Social Security Fund, and the Ministerio da Previdencia e Assistencia Social do Brasil.

The second Conference will be held in Rio de Janeiro, Brazil, and it will last from three to five days.

The topics for the second Conference will be:

- Diagnosis and financial actuarial model for Pension Programs at Social Security Institutions
- Diagnosis and financial actuarial model for Health Programs at Social Security Institutions
- Diagnosis and financial actuarial model for Hazard Prevention Programs at Social Security Institutions

The following actuarians will be invited:

- Giovanni Tamburi (Pensions)
- Francisco Bayo (Health)

- Alvaro Castro (Pensions)
- Robert Kleffer (Health)
- Alejandro Bonilla (Pensions)
- Mexican actuarial (Hazard Prevention)
- Sergio Velasco (Professionally-related Risks)
- Octavio Maupome (Pensions)
- Actuarial from Argentina (Pensions)
- Victor Uriel Vargas Diaz (Salud)
- Marta Grille (Pensions)
- Brazilian Actuary (Health)
- Brazilian Actuary (Professionally-related Risks)

The objective of this conference is to continue providing feedback about what is happening in financial systems and to analyze the countries that have started to change their systems on pensions, professionally-related risks, and health. The guest moderator will be the Coordinator of Subregion for South America, Mr. Jorge Omar Fillipone.

III. CAAF NEWSLETTER No. 2

The topics that were discussed at CAAF's Technical Meeting a few days ago will be included in the Newsletter, along with the ones that are dealt with during the Second Conference for Actuaries.

The following topics may also be included:

- The link between legal and actuarial social security issues.
- Compare the changes in social security systems that the American countries have carried out recently.
- Any other publication that has been previously evaluated and that actuaries request at the international level.

IV. TECHNICAL MEETING FOR NOVEMBER, 1997.

The topics for the above-mentioned meeting will be considered next year.

V. PUBLICATION

We are in touch with the universities in order to publish the best dissertations written by the new professionals in the area of actuary.