Opening remarks by Jean-Claude Ménard
Chief Actuary, Office of the Chief Actuary
Office of the Superintendent of Financial Institutions Canada
Chairman of the ISSA Technical Commission on Statistical, Actuarial and Financial Studies
to the
Technical Seminar for Social Security Actuaries and Statisticians of the International Social Security Association (ISSA)
Sustainable Financing and Extension of Social Security Coverage
Montevideo, Uruguay
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Welcoming remarks and review of the 2008-10 triennium

Good morning, Honourable delegates, Dear President, Mr Ernesto Murro Obelin,

As the chairman of the ISSA Technical Commission on Statistical, Actuarial and Financial Studies I would like to begin by thanking the Social Insurance Bank (Banco de Previsión Social) of Uruguay for graciously agreeing to host this international seminar. This Seminar is the last event of the 2008-10 triennium that will culminate in November 2010 with the World Social Security Forum in Cape Town, South Africa.

The overall focus of the International Social Security Association for the 2008-10 triennium was on Demographic Changes and Social Security. As a result our Technical Commission has addressed two main projects during the last three years. The first project was “Longevity improvements and its impacts on the sustainability of social security schemes”, and the second project was “Optimal financing of social security schemes in changing demographic environment”. To advance these projects the Technical Commission has organized the 16th International Conference for Social Security Actuaries and Statisticians that took place in Ottawa, Canada in September 2009, as well as the Technical Seminar in Limassol, Cyprus, in October 2008 and the current seminar in Montevideo. These three events spanned three continents: Europe, North America and South America. They have brought together brilliant speakers and highly professional audience from all around the world. I would like to take this opportunity to thank everybody involved in the organization of these events, including in particular the members of the National Organizing Committee of this Seminar who are present in this audience.

The Commission has also supported a number of initiatives including two international surveys: the first one on the demographic and economic assumptions used in the actuarial analyses of social security schemes, and the second one on self-adjustment mechanisms for social security schemes. The final Commission's initiative is about the construction of mortality tables for the countries where such tables do not exist. This project is conducted in close cooperation with the International Actuarial Association. The country identified is Indonesia and the process of obtaining necessary data is under way. In our view such type of projects provides for an excellent opportunity for knowledge sharing and cooperation between countries.

The Commission's activities were inevitably affected by the world-wide financial and economic crisis of 2008-2009. It could be said that this crisis was a "highlight" of the past triennium and has added more dimensions to the question of optimal financing by subjecting social security systems to a stress testing. As Edward Whitehouse said in Ottawa: "It started as a financial crisis, but it turned into an economic crisis, and no pension system was immune to it". However, dealing with the short-term and middle-term consequences of this crisis, it is important not to forget that the long-term problems like population aging did not go away.

Change in the Population Structure, Global Aging and Social Security Systems

Changing population structures, deteriorating dependency ratios and increases in life expectancy are major causes of expected increases in pension expenditure.

According to recent projections of the United Nations and the Population Reference Bureau, from now until 2050 virtually all population growth is projected to occur in less developed countries. Latin America and Caribbean are projected to have a growth of around 25%. This is in contrast to Europe's population, which is expected to decline during the same period.

However it could be seen that the growth of population is mainly due to the increased life expectancy. Such increases in combination with falling fertility rates accelerate the aging of the world. The disparity in population growth between the world's regions, as well as different fertility, mortality and migration trends translate into different aging patterns around the globe. While the current estimated world's median age of 29 years is expected to increase to 38 by 2050, the median age for the Latin America and the Caribbean countries will grow from 28 in 2010 to 42 in 2050, showing an increase of 14 years. As such, the percentage the region's population that is under age of 15 will fall from 28% in 2010 to 17% by 2050, while the proportion of the population over age of 65 will grow from 7% to 20% during the same period. Comparing with the region, Uruguay starts as an older country with the median age of almost 34 years in 2010, and will experience a slower aging process. By 2050 it is projected that Uruguay will be slightly older than the Latin America.

Not surprisingly, we will see a dramatic increase in dependency ratios all around the world, even in those regions currently with low ratios. For example, the old-age dependency ratio, that is the ratio of the population aged 65 years or over to the population aged 15-64, in the Latin America and the Caribbean region is projected to increase from 11% in 2010 to 31% in 2050. For Uruguay, these figures are 22% and 35% respectively.

Aging is an important cause of economic insecurity due to loss of earned income and deterioration of health. Evolving family structure and the nature of the workforce shift the responsibility of providing an adequate standard of living for older individuals to individuals themselves as well as to society. A social security system is the main channel through which a society can build a protection net for its elderly citizens to help them plan for the future and to safeguard them from poverty. In this context it is important to look at the level of benefits provided by social security systems, and to assess if such income is sufficient to keep elderly citizens above the poverty line. The adequate old-age net income replacement rate is especially important for lower earning individuals who are less likely to have additional income sources such as work-related pensions and/or individual savings. It should be noted that Uruguay is faring well on this indicator by providing a net replacement rate of 125% to individuals with earnings less than the average earnings. This replacement rate is decreasing to about 70% for individuals earning 2.5 times the average earnings[1].

An adequate replacement rate by itself does not guarantee a low old-age poverty rate if it is not combined with the country-wide social security coverage. The second theme of this Seminar will discuss in more details how countries could move to universal social security coverage in sustainable ways.

The combination of sufficiently generous net replacement rate and widespread coverage should result in a low level of old-age poverty in a country. Based on the 2008 data from the Economic Commission for Latin America and the Caribbean (ECLAC), the poverty rates for the elderly population in many countries of the region were lower that poverty rates for the general population. These are good news: they mean that old-age social security systems work! The situation on old-age poverty in Uruguay is to some extent very similar to my country – Canada: the elderly poverty rate is less than 3% and is much lower than the general poverty rate of about 14%. For Canada these figures are 5% and 12% respectively.

However the old-age social security is a part of a broader social policies portfolio, and as such we should not forget that social protection should extend to all population independent of age and income. We, as social security professionals and citizens, could not stop our quest for viable and robust social security systems as long as there are people living in extreme poverty. And as per ECLAC statistics, more than 8% of Latin America and the Caribbean population currently live in extreme poverty.

Professional Duties

We are going through challenging and exciting times. The rapidly changing demographic and economic conditions around the world demand that we apply the best of our professional abilities with integrity and a social conscience. I would like to quote from the Rules of Professional Conduct of the Canadian Institute of Actuaries:

"A member shall act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession."

I stress here the words **"profession's responsibility to the public"**, since it is not only actuaries, but all social security professionals who must be **objective and devoted** to their duty to serving the public interest. All actuarial organizations that are full members of the International Actuarial Association have professional standards of conducts that contain a similar requirement. Accordingly, we are required to continue to fulfill our responsibility toward society both as professionals and citizens.

Closing Remarks

I trust that this Seminar will act as a platform to share knowledge, experience and research results in the field of social security. The quality and relevance of the information that will be presented by respected international social security experts will be of benefit to all of you.

The seminar however cannot be successful without your active and thoughtful participation. I thus strongly encourage your input and hope that you will use this opportunity to share your thoughts and ideas with other social security experts from around the world.

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[1] E. Whitehouse "Pension Panorama – Retirement Income Systems in 53 Countries", The World Bank, 2007