

# THE EUROPEAN ACTUARY

- 1\_Ralf Jacob: Pressing pension issues facing the continent
- 3\_Pierre-Alain Boscher: The social cover of French employees
- 4\_Klaus Heubeck: 125 Years German Bismarck Social Security System
- 5\_Peter Tompkins: Choosing how to take your pension
- 6\_Ad Kok: The New Global Insurance Capital Standard
- 8\_Falco Valkenburg: Being honest about pensions
- 10\_Tim Rozar: Working together at aging populations

VOLUME 4  
NUMBER 2  
APR 2014

## Pressing pension issues facing the continent



By David Nicholson

### ***Can Europe's pension systems cope with the challenges of an ageing population?***

'I think there is a lack of confidence in pension schemes, be they public or private. Both types of schemes, in view of the current economic climate and the ongoing demographic changes, will be performing less well in terms of what amount of pensions people will get for their contributions. But that doesn't mean that today's pensioners will be the last to enjoy a decent income in retirement. In February 2012, the Commission presented a White Paper on adequate, safe and sustainable pensions. It set out how Member States can ensure that future generations can enjoy good pensions, focusing on two key ways to tackle the challenges: achieving a better balance between years spent working and years spent in retirement, and promoting safe and cost-effective private pension schemes. People will need to work longer and retire later, but there is also scope to raise young people and women's employment prospects, easing the transition from education into employment and achieving a better work and life balance. Good pensions depend on long stable careers in high-quality full-time jobs. This is what provides the foundation of strong pension systems.'

### ***What is the outlook regarding supplementary private savings?***

'There is also ample room for improvement. Occupational pension schemes are well developed,

with good coverage rates, in a minority of EU member states. Third pillar products are available almost everywhere, but their uptake varies greatly, depending in particular on the public support that is available for this kind of savings and on how much people trust such personal pension plans.'

### ***Which member states are performing best?***

'A few are doing quite well: they have already achieved high employment rates and a good coverage of supplementary retirement savings schemes. I am thinking of Sweden, Denmark and the Netherlands. For the vast majority of member states, there is significant potential for improvement in both respects. This also means that there is greater untapped employment growth potential, which can compensate for shrinking working age populations. Likewise, there are many possibilities for increasing complementary retirement savings. Indeed progress is possible even in the current difficult economic climate: employment rates of older workers increased during the recession. And the coverage of supplementary pension schemes can quickly be expanded through auto-enrolment - as in the UK - or through collective bargaining to establish industry-wide coverage of occupational schemes; this has been very effective in the Netherlands, Denmark and Sweden and more recently in Belgium.'

### ***What role can the EU play?***

'Pension provision remains a responsibility of member states. But there are issues which need to be regulated at European Union level, notably related to the Internal Market. The EU is more and more active in coordinating national economic and social policies. The White Paper on pensions presented a number of EU initiatives to help member states align their policies with the priorities for adequate, safe and sustainable pensions. Only a few of these initiatives are legislative, linked to the internal market. Recently we reached agreement on a Directive that seeks to reduce obstacles to free movement by ensuring that people can acquire occupational rights after no more than three years of employment, and that these rights are preserved in a fair manner, so that people are not penalised too much when they take a job in another country. Another legislative initiative concerns the revision of the 2003 directive on institutions for occupational retirement provision – pension funds, in other words.'

### ***How does the 'European Semester' affect pensions?***

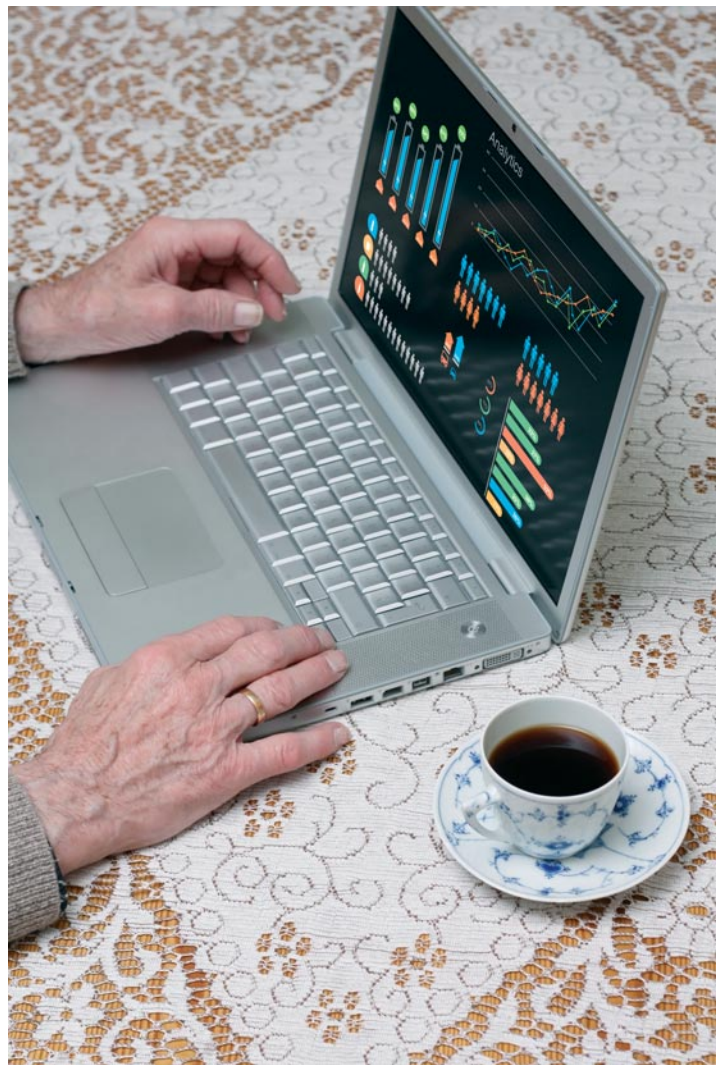
'When it comes to achieving a better balance between work and retirement the 'European Semester' is a powerful new tool. This is a review of economic, employment and social policies that has taken place during the first half of each year since 2011. At the end of this process, recommendations are addressed to the member states. Many of these concern pension reforms. For example, recommendations have focused on the need to raise the effective retirement age by restricting early retirement, raising the pensionable age and linking it to life expectancy. Importantly, they have also highlighted changes in work place and labour market practices, to allow women and men to work longer. Member states can get financial support to implement these changes from the European Social Fund. Finally member states can draw upon advice and support from the EU's Employment and Social Protection Committees.'

### ***Should the EU encourage a direct link between pension age and life expectancy?***

'As life expectancy goes up – thanks to reduced mortality above the retirement age – we will spend a greater proportion of our life in retirement, unless the retirement age is adjusted in line with life expectancy. The Commission has therefore pushed member states to link the age at which people can claim a pension to life expectancy. This would improve the financial sustainability of pension systems without having to cut benefits. However, member states wanted more flexibility and insisted that a link between the pensionable age and benefit levels – at a given retirement age – should also be regarded as an acceptable way to secure financial sustainability. Life expectancy is, for instance, used in the calculation of benefits in countries like Sweden, Portugal and Finland. No matter what linkage between the pension system and life expectancy is used, adequate pensions in the future depend on these measures bringing about a rise in the effective retirement age, i.e. the average age at which people drop out of the labour market.'

### ***With low interest rates expected to persist, are annuities likely to disappear?***

'With low interest rates, and, more generally, low rates of return on financial assets, people need to save more to achieve their desired level of supplementary retirement income. Moreover, with the decline of defined benefit schemes, most people will only accumulate capital and will have to bear the risk of low annuity rates when they convert their capital into a regular income. If they don't choose this option, they will have bear the risk of outliving the amount of savings they have accumulated. From a social policy perspective, it would be most desirable that people take annuities. But for that to happen, we need attractive annuity products, and designing them will be a major challenge for actuaries. Of course, policy makers can also make annuitisation mandatory or give strong financial incentives to annuitise.'



### ***How do you see the Actuarial Association of Europe developing?***

'The Actuarial Association of Europe has been an important partner of the Commission for a long time. I am thinking in particular of its role as a member of the European Pensions Forum where we are currently working on a code of good practice for occupational pension schemes and where, in the future, we should look at the implementation of the directive on acquisition and preservation of supplementary pension rights, and at fair treatment of preserved, or dormant, pension rights. We, in the Commission, are also very interested in developing the fruitful dialogue on pension statements, tracking individual pension entitlements and on assessing the future sustainability and adequacy of pension systems. The expertise of the Actuarial Association of Europe could also be most useful when it comes to developing and promoting cost-effective ways of transforming assets into retirement incomes.'

---

**Ralf Jacob** works at the European Commission, DG Employment, and is Head of Unit for Active Ageing, Pensions and Healthcare

# THE SOCIAL COVER OF FRENCH SALARIED EMPLOYEES

By Pierre-Alain Boscher

The signing of the National Inter-professional Agreement (ANI), on the 1st of November 2013 was a bolt from the blue for the French insurance market players. This historical agreement between social partners (employees' and employers' representatives) provides among other measures the generalization of a collective mandatory occupational supplementary health cover for all French employees by 1st January 2016. By this date, all French employees will be compulsorily covered by a complementary health insurance contract providing a minimum level of guarantees with the employer bearing at least 50% of the total cost. Given the fact that the basic 1st Pillar scheme (Social Security

health branch) takes charge of the first level of healthcare fees reimbursement, this new provision supplements the social cover of salaried employees in France.

It should be noted that 60% of salaried employees are already covered by collective supplementary health covers, partly financed by their company. The 40% of employees directly concerned by this agreement, for a majority of them, are already individually covered by an insurance company. As a matter of fact, the French health insurance market prepares itself for a massive transfer from individual to collective contracts. This will be felt like a tsunami for some market players. Players in the French health insurance market are of three kinds: individual cover

specialists, collective cover specialists and generalists (offering both individual and collective covers). The direct consequence of the ANI will be the transfer of the insured and their contributions from individual cover specialists to the two other types of health market players. The future looks obviously dark for a certain number of health players and several reactions have already been observed, aiming at diversifying their market position or approaching generalist insurers to link with them.

Furthermore, individual contract portfolios should at term retain two types of insured: self-employed and retired persons. A question mark still remains concerning these portfolios' financial sustainability since their demographic profile will be affected and also because the cost of their risk will face a quick increase. It is therefore very important for insurers to anticipate these effects and to take the necessary actions in terms of contribution levels as well as guarantees provided.

The new need for employees to get covered also whets the appetite of insurers that are little or not present in the supplementary health insurance market. In this context, the "bancassureurs" (insurance companies being subsidiaries of banks) could make the number of competitors grow and also disrupt the current order in terms of market share distribution.

Given the French social environment, the calendar of the generalization of this mandatory health covers for all salaried employees is structured in three steps:

- The first one consists of leaving the choice to each professional activity branch to negotiate for the implementation of a health procedure which would be specific for all the companies of the branch (deadline: 30<sup>th</sup> June 2014);
- The second one corresponds to the negotiation window inside the companies between the employer and the employees' representatives;
- The third one states that employers must have covered their employees by 1<sup>st</sup> January 2016, assuming that both step 1 and 2 have not come to a successful outcome.

In the course of 2013, the first step was the object of many quarrels, involving the market's different players, the government and the two assemblies. Indeed, an old French practice allowed any professional branch until then, to designate an insurer with which all the companies from the branch had to be affiliated. As a consequence, some players were benefiting from a privileged and dominant position in the market. This process has been judged in spring 2013 anti-competitive and at the end of 2013, unconstitutional.

Bottom line, the French insurance market is strongly affected by this new compulsory health insurance, which is a unique feature compared with other European countries and which should deeply modify the players' scene, the market practices and the insured persons health consumption mode.

---

**Pierre-Alain Boscher** is Workmen Compensation Director at Optimind Winter

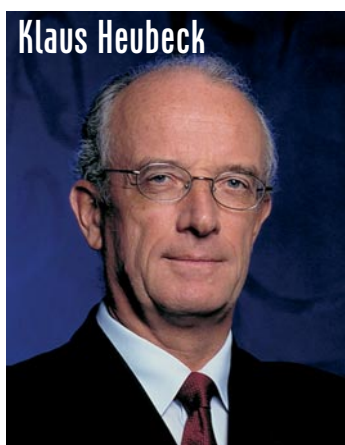
Pierre-Alain Boscher



# 125 YEARS OF THE GERMAN BISMARCK SOCIAL SECURITY SYSTEM

By Klaus Heubeck

Let's imagine a worker who was born in 1880. In 1895, at the beginning of his working life, he was registered in Bismarck's social security system and consequently insured against illness and disability. He and his wife, who survived him, would receive lifelong pension benefits and, if they succeeded in thwarting the mortality tables, they would be able to benefit from comparable benefits from the statutory state pension fund today.



Bismarck's social security system was originally a reaction to a problem that came along with the industrial revolution. With the sharp increase in the number of workers in the new industries and in the cities, care in cases of illness, of death, disability or old age could no longer be provided by families or village communities. The systems of provision in some large industrial enterprises which, in isolated cases, had already been set up early in the 19th century, did not have the strength and reliability to provide safeguard against poverty and misery among a rapidly growing workforce.

## Benefits

As well as a general health insurance system, Bismarck also introduced a comprehensive old-age pension scheme. This first paid out in cases of employee disability and, upon death, to any surviving dependants. Some years later, with the introduction of a statutory age limit of 65 a separation was made between risk protection in working life and guaranteed old age provision.

The level of the respective pension benefits often resulted from the amount and duration of earnings of the individual employee, with differences between blue-collar employees and white-collar employees – with financial contributions made by the employer and, to a certain degree,

also the state. So this general care system primarily followed the insurance principle, supplemented with some social elements in terms of payments and financing.

## Financing

Then as now, the overall financing of the annually paid out pension benefits was achieved through sharing the costs of need among all the pay-as-you-go contributors insured in the general system (the first pillar). The level of contributions for individuals resulted from an overall contribution rate and their personal earned income, wages or salary, up to a contribution assessment ceiling (CAC). The contribution rate today is at almost 20% and the CAC is at almost €6,000 per month. Today, after 40 years or more as a full contributor to the system, this results in old-age pensions of around 40 to 45% of the final gross salary.

Alongside the financing through contributions by the insured parties, subsidies from the state and a certain capital accumulation have always played a role, albeit a rapidly changing one. The basic principles of the Bismarck system of old-age provision have functioned with interruptions throughout our changing history. They have contributed to the fact that we still have a functioning, relatively strong and fair social pension insurance system in

Germany today – and this after two world wars, the economic crises and reunification.

## The Pension Reform of 1957 and Afterwards

The foundations for the system today were created 57 years ago in 1957 or rather, they were reinstated. The German Federal Chancellor, Adenauer, wanted to win the upcoming election and introduced the system of the “fully index-linked pension”. Politicians paid no attention to the actuaries' objections, – that the level of pensions anticipated in this system could not be financed in the medium term via the pay-as-you-go process – neither in the near future nor in the subsequent decades.

As a result, the work of pension actuaries has concentrated on existing and newly developed occupational pension systems. The financing of these schemes through external accumulation of capital (as pension funds mostly) or tying up capital in house (as book reserve systems) has been providing them with a broad field of activity.

Admittedly, the necessary development of the occupational pension system has not come about in the decades since the 1957 reform. Yet, with the help of the actuaries, these systems could be put on a solid basis, made

# A pension, an annuity or a lump sum – your choice?

By Peter Tompkins

**In the United Kingdom, the Government has just (March 2014) announced that people will no longer have any obligation to turn their pension funds into annuities when they take their benefits. This announcement not surprisingly caused a collapse in the stock market values of a number of companies which make their living selling annuities.**



Peter Tompkins

capable of development and fit for the future. A constant challenge until today has been to protect the second pillar from often insensitive domestic and European political interference.

## The Current Situation

About 15 years ago in Germany, efforts were begun to guarantee all employees extensive old-age provision that would safeguard their standard of living after retirement. This significant reform in old-age provision was known as the Riester reform and was set up on the basis of existing systems. The first pillar, with its pay-as-you-go financing – the level of which has been sinking and is forecast to sink further – is to be supported and supplemented by the second and third pillars and their capital accumulation-based pension plans. This has not been entirely successful so far. Turbulence in the capital markets as well as the short-term focus of government policy make it doubtful whether we will achieve an efficient and complete system of general old-age provision for all employees in Germany in the foreseeable future. In terms of cost sharing and funding (pay-as-you-go financing within the state pension scheme and capitalisation in the occupational pension systems) this could and should be at a ratio of around 2 to 1 and, as a result, should be able to provide a pension level for the employee of 60 to 65% of final earnings after a full working life. But the path to achieve this is still a long and stony one.

---

**Prof. Dr Klaus Heubeck** is founding and long-time Board member of the German Institute of Pension Actuaries IVS and the German Association of Actuaries DAV

The UK has a three pillar pension system consisting of State pensions currently paid from 65 but rising to 68 over the next few decades. The second pillar is the benefit provided by employers, sometimes as defined benefits but also increasingly as defined contributions. The final pillar is the voluntary provision which is always made on a defined contribution basis and used to come with the need to buy an annuity. It is this which the Government is to change.

People will have to pay tax on any money they take out of their pension but many people are expected to take the taxed money and invest it in their own way, such as buying property to rent and generate an income. Some people may want to spend the new money on a dream holiday or some major work on their home. Inevitably there is a lot of speculation about what is best for people.

Actuaries will need to take much more time, either individually or through the large insurance companies, explaining the options people now have. For some people an annuity guaranteeing an income for life will continue to be a sensible option. The challenge is to explain this to a doubtful public, who may now be keener on all the new choices they have. The next few years may prove to be very interesting to anyone working in this area.

---

**Peter Tompkins** is a UK pensions actuary and a member of the Editorial Board of The European Actuary.

# THE NEW GLOBAL INSURANCE

In March, the Actuarial Association of Europe (AAE) organised a seminar in Brussels titled “The New Global Insurance Capital Standard” as a result of the announcement on 9 October 2013 by the International Association of Insurance Supervisors (IAIS) of the development of a risk based global insurance capital standard (ICS) by 2016.

By Ad Kok

Gabriel Bernardino, chair of the European Insurance and Occupational Pensions Authority (EIOPA), made the keynote speech in which he emphasised the need for global capital standards as they “prevent regulatory arbitrage, increase financial stability, guarantee a level playing field and strengthen supervisory coordination”. But in order to achieve that “it is necessary to have a clear understanding of the objectives and who is going to drive it”.

He called it a very ambitious commitment for the IAIS to deliver the global supervisory standards and said that it required the IAIS “to make some organisational and governance improvements, in order to increase effectiveness”. Bernardino would be in favour of “keeping the Basic Capital Requirement (BCR) simple and straightforward” and expected “it would be somewhere between the Minimum Capital Requirement and Solvency Capital Requirement in Solvency II”. In developing the BCR “too much granularity, complexity and risk sensitivity should be avoided”. The EIOPA chairman was convinced that “the basic sound principles of Solvency II will be applied internationally”.

Bernardino’s speech was followed by a panel discussion, moderated by Esko Kivisaari, chairperson of the AAE Insurance Committee. Panel members included Catherine Lezon (IAIS), Klaus Wiedner (EU Commission), Bart De Smet (CEO Ageas), Marco Vet

(CRO Forum) and Michael Eves (IAA).

In the discussion that followed Klaus Wiedner expressed the Commission’s concern that although they do not expect a copy of Solvency II, the new global standard should be equally as advanced as Solvency II and perhaps less technical. There is a strong preference for a scenario based model and not a factor based model to avoid going back to a Solvency I level.

The industry view, as expressed by Marco Vet, is overall supportive of the direction taken but urges that the new system should fit in and be complementary to existing advanced and well tested systems like Solvency II thus preventing a new layer of supervision. The framework should be sufficiently flexible to support existing supervisory systems and avoid being too prescriptive by setting detailed requirements. The effort in time and resources spent by the industry to comply with existing systems should not be undone by having a different approach. Michael Eves explained the way the IAA is already supporting IAIS by giving actuarial advice on a professional, unbiased basis. The first basis for BCR should be an economic balance sheet with best estimates for liabilities and appropriate valuation of assets. The question remains what an unbiased best or current estimate is? How to know, when comparing companies, they are using something equivalent? To avoid grey and subjective areas there is a need for actuaries that can



www.actuary.eu

# RISK CAPITAL STANDARD

provide independent reports supported by a set of technical standards. This is already under discussion between IAA and IAIS.

Bart De Smet finally expressed his loyalty to the principles underlying a risk based system like Solvency II as it gives management a great insight into the actual risk they are carrying and also leads to good ethical behaviour. He is quite sceptical regarding the IAIS tight timeframe and potential underestimation of the complexity. Taking into account the already existing large number of risk based systems IAIS has to be careful not to make the world too complex where in the end only a few people will have a full overview and understanding. Although the standards are aimed at globally operating systemic insurers it will automatically spread to other internationally operating insurance companies.

The conclusion of the seminar was that we seem to be only at the beginning of the discussion that eventually should lead to a global insurance capital standard. And to end with the words of Gabriel Bernardino, it is also clear that “the Actuarial Association of Europe can play an important part in this evolution by sharing with the international actuarial community its experience and knowledge of how to deal with economic balance sheet valuations”.

---

**A.A.M. Kok AAG Hon FIA** is Chief Executive at the Actuarial Association of Europe (AAE)



**Ad Kok**

The Pensions Committee of the Actuarial Association of Europe wants to be the independent source of pensions knowledge for European policy makers. Says Falco Valkenburg, chairman of the committee. 'Independence is our strength.'

# Being honest about pensions

By André de Vos

**'It's all about being honest about pensions.'** For Dutchman Falco Valkenburg transparent communication about pensions is one of the main drivers for his long involvement in the European discussion on pensions. Valkenburg has been the chairperson of the Pension Committee of the AAE for the last three years. Valkenburg is a self-employed advisor, mainly focusing on international pension issues. **'All European pension funds should explain clearly what they do, and act according to what they say.'**



Falco Valkenburg

Together with Solvency II for insurers and the future of the role of the actuary in general, pensions are the main focus for the Actuarial Association of Europe. Since the European Commission has started work on the IORP (Institutions for Occupational Retirement Provision) guideline for pension schemes, the Pension Committee has put in place several new task forces and subcommittees on pensions that are involved with specific details of pensions.

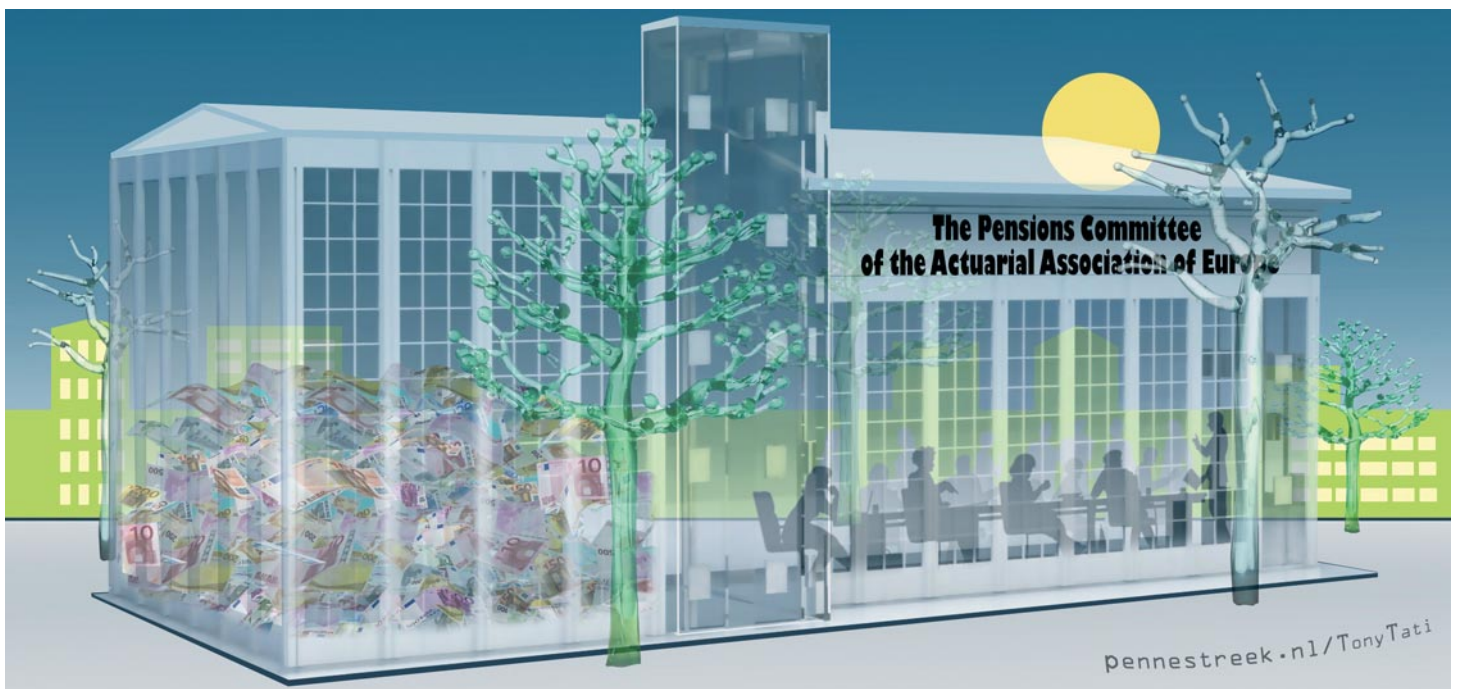
The solvency working group of the Pension Committee is focussing on the funding and buffers of pension schemes. The task force decumulation is studying the different methods to finance pensions during the retirement stage. The task force adequacy of pensions is trying to define what is a sufficient pension. This task force is part of the social security subcommittee. Although first pillar pensions are not very often the working field for actuaries, it is an important European issue. As are third pillar pensions. Valkenburg: 'In many European countries pension is mostly a government matter. There is hardly a second, let alone a third pillar. But pensions in the first pillar need to be financed as well. Actuaries specialize in these kind of calculations, so it's good to have an opinion on these issues.'

Tracking and tracing of pensions is another taskforce of the pension committee. Its goal is to facilitate European employees to find out what pensions they are entitled to. This is an issue gaining importance as the average worker has more jobs and more different pensions. Only in a very few countries it is possible to get an easy overview of all these pensions.

The complaint that 'Solvency is going to cost us billions' is just not correct.

Member states are afraid that the European Commission is aiming for harmonisation of pension schemes and therefore wants to impose





Solvency II-like legislation on pension funds. Countries like the United Kingdom, Germany and the Netherlands have taken the backseat in the discussion. A very unproductive attitude, according to Valkenburg. 'The fear for Europe deciding how pension schemes should work is unnecessary. Pensions will always be a national issue. The EC wants to get a set of rules in place to judge whether a particular pension system is well funded. Individual employees and retirees have a right to know if there is enough money for their pension. European rules will never affect the national pension promises itself. The complaint that 'Solvency is going to cost us billions' is just not correct. It's a shame that the Netherlands, England and Germany are becoming bystanders in the European discussion. Their pensions knowledge and experience are much needed in the European debate.'

The national pension schemes in Europa are of a staggering variety which makes it next to impossible to compare them. 'The holistic balance sheet', suggested by EIOPA (European Insurance and Occupational Pensions Authority), is trying to find a way around this. Valkenburg is charmed by the concept. 'The holistic balance sheet is a way of taking into account all the special building blocks that different countries use to fund their pension scheme. Because of the wide range of different systems, that's an ambitious effort. However, despite what the name suggests, it's anything but fuzzy. The holistic balance sheets tries to assess the value of things like sponsor support and pension protection schemes, which are different in each country.'

According to Valkenburg there is a great need amongst European policy makers to have access to the specialized knowledge on pensions that actuaries have. 'Unlike many other parties in the European pension discussion we are not favouring a particular system. We consider ourselves neutral observers. Our job is to calculate whether there is money to pay for the pensions, regardless of the scheme that is chosen by a specific country. We can provide our actuarial knowledge of pension schemes without lobbying. Take the aging discussion. We find that each country uses different ways of calculating life expectancy. We try to make the figures more comparable. That's exactly why our opinion is valued by the EC and by EIOPA.'

Twice a year the Pension Committee has official bilateral meeting meets with EC and EIOPA. 'But whenever EC or EIOPA wants our advice, they will call us. And there are many informal one on one meetings on

specific issues. Of course we meet at conferences and gatherings. That's one of the reasons the AAE moved from Oxford to Brussels. We want to be in the thick of things, we want to be around where decisions are made.'

### Little has to be expected before the elections for the European Parliament

After the quantitative impact study that was completed in the middle of last year, little progress has been made on the IORP guideline. The work has almost come to a standstill. Although the EC was expected to come up with further proposals on IORP this spring, Valkenburg believes that little is to be expected before the elections for the European Parliament in May. 'The European Commission is now focussing on governance, risk management and communication issues. New proposals on these issues can be expected. That doesn't mean that there is nothing going on regarding the quantitative issues. But it's mainly EIOPA that's working on these. And that's what we're focussing on as well.'

Even though the AAE presents itself as independent, the goals of the AAE are not without self interest. The ongoing discussion about risk management affects the position of the actuary. Also, with the coming into force of Solvency II for insurance companies there is discussion on the position of the actuary. 'Of course, we would have preferred that the EC would have said only AAE-educated actuaries are allowed to fulfil the actuarial position. But that was never going to happen. The time of medieval guilds is over. We did however manage several parts of our core syllabus to be included in the Solvency regulation. Risk management is now becoming a major issue, in insurance and pensions. We try our best to make sure the position of the actuary in risk management is not overlooked.'

**Falco Valkenburg** (1960) studied actuarial sciences in Amsterdam. He worked as a consulting actuary until retirement for Towers Watson. Since 2012 he is an independent advisory actuary, entrepreneur and investor. He has been active within the Actuarial Association of Europe since 1999. Valkenburg is chairperson of the Pension Committee. Before that he chaired the Investment and Financial Risk Committee. Valkenburg is married and has two children.

# AGING POPULATIONS: HOW THE INSURANCE INDUSTRY

By Tim Rozar

Humans have an extraordinary capacity for solving big problems – and creating new ones. For centuries, futurists predicted that human population growth would be constrained by eventual famine and disease. Technological advances in agricultural efficiency, sanitation, medicine and industrial productivity have mitigated the anticipated apocalypse of overpopulation, but increased life expectancy and decreased birth rates have introduced a new societal challenge: rapidly aging populations. Long life expectancies and low fertility rates are conspiring to dramatically alter the European age structure and invert a once economically sustaining population pyramid. More broadly, population aging is a reality in every region of the world, creating diverse challenges and opportunities.

## Global Implications and Desirable Outcomes

Increases in global life expectancy are among society's great collective achievements. Likewise, expanded economic prosperity and opportunity have been correlated with decreases in the number of children born per woman. The net impact of these positive factors, however, is an increasing proportion of populations at advanced ages, which creates societal challenges.

There are two fundamental approaches to addressing the issue of aging populations. One approach is to focus on the *causes*, which governments directly influence through childbirth incentives or immigration policy. These initiatives may alter the shape of an individual country's population pyramid, but they fail to deal with the universal needs of the elderly: financial security and improved quality of life. The goal of this article therefore is to focus on the *consequences* of aging populations. Within this context there are two primary variables that the insurance industry and governments can collaboratively influence to address the needs of an older population: the level of financial preparedness of retirees, and the duration of healthy, independent living in later life.

## Recommendations for Collaboration

While the roles of government and industry are distinct, there are many opportunities for collaboration to favorably influence financial preparedness throughout older ages and increase the duration of healthy longevity.

### 1) Product Innovation

**Governments and the insurance industry must collaborate to develop novel financial products customized to the needs of the older age market.**

The insurance industry should serve as the innovation engine for the development of new products and services to protect the financial security of its customers. Unfortunately, the insurance industry is not viewed as a bastion of innovation. According to the National Science Foundation's Business R&D and Innovation Survey, insurance was one of the least innovative industries. The industry must collectively do more to focus on understanding and responding to consumers' retirement and protection needs.

Common-sense regulatory frameworks could facilitate innovations that enhance older-age financial security while still ensuring the fair treatment of customers and protecting the solvency of the insurance industry.

# GOVERNMENTS AND CAN WORK TOGETHER

## 2) Consumer Education

**Governments and the insurance industry must collaborate to educate citizens throughout their lives on the financial needs of their retirement years.**

Retirement security requires careful planning and a series of often overwhelming financial decisions. The uncertainty and complexity of the risks necessitate clear, comprehensible consumer education and guidance. This need is well-established, and many useful initiatives have already been developed by the insurance industry and governments.

The problem is not a lack of financial education content, but rather a lack of effectiveness. Navigating the mountain of educational resources may be as daunting as the financial decisions themselves. Collaborations between insurance companies, industry groups and governments should focus on integrating the best practices from existing resources and increasing awareness and accessibility.

## 3) Risk-Sharing

**Governments and the insurance industry must collaborate by sharing the risks associated with providing cost-effective wealth protection for retirees.**

A competitive private insurance industry provides attractively-priced coverage by segmenting and rating applicants based on their risk profiles. While this arrangement helps keep costs reasonable for a majority of potential insureds, it creates an unaffordable product for the highest-risk cohorts. Minimum compulsory coverage against specific risks such as hospitalization, disability, nursing care and death, could help mitigate the economic costs of adverse selection and reduce the strain on social programs. Government-funded high-risk pools created in partnership with the insurance industry could help finance the costs of the uninsurable, while keeping coverage affordable for the insurable majority.

## 4) Medical Research and Technology

**Governments and the insurance industry must collaborate to support practical research initiatives that slow the progression and reduce the costs associated with older-age diseases.**

Governments and private organizations already invest heavily in medical research, including projects focused on elderly populations. Historic increases in life expectancy provide encouraging evidence of the efficacy of these investments. Public/private partnerships such as the BRAIN (Brain Research through Advancing Innovative Neurotechnologies) initiative in the U.S. seek insights that could lead to treatments or cures for Parkinson's disease, Alzheimer's disease and other cognitive disorders.

## 5) Behavioral Incentives

**Governments and the insurance industry must collaborate to incentivize individual responsibility in the areas of financial planning and wellness.**

The private insurance industry plays a critical role in financing a secure retirement. Governments and society benefit through reduced dependency on social safety nets. With aging populations, it is crucial for individuals to have secure, fully-funded retirement savings and individual protection insurance.

Incentives built into government tax policy and insurance company product features will help encourage behaviors that reduce the burden on social programs and future generations.

## Conclusion

Rapidly aging populations create difficulties, but also exciting opportunities. Collaborations between governments and the insurance industry can effectuate the changes needed to ensure healthy and secure financial futures of the elderly for generations to come.

**Tim Rozar** is Senior Vice President Global Research and Development at RGA Reinsurance Company



**Tim Rozar**

# European agenda

8 May 2014, Brussels, Belgium

AAE Social Security Subcommittee

Contact: <http://actuary.eu/>

9 May 2014, Brussels, Belgium

AAE Education Committee, AAE Investment and Financial Risk Committee, AAE Pensions Committee

Contact: <http://actuary.eu/>

2-3 October 2014, Helsinki, Finland

AAE Committee Meetings

Contact: <http://actuary.eu/>

3 October 2014, Helsinki, Finland

AAE General Assembly

Contact: <http://actuary.eu/>

8 May 2014, Brussels, Belgium

AAE Seminar and presentations by ERM/CERA providers

Contact: [http://actuary.eu](http://actuary.eu/)

18 – 20 June 2014, Tallinn, Estonia

EAA Seminar: Actuarial Enterprise Risk Management

Contact: [www.actuarial-academy.com](http://www.actuarial-academy.com)



## colophon

The European Actuary (TEA) is a bi-annual magazine about international actuarial developments. TEA is written for European actuaries, financial specialists and board members. The magazine is published in cooperation between the four actuarial associations: Deutsche Aktuarvereinigung, The Institute and Faculty of Actuaries, Het Koninklijk Actuarieel Genootschap and the Institut des Actuaire.

It will be released as e-mail newsletter, as well as in print. The Editorial Board welcomes comments and reactions on this edition under [contact@the-european-actuary.org](mailto:contact@the-european-actuary.org). Please also feel free to direct them to one of the members of the Editorial Board.

### The Editorial Board consists of

**Peter van Meel**

([Peter.vanMeel@milliman.com](mailto:Peter.vanMeel@milliman.com))

**Pierre Miehe**

([Pierre.miehe@actuaris.com](mailto:Pierre.miehe@actuaris.com))

**Daniel de Burca**

([Daniel.deBurca@actuaries.org.uk](mailto:Daniel.deBurca@actuaries.org.uk))

**Peter Tompkins**

([PeterDGTompkins@aol.com](mailto:PeterDGTompkins@aol.com))

**Klaus Mattar**

([kmattar@rgare.com](mailto:kmattar@rgare.com))

**Laszlo Hrabovszki**

([laszlo.hrabovszki@generali.de](mailto:laszlo.hrabovszki@generali.de))

[www.the-european-actuary.org](http://www.the-european-actuary.org)



DAV

DEUTSCHE  
AKTUARVEREINIGUNG e.V.



Institute  
and Faculty  
of Actuaries



Koninklijk Actuarieel Genootschap



Lay-out Manager: Marjolein Stahl  
Magazine Manager: Frank Thooft