



Opening Ceremony of the 16th International Conference of Social Security Actuaries and Statisticians of the International Social Security Association (ISSA)
16-18 September 2009, Ottawa, Canada

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

Welcoming remarks

Good morning, Honourable delegates, Dear Secretary General,

On behalf of two Canadian members ISSA, the Office of the Superintendent of Financial Institutions Canada and Human Resources and Skills Development Canada, I am pleased to welcome you to our national capital, Ottawa.

Ottawa is adding its name to a list of prestigious cities that have held such international conferences in the past. The first meeting was held in Brussels in 1956, and the most recent one was held in Helsinki in 2007. Canada now holds the international conference of social security actuaries and statisticians for the second time. The 13th Conference was held in Québec City in 2000. Italy, France, Mexico and Finland have also held these conferences twice. Today we greet here 200 delegates from more than 60 countries representing all regions of the world, as well as representatives of important international organisations such as the International Actuarial Association, the International Labour Office, the Organization for Economic Co-operation and Development and the World Bank.

This conference in Ottawa, Canada is aimed particularly at actuaries, statisticians, economists and financial experts from ISSA member organizations and addresses four themes on topics that are relevant to social security systems around the world.

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. This is in contrast to Europe's population, which is expected to decline during the same period.

Immigration is another important driver of population evolution. Canada's, the United States', Australia's and New Zealand's populations are all expected to increase, but a significant part of this increase will be due to immigration. For Canada, immigration is a defining feature of its development as a nation and its path to the future. It has one of the highest per capita rates of permanent immigration in the world – roughly 0.8 percent in recent years – and has welcomed 3.5 million immigrants in the last 15 years. Much of what our country stands for today has been built or shaped by immigrants of the past, and newcomers will continue to contribute significantly to Canada's economic prosperity in decades to come.

Further, the world is aging. The current estimated world's median age of 29 years is expected to increase to 38 by 2050. However, the disparity in population growth between the world's regions also translates into different aging patterns around the globe. By 2050, while 53% and 29% of young people between the ages of 15 and 24 will live in Asia/Pacific and Africa respectively, more developed countries and the Latin American/Caribbean region will be home to only 11% and 7%, respectively of young people in this age group. Not surprisingly, we will see a dramatic increase in dependency ratios all around the world, even in those regions currently with low ratios.

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.

All of these future demographic developments present significant challenges for social security systems. In addition, the recent financial and economic crisis demonstrated that social security schemes can be seriously affected in times of economic turmoil. The issue of optimizing pension financing under a changing demographic environment and a volatile economy is of paramount importance to many countries with social security schemes providing substantial benefits to retirees under the defined benefit principle. The recent crisis also highlighted the importance of proper investment and governance policies for social security systems based on the defined contribution principle in order to provide adequate income to maintain a certain standard of living

for their participants. Our role as social security professionals is to address these issues and to try to find ways to solve them.

I am happy to say that we are not alone in our concern. The questions of sustainability of social security systems, as well as pension systems in general, and of the impacts of demographic and economic developments, are attracting attention of other professional organizations and governments. Some notable examples are as follows.

In March 2008 the International Public Sector Accounting Standards Board initiated the project on Long-Term Fiscal Sustainability Reporting. This project is a step toward the further enhancement of the transparency of information concerning social security systems. In Canada, several pension consultations at the federal as well as the provincial levels are happening. As a result, the federal and provincial finance ministers will meet in December to discuss a report by a federal-provincial working group on whether Canadians will have adequate income when they retire. Finally, the recent report of the World Economic Forum in cooperation with Mercer and the OECD focuses on ways that could “transform the challenge of aging society into opportunity to stimulate economic growth and improve well-being”. Among other strategic options it addresses questions of longevity risk hedging, of optimising capital allocations with respect to pension plans and increases in retirement savings.

Themes of the Conference

This conference presents an excellent opportunity to address these challenges.

The first theme of the conference focuses on the improvement in life expectancy and its impact on the sustainability of social security schemes. Life expectancies for various segments of society will be discussed. Improvements in life expectancy have been significant in most regions of the world and are expected to continue in the future. Advances in health that have taken many centuries to achieve in developed countries have spread quickly through developing countries. So there is good news and bad news. The good news is that life expectancy is increasing; the bad news is that the cost of pensions, social security, and long-term care for the elderly are all increasing too. Even if experts disagree on the magnitude of further increases in life expectancy, what is certain is that these developments will have an impact on the sustainability of social security schemes. Pension schemes are especially affected regardless of the financing method (pay-as-you-go, partially or fully funded) and the design (defined benefit or defined contribution).

This conference will look at social security systems' responses to changes in life expectancy and the impact of these changes on pension financing. This leads naturally to the second theme – the optimal financing and self-adjustment mechanisms for sustainable retirement systems. Increased life expectancy results in pensions being paid longer while the aging of the population, due to both increased life expectancies and lower fertility rates, results in smaller contribution bases. Can we adapt the financing approach of pension schemes to these new demographic realities? Can we also adapt the financing to the economic volatility? Can we translate the new demographic and economic realities into stronger financial governance principles in social security? And importantly, can systems be designed to self-adjust, specifically to correct for changes in economic and demographic conditions? This topic, in particular, is generating increasingly more interest around the world. The session dedicated to this theme will look at both theoretical and practical aspects of self-adjustment mechanisms. An international survey recently conducted will look at best practices around the globe.

The third theme of the conference addresses the recent financial crisis and its impact on the long-term sustainability of pension plans. Global financial markets have undergone a crisis the likes of which have not been seen since the Great Depression. The global financial turmoil has touched countries on all continents. In the last year, many nations faced an economic downturn. The funded status of pension plans and partially or fully funded social security schemes have significantly deteriorated. The average nominal pension fund return for OECD countries was negative 21% for the calendar year 2008. While the Canada Pension Plan Investment Board achieved a negative return of 14%, the CPP Fund decreased by \$10 billion in 2008, which is the sharpest decline experienced by the Fund since the inception of the Plan in 1966.

Even as we see signs of improving economies as countries start to emerge from the recession, the recovery could be long and painful. One of the main concerns is the rise in unemployment. Social security schemes are affected by its rise since revenues from contributions to these schemes consequently fall and early uptake of benefits rises as people look for alternative income sources. What are the best strategies to deal with the financial crisis? For how long and by how much will pension plans be affected by it? What could be done to protect current and future contributors in the time of such crisis?

The session dedicated to this theme will be structured as a round table with key speakers from leading international and national organizations such as the Organisation for Economic Co-operation and Development, the International Labour Office, the World Bank and the International Actuarial Association. This roundtable will be chaired by Dr. Rob Brown, professor at the University of Waterloo, an international

well-renowned expert on social security, and the chairperson of the Social Security Committee of the International Actuarial Association.

Our last theme will address an area fundamental to the practice of actuaries, statisticians and economists – that of setting assumptions to deal with future uncertain events. As we know, assumptions drive the results of any projection, and therefore great care must be taken in setting them. All sources of information should be considered during the assumptions setting process. Assumptions and projections are not predictions, but rather are best estimates of what could happen in the future.

This theme will focus on the joint collaboration and sharing of knowledge between countries in the field of setting and analyzing assumptions. An international survey conducted by the Québec Pension Board on the assumptions used by actuaries of social security schemes around the world will be presented.

Professional Duties

We are living in challenging and exciting times. The current situation demands that we apply the best of our professional abilities with integrity and a social conscience. I would like to quote from The Institute of Actuaries and the Faculty of Actuaries of the United Kingdom Professional Conduct Standards:

“The Actuarial Profession has an obligation to serve the public interest. Collectively it seeks to do so by informed contribution to debate on matters of public interest and by influencing those with power to protect and enhance the public interest.”

I stress here the two words “**public interest**”, 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

We trust that the conference 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.

This conference however cannot be successful without your active and thoughtful participation. We thus strongly encourage your input and hope that you will join us in this opportunity to share your thoughts and ideas with other social security experts from around the world.