Condition and problems of modern pension systems

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In some nation often employers and employees based on mutual agreements and to benefit from tax incentives to employers, and deferred income to employees; agree to contribute to special pension plans design to enhance government mandated pensions with the goal of increasing the quality of retirement life. While only some specific industries and organizations offer these supplemental pension plans, these programs are becoming more popular as means to attract quality employees that seek organizations with the best salaries and benefits. Deferred salaries in the formed of stock actions can indirectly also be viewed as a form of a pension plan. A warning about these programs is that a strong regulatory and fiduciary system is indispensable otherwise employers or fiduciary agents can easily evaporate with these funds. Models in the two extremes of these plans in the USA are: a)bankrupted ENRON that had a substantial number of employees who agreed to stock options as a form of employer sponsored retirement plan, and left many employees with worthless stocks, the same happened to US steel industry employees; there are surely examples of the worst supplemental pensions, and b) well-regulated municipal and state pension programs with strong investment policies and high benefits, are a model of these extra or supplemental pension plans.

Nations often deliberate whether all its citizens should be treated equally in the assignation of benefits and financial assets. Philosophical tendencies in societies with socialistic tendencies always see pensions as a benefit or governmental benefits at covers basic needs of its older population. In capitalist oriented economies often the pension system is to a great extent based on a combination of governmental benefits and private contributions. The current and future dilemma is to find the proper balance of contributions and benefits.

The ideal pension system should have the proper combination of contributions from the government, the employer and the employee. Additionally, an adequate pension system should have the proper incentives at all levels to maximize contributions levels, benefits and monthly cash pensions.

For politicians the most common method to slow down benefits is always the idea of increasing the retirement age, and to increase future benefits the solutions is always to increase current contributions. Both policies are often counter- productive as increasing the retirement age stifles the normal rate of labor substitution between new employees and retiring employees. Postponing the assimilation of younger employees with new skills may be an overall society loss. Increasing contributions may also affect disposable income reducing current consumption and life style. Governments need to be cautions implementing these policies as the desire results may not be accomplished.

The role of government in pension systems is paramount in the quality of life of its retiring populations. Whether the governmental pension includes medical benefits, disability and survivor benefits, the cash out benefit should always guarantee some basic benefits, however current modern realities indicate that no government pension alone can meet the needs of retirees. Adding the perception and reality of increasing longevity all over the world leads to the conclusion that single governmental pensions are insufficient. Given this reality government policy-makers, industries and employees need to give the proper incentives and contributions to ensure that the basic benefits from a single central system are supplemented with additional pensions.

Governments must implement incentive programs for employers, industries and employees to be able to increase contribution from all by deferring current expenditures on the employee side, tax deductions for employers and matching supplemental contributions.

It is evident that given this reality in the modern world, individuals must supplement their future pension levels by contributing to additional pension systems and these systems should be supported by a strong system of governmental incentives. The philosophical tendency to think that we all are the same and deserve equal decent pensions is absurd and unsustainable, therefore governments' most important activity in strengthening the pension system should to support employer/employee pension groups or systems that will ensure that older populations will have decent pensions without facing poverty.

It is very unfortunate that in many nations, pension contributions and benefits are like a soup with many ingredients of unknown origin. Workers Compensation is often the least understood. The policy should be to account for it separate from the rest of insurances establishing employee classification based on the history of work related accident and deaths. Premiums will then be established based on history, for example an employer with high rate of injuries will be susceptible to being assessed increased premiums and penalties. Medical cost and disabilities directly related to work will now be funded directly from those who incur costs. The same will be applicable to death, disability, and compensation for time-loss due to work related injuries. Occupational health training is also an important factor ensuring that employees reach retirement with optimal health. This goal can be accomplished without governmental subsidies and it can be successful with the participation of responsible employers and employees.

In capitalist societies there is some level of competition in employee recruitment and retention when companies advertise as a benefit their supplemental pensions which often are offered in terms of a matching benefit. Some industries for example on top of the contributions to retirement through a centralized social security system, offer supplemental pensions with a percentage of salary matched. It is not unusual that employers match a retirement contribution up to 8% of salaries. It would ideal that governments support and provide incentives to these programs.

If an employee sacrifices current consumption and defers its income to be spent 30 years later, this employee deserves a better future and a better pension as his/her personal responsibility valued more his future welfare that having additional current disposable income. If another employee does not take the responsibility to plan for his/her future, this employee when retired should not expect pensions about survival levels. Governments must be cautious not to have minimal contributions in their main pension systems as many retirees will seek other government benefits and subsidies upon retirement.

The worst pension systems in the world are those where governmental policy has discouraged supplemental pension systems, it is obvious governments alone cannot maintain decent pension levels for its retirees, increasing the retirement age is a retrograde decision that can only affect new generations, increasing contribution rates to a single system is not a good decision either as in marginal economies it will signify a wage decrease. Governments have a responsibility to encourage and enrich supplemental pension systems.

There are multiple options, employer pools by industry, employee labor unions, incentives to small business, tax credit pools, annuity credits, etc. The role of government has to be dynamic, creative and solid. Pension system cannot be static they must be design to meet employees taste and preferences. Deferring current disposable income to increase cash flow in the future should be a very important government policy. To make sure these policies meet their intend objective it is very important that governments have extreme transparency. Cases like the fraud in pensions in Chile where Pensioners received television set or vacations to increase their contributions, but at the end lost all their funds are great examples where governmental regulations have failed and have made supplemental systems mechanisms to exploit and not help employees that in good faith postpone their disposal income for a better future.

In the pension world often small changes in policy or small creative practices may be the best approach to have stronger and better pensions. To do nothing to improve pension rates below poverty rates is irresponsibility on the part of government, employees and employers. The role of academicians could be very important in this pursuit as all these decisions must be comprehensive, clear and corruption-free.

It is important that governments, employers and employees admit and realize the nature of disabilities. Work- related disabilities should be managed and financed solely by employer premiums. Employer Workers Compensation Insurance is another operational cost just like the cost of a business track or a secretary's salary. This is also important as many work-related disabilities are the result of employer negligence. Making an employer pay for the injuries or death of an employee who was asked to dig an improperly supported manhole maybe a negligent which cost should be properly rationalized making the employer pay directly without affecting the health of a fund contributed by many employers that apply proper safety practices.

Non work-related disabilities obviously shall fall under the medical insurance contribution until the death of the contributor or his survivors.

Life and Burial Options

Often this coverage is also included as part of the monthly pension contributions. In these area there is a need to manage these funds with a complete apparatus of technicians and professionals that can apply marketing and profitability principles from the private sector. For example, offering grater benefits, extending benefits to family members with premiums that represent cost plus profit could be a great incentive to the pensioner and also to the pension fund. Profits from these insurance lines can also be reverted back to increase pension annuities.

The typical temptation by politicians and bureaucrats is always to provide the current government leaders a nice source of funding at a low interest rate to cushion their revenue gaps using pension funds. This practice may not be so transparent financially, and certainly is not a benefit for those who contribute these funds. Another danger of these funds, because they are not classified properly, is to use them for political advancement by offering extended coverage for non-contributors, or low premiums for full access to all services. To avoid this it is important to have professionals that can fully identify, classify and report all assets and liabilities of these funds. For example, the source of predictions of future insufficient pension funds often arise from improper reporting of costs. It is very important for example to recognize all current, as well as, all future costs, which are known in the industry as costs Incurred But Not-reported (IBNR). It is precisely the under-estimation of these costs and the ignorant bundling of these contribution and benefits that have created the current crisis that is only destined to get worse.

We purposely have avoided a quantitative or qualitative analysis given the complexity and diversity of pension contributions and pension benefits, my intent here is limited to provide a wider panorama and context of the different components of what a pension is and what benefits are expected.