INTERNATIONAL
SOCIAL
SECURITY
REVIEW

BOOKS

BOOK REVIEW

Takayama, Noriyuki. **Priority challenges in pension administration.** Tokyo, Maruzen, 2011. 254 pp. ISBN 978-4-621-08345-1.

Priority challenges in pension administration describes recent pension developments in selected countries on four continents, with a focus on administrative issues. The volume's central concern with administration is a welcome addition to mainstream pension analysis, which tends to focus heavily on policy issues, less on implementation. This publication is also timely. In many countries, the adoption or expansion of multi-tier pension systems is making pension administration more complex and posing new challenges for managers. The growth of informal employment has reduced pension coverage and revenues, creating a need for new approaches to collecting contributions. The global economic recession has worsened these trends. While innovations in information technology create a potential for large leaps in administrative efficiency, they also pose challenges for protecting privacy, ensuring data security and avoiding exclusion.

The volume explains how pension administrators in 18 countries are addressing one or more of these challenges. (It provides briefer updates, references and comparisons of many other countries as well.) Edited by Professor Noriyuki Takayama, it includes papers from a conference held in Tokyo in 2010, sponsored by the Hitotsubashi University Project on Intergenerational Equity; the Japanese Ministry of Health, Labour and Welfare (*Kosei-Rodosho*); and the International Social Security Association.

The book has three sections: a Basic Framework is followed by Country Reports and then Future Challenges. The Basic Framework deals primarily with a single issue: the collection of contributions. The Country Reports are more diverse, focusing as well on service delivery, extension of coverage, information management, communication, pension literacy, and administrative costs. In all, ten country experiences are described: Brazil, Canada, Denmark, Germany, Japan, Republic of Korea, the Netherlands, Sweden, the United Kingdom, and the United States. The final section, Future Challenges, begins by charting recent trends in contribution collection, first worldwide and then in Central Europe; then compares five Asian provident funds; and concludes with an IBM official's promotion of a new computer architecture.

Readers may be challenged by discrepancies between the section titles and their actual contents, as just described, as well as by differences in the issues covered by the country reports, which complicate efforts to compare the countries. The reports also vary in their extent of detachment. Several of them describe recent administrative problems and challenges with high candor and objectivity, making for informative reading — e.g. Canada, Central Europe, Japan, and Sweden — while some reports are more promotional, dealing primarily with the national pension agency's achievements.

Among the many issues covered, three recurrent themes stand out: i) recent efforts to improve the collection of pension contributions; ii) the use of new technology to streamline pension service delivery, and iii) efforts to increase pension literacy.

It is fitting that the topic of contribution collection holds a central place in a volume on pension administration. Strong collection systems are critical not only for pension finance but for extending coverage and increasing benefit adequacy. Yet, too often, collection is treated as a dry, technical issue and relegated to the sidelines of pension analysis. The book's inclusion of a chapter on Central Europe (Croatia, Poland, and Slovenia) is also important, as this region experienced a considerable decline in collections in the first years of its economic transformation. In more recent years, governments of Central and Eastern European countries have adopted major pension reforms with differing impacts on collection, making this a rich environment for national comparisons.

The basic framework, however, focuses primarily on a single reform, one that shifts authority for collections from the national pension agency to the national tax collection agency. It cites several potential advantages of this shift, including economies of scale in enforcement and a reduced reporting burden on employers. While recognizing that unified tax and pension collections will work best under certain conditions (e.g. the chapter cites modernized administrative systems and good cooperation between the tax and pension agencies), it portrays this shift as the way forward.

The arguments for greater efficiency are strong ones in principle, especially when a new pension system is being launched. Yet, worldwide, contributions are collected in many different ways — e.g. in Belgium, by the national social insurance office; in Germany, by health insurance funds; in Australia, by private fund managers; and in the United States, by the tax agency. Experience fails to show that one approach is consistently superior to others. Moreover, a major administrative shift always involves transition costs — revenue losses, efficiency losses — and the risk of unintended consequences.

These uncertainties are illustrated in the country experiences. Readers learn, for example, that after the Russian Federation unified its pension and tax collections, it experienced difficulties recording individual pension contributions, leading it to return authority for collections to the pension agency. In Poland, which maintains separate systems for tax and pension collections, pension compliance has improved in recent years — a trend not experienced by all Central European countries that unified their collection systems. Croatia's efforts to reduce employers' reporting burden through a single, unified report to a new agency, Regos, actually increased their burden due to resistance from the tax agency.

These experiences suggest that the success of a country's pension contribution collection efforts is determined by many factors in addition to which government agency performs the task. Unified collections may offer disadvantages as well as advantages, depending on the national context. Thus, when a collection system is not performing optimally, the decision of whether to take measures to improve its performance directly or to reassign the function is usually not clear cut. Rather, the decision involves assessment of many factors whose implications are rarely clear.

The volume's treatment of this important topic would be strengthened by a greater recognition of these nuances. This could be achieved by aligning the perspective of the basic framework more closely with the national experiences presented.

In the next section, five country reports — Brazil, Canada, Denmark, the Netherlands, and Sweden — describe service innovations that exploit new information technology. These innovations involve: i) *Increased self-service on the Internet.* New electronic options allow workers to file applications from their homes or offices and to make projections of their own future benefit amounts; ii) *"One-stop shopping" for pensions and other benefits.* In most of the reporting countries, service teams have replaced an earlier service model of "front office, back office", in which some agency staff were assigned to deal with the public, while others processed claims and made decisions. Many agency clients reportedly found this dichotomy unsatisfactory. In the new service model, there is no distinction between front office and back office, and service teams have both authority and technological capacity to take immediate action on most requests; iii) *Linked data bases.* New links within and among government computer systems mean that workers and employers no longer need to provide the pension agency with changes of address, marital status, employment, or income, or to report beneficiary deaths. The country reports provide many illustrations of the advantages of such links.

For example, the Swedish Pensions Agency now provides workers with integrated benefit projections that include both public pensions and state-mandated, privately managed investment accounts. It will soon include occupational pensions as well. In Canada, the federal agency responsible for pensions uses tax information to automatically reinstate former recipients of the income-tested pension if their income decreases again. In Denmark, the largest pension administrator uses death records to pay lump-sum benefits to survivors without requiring them to apply. The Brazilian pension agency processes applications immediately following a telephone interview, relying on links between its computer system, the tax agency, and the national social registry.

Readers may wonder if there are any downsides to these innovations and, in particular, how those clients with low computer literacy or access are faring as pension agencies rely increasingly on sophisticated technology. Discussion of such problems is sparse in the reports. The Netherlands stands out for its public commitment to avoid such exclusion. Its Country Report states: "... our clients are free to choose how they communicate ... This applies even if the client could have achieved what they wanted — submit an application, say, or report a change — via a website. (We) assume that there will always be a group of clients unable or unwilling to use the latest technologies.... Whether they visit our website or come to one of our offices in person, we are ready to help them further; there is no wrong door".

This open-door policy is an effective way to prevent social exclusion. An additional benefit, not mentioned in the report, is that it provides the agency with swift feedback about how well, or poorly, new technology is functioning from the users' perspective.

A final theme is the need for government action to raise workers' literacy, a need which is being driven by the increasing complexity of pension systems. In defined benefit (DB) schemes, the trend toward flexible retirement ages gives workers greater choice, but creates a need for

them to understand the consequences of working more or fewer years. In those countries with defined contribution (DC) schemes, workers run an increased risk of pension inadequacy. They thus need to monitor the value of their individual accounts, estimate future benefits, and project their post-retirement financial needs.

The reports show that most government efforts to raise pension literacy involve research. In Canada, the federal department responsible for public pension plans is benchmarking workers' current understanding, so as to develop targeted mailings and online tools to raise pension literacy. In Denmark, the main pension administrator is pilot testing ways of communicating with individuals with low pension knowledge and reading skills, including visuals, graphs, and videos to support its central messages. The Swedish government continues to research how the "orange envelope", an annual contribution report and benefit projection, affects workers' understanding of its DC scheme, especially of the increased importance of the choice of retirement age. We learn that Swedish surveys show that the orange envelope is most effective in raising pension literacy among those who already have a basic knowledge, but less so with those who lack it. At the same time, the government's research shows that large numbers of workers wish to receive more pension information. The government interprets this as a sign that it needs to develop better ways of communicating. As one response, it merged the Social Insurance Agency, which administers the public pension scheme, with the Premium Pension Agency, which administers Sweden's mandatory system of privately managed savings.

None of the reported initiatives take account of recent work in the field of behavioural economics, which indicates that even with high levels of pension literacy, for reasons of myopia, risk aversion, or other factors, many people neglect retirement planning. Nor do the reports consider that, with multi-tier pension systems, retirement planning may simply require more time than most people are able or willing to spend. Thus, along with raising pension literacy, there is also a need to develop policies that reduce and simplify the decisions that individuals must make. Recent experience points to the advantages of auto enrolment, which places workers in voluntary retirement savings schemes unless they opt out (rather than the reverse), and default investment options, which place their contributions in funds with risks that are judged appropriate to their age, family, and financial circumstances, unless they opt for a different risk profile.

It is unfortunate that the volume does not contain a final chapter pointing more directly at priority issues in pension administration and their possible resolutions. Given the diversity of topics covered, drawing them together would be challenging, but such an exercise would also be of great value in highlighting the volume's main messages and in pointing the way for future analysis. Still, this book is an important source of information on an understudied topic. Pension analysts who are interested in administrative trends can find much that is new here, while those who focus principally on policy-making can gain useful insights into the administrative consequences of recent pension reforms.

Elaine Fultz
JMF Research Associates
Philadelphia, United States

