



Retreat towards systemic reform. What stakes?

Nisrine GHEFOU

Nisrineghfou@gmail.com

Summary

The problem of the financial imbalances of the Moroccan pension system constitutes a threat for its future, since the latter is characterized by a coordinated institutional pluralism and a coverage limited to a relatively small population.

Faced with its imbalances, we proposed to carry out an actuarial study which will focus on the transformation of a defined benefit plan into a defined contribution plan operating according to the principle of notional accounts, our objective falls within the framework of the creation a new architecture of pension systems, which will call into question the operating methods of the current system.

The merits of this type of funding are unanimous in the opinions of observers, both for its added value in terms of the sustainable actuarial balance of the pension plan and for its qualities in terms of compliance with commitments.

In this context, we will focus on the civil pensions system of the Moroccan pension fund which will constitute the bulk of our study. The modeling of this regime will be done over the period 2016-2064, where we will present the different demographic, economic and financial projections using simulations of the systemic reform in notional accounts and ending this article with a comparison of the current situation of the RPC of the CMR with that of the new architecture e emphasizing the most robust mode in terms of sustainability and intergenerational equity.

Keywords : Notional accounts, actuarial balance, systemic reform, intergenerational equity.

JEL Classification : H55 - J1 - C60

Specificities and challenges of notional accounts in pension funds in Morocco

Moroccan pension systems are already trying to curb financial imbalances and avoid complete exhaustion by resorting to parametric reforms which aim not to fundamentally change the rules of the game but to modify a particular parameter of the system by with a view to improving its viability. However, while recourse to such parametric reforms is arguably the easiest political path to take, since it does not call the system into question and does not require social debate, it is not free from serious flaws and limitations. The measures appear very negatively to the population with no real prospect for the future. Moreover, by constantly adding new rules, they make the method of determining pensions more and more opaque. By caricaturing a little, one could therefore be tempted to assimilate these parametric reforms to plasters on a wooden leg ...

In Morocco, the systemic reform is declined as being the most appropriate in order to guarantee the sustainability and financial balance of pension schemes. Switching from an annuity scheme to a notional account scheme is thus a path to take to avoid the bankruptcy of the Moroccan pension system. Indeed, several countries of the world have opted for the transition to a notional account system which is a subtle blend of solidarity and equity. Its principle is to combine the solidarity aspects of distribution with better individual equity, by linking more directly the benefits obtained to the contributions that each person has paid during their working life.

Thus, the principle of notional accounts maintains the distribution mechanism: it is the current assets that pay for retirees, but the novelty lies in the method of calculating the pension, which is calculated from the contributions actually paid. by the individual during his working life. It is therefore a defined contribution system. We create a virtual account in which the contributions are registered and fictitiously capitalized throughout the career, once the affiliate reaches retirement age, this virtual savings is converted into an annuity according to classical actuarial principles of equivalence . In fact, there is no real savings since the mechanism is based on distribution, thus maintaining the intergenerational solidarity that distribution supposes, but simultaneously the system empowers the individual by introducing individual equity and linking in a way. direct the benefits received to the efforts made to finance it. To understand and analyze the reform of a pension system, it is necessary to look at the general architecture of the pension system in question. Indeed, while a reform often has the stated objective of ensuring the medium and long-term financial viability of the system, it also often has effects, more or less debated, more or less socially chosen, on a particular element of the system.

I. Switching from an annuity pension plan to a notional account plan and comparative analysis

The principle of pension reform often consists in modifying the operating and financing mechanisms of existing pension schemes, particularly in terms of the modalities of acquisition and settlement of pension rights.

The majority of public pension plans, to restore their actuarial balance, adopt parametric reforms which operate according to a new pricing system. These parameter changes have effects, to varying degrees, on the number of annuities to be acquired to liquidate at full rate, the acquisition price of these rights and their value at the time of liquidation and during retirement. It is in this sense that the insured can determine and compare what he pays during working life to accumulate rights and what he can receive in the form of a pension during retirement. We often talk about the pooling of demographic and economic risks among all insured in pension plans operating according to the pay-as-you-go technique, since pricing is not individual but collective. This is why future revenues must be sufficient to fund benefits given the projected progression of the contribution base in order to be compatible with the long-term actuarial balance of this plan. This criterion is essential and makes it possible to measure the solvency of a plan. It applies to both defined benefit and defined contribution pension plans.

In this context, we have to answer the following questions: what is the impact of a change in the balanced pricing on the pension paid by an insured? And to set the solvency constraint, how are the lifetime commitments of the plans taken into account? What are the most effective steering mechanisms and instruments to respect this constraint and follow a path of equilibrium? All the countries that have embarked on reform projects for their pay-as-you-go pension systems have asked themselves this set of questions. To assess the situation of a pension plan and possibly provide for a reform that will restore its long-term actuarial balance. We will be interested in the formalization of the salary career and the contributory effort, as well as the amount of the liquidated pension and the replacement rate of the last salary in two types of retirement plans namely: annuity plans and notional account schemes.

II. Application of the notional accounts technique: options relating to a new pension system

Within the framework of this article, it is proposed to carry out an actuarial study on the transformation of a defined benefit pension plan into a defined contribution plan according to the notional accounts technique. As well as the possibility of adopting this operating technique for the Moroccan case. The aim of this reform is, to a large extent, the search for a sustainable and long-lasting actuarial and financial balance for Moroccan pension funds.

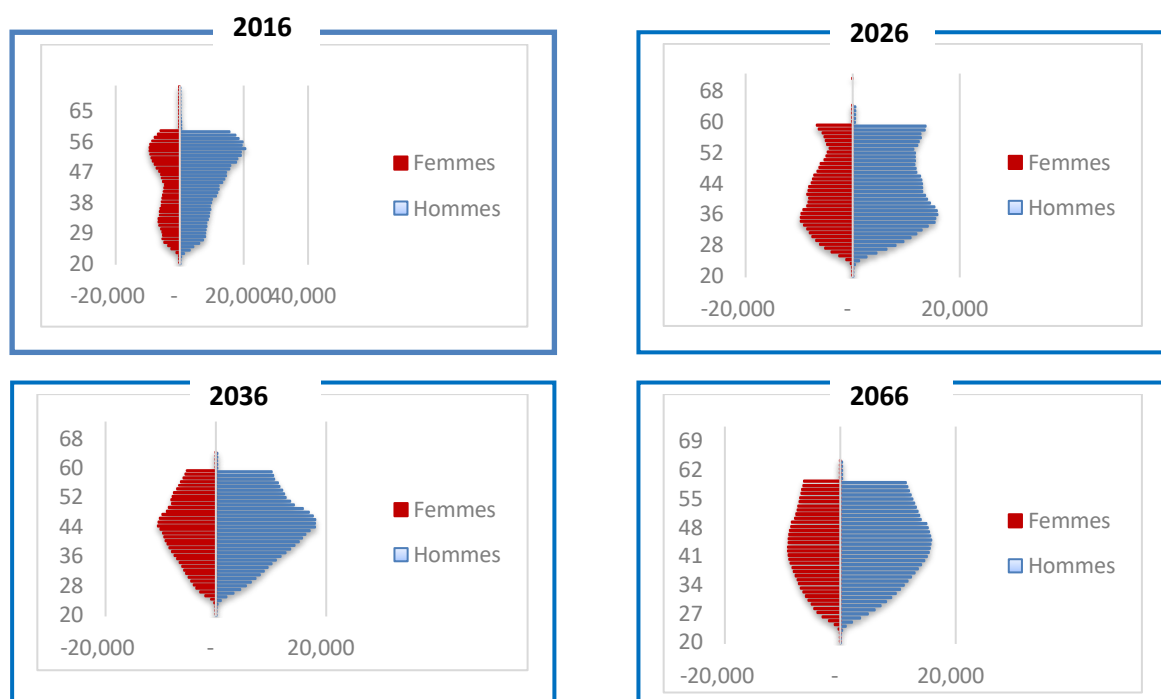
When we speak, on a theoretical level, of the balance of a pension plan, we refer to the actuarial approach which is based on respecting the link that must exist between the operating parameters of the plan in question.

The notion of a balanced pension plan is dependent, on the choices that should be made beforehand on certain options that condition the operation of this regime, however, these options cannot be set independently of the capacities allowed by the reality of the national economy. In this context, a reform must be part of a transitional phase by focusing on the target values that it would be desirable to achieve by the set horizon.

We will, first of all, do an analysis which will examine in a global way, within the framework of the current situation (status quo) as well as within the framework of a systemic reform, the financial balance and the functioning of the regime. civil pensions from the Moroccan pension fund. We are going to deepen our analysis of the regime's situation by projecting it into the future to clearly visualize the problem. We need to perform regime simulations and predictions on the various components of its functioning. In a second level of analysis, the actuarial diagnosis of this plan will be examined through sensitivity tests (stress testing) while respecting the conditions and actuarial links.

In order to test the financial sustainability of the civil pensions system (CPP), it is necessary to project its expenditure and its income in order to study their evolution and to analyze its results over a distant horizon. Regarding modeling, it was decided to model the populations covered by their average data by completed age and to follow these classes as average individuals as they age and acquire their rights.

Figure 1: Age pyramid 2016, 2026, 2036 and 2066 of active CMR civil pensions contributors



Source: Prepared by us based on ATLAS outputs (ACAPS / CMR data)

The analysis of the evolution of the age pyramid of the CMR civil pensions scheme over the projection period shows a significant retirement phase in 2016 affecting the current contributing generations. The departing generations are gradually replaced by current assets and new recruits until 2036.

As fertility and mortality have declined in recent decades, the structure of the Moroccan population has undergone significant changes. From this perspective, the demographic transition begins to have a remarkable impact on the shape of the age pyramid. The aging phenomenon will be more and more pronounced by 2036 compared to the base year 2016 and we can see that this phenomenon will become less possible by 2066.

Findings and recommendations

Through our study, we have focused on a problem that is currently a question of social debate, namely the financing of the civil pensions scheme managed by the CMR. To do this, we have drawn up an exhaustive diagnosis from which we have been able to detect the failures of the regime. The diagnosis revealed the weaknesses of the CPP and showed that its sustainability is threatened, the regime therefore experienced its first financial deficit in 2014 and its reserves will be exhausted in the very near future.

This study allowed us to judge the method of financing by notional accounts as being an option for systemic reform in terms of improving the viability of the general CMR regime. It has led to a spreading of its horizon of sustainability, and a reduction in its implicit debt. Its characteristics of actuarial neutrality and fairness towards pensioners have been the cause of the decrease in the level of benefits and subsequently the improvement in the performance of the scheme.

We can consider that systemic reforms can be an avenue of reflection to remedy certain problems which oppose them, such as the spreading of the horizon of sustainability, and the reduction of implicit debt. As well as the characteristics of actuarial neutrality and fairness towards pensioners and also the cause of the decrease in the level of benefits and subsequently the improvement of the performance of the scheme.

However, I would like to make three remarks that I think are essential:

- 1st remark: no reform in itself ensures the return to financial equilibrium of an unbalanced pension scheme. Moreover, this is what the authors of these reforms seek to mask and which is never the subject of political and democratic debate.

Any system can be configured to organize a decrease or an increase in pensions.

- 2nd remark: no change for retirees and future retirees of the coming years: the proposed reform should not change your situation if you are already retired or the people who will retire in the next five years. There is some relief here in view of the experience of previous reforms which had immediate effects or spread over a relatively short period. Except that the lengthening of the duration of the contributions required for a full rate, the implementation of the discount ... can develop a certain anxiety of the assets vis-à-vis this measure likely to fall on them, sometimes leading to movements panic like early departures.

However those people who will not be affected by this systemic reform will be hit harder and harder by previous reforms.

- 3rd remark: systemic reform risks impacting acquired rights: moving from a large number of different regimes to a single regime, and changing the method of calculating rights implies defining a policy for the transition between the various existing systems .

This transition poses very complex problems and can be done over a longer or shorter period: it is preferable that the transition be gradual.

Three types of transition are possible:

- The 1st transition may consist of applying the new rules only to new entrants to the labor market.
- The 2nd form of transition can consist in closing the old plan and recalculating on that date all of the outstanding contribution rights in the old plan.
- The third form of transition will consist in distinguishing two types of progressive transition according to the generations affiliated to the old and the new regime. The pension in this case will be equal to the weighted sum of the pensions which have been acquired in each of the schemes according to weightings which change over the generations.

More generally, these questions arise when we want to ensure in a single rule a conversion of rules from several different schemes: general scheme, supplementary schemes, civil service ... which operate according to specific principles.

One possible solution is to create a single "basic" scheme with additional schemes to take into account certain specificities (and professional identities).

However, distribution or capitalization, system by points, by annuities or by notional accounts, defined contribution or defined benefit systems are not equivalent from the point of view of rights, of their mode of acquisition, of the protection they offer. or the uncertainty that they generate, the solidarity that they organize or reject at the margin of the distribution between losers and winners that the ideology they convey and the conception of society that they carry.

Especially since pension systems are historical constructs, the product of social struggles, debates that have developed over decades, professional identities and do not make a meccano by ignoring all this, by crossing out with a stroke of technocratic pen this whole story.

Finally, this article is insofar as it makes it possible to give a clear vision of the problem of the civil pensions system managed by the CMR in the decision-making power, since the solution is far from being only a change of the parameters of the plan but we should first of all think about managing the reserves well, setting parameters based on well-constructed foundations before embarking on such an approach which aims to completely change the regime.