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countries that implemented mandatory private retirement savings: Australia and Chile. Anyone interested in the Chilean experiment should read Robert J. Myers article, "Chile's Social Security Reform, After Ten Years," in the Third Quarter 1992 and First Quarter 1993 issues of *Benefits Quarterly*.

The effect of a funded retirement scheme on the savings level in the economy is a complex subject. Old age security should not only be a social safety net but also an instrument of economic growth. Some of this funding would undoubtedly be additional savings in the economy. Mandatory private coverage is a straightforward solution to the chronic lack of pension coverage and is advocated in this book.

I believe that the authors wisely discouraged a single pillar, be it funded or not, defined contribution or defined benefit. Each type of arrangement has its own advantages and disadvantages, and a judicious mix is probably a cautious approach.

Although you may not entirely agree with the analysis or the conclusion, I recommend that you read this important and thought-provoking book.

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### Comments from Robert J. Myers

Jean Sasseville asked for my comments. I found his review of the World Bank Policy Research Report excellent. However, I have some comments, which relate not to his review, but to the World Bank's views.

"Researchers have not found much redistribution from the lifetime rich to lifetime poor."

I strongly disagree with this view. To a limited extent, this was true in the very early days of Social Security, but not in recent years or over the long run. The report neglects to consider the offsetting features of disability-benefit and survivor-benefit protection (besides the heavily weighted benefit formula). Note that this is just "the opposite side of the coin" with regard to vigorous complaints currently made by highly paid younger workers who feel they do not get their money's worth. Frankly, the World Bank authors do not have adequate actuarial knowledge to evaluate the situation. They seem to have a major goal of building up huge invested assets, with social security goals being secondary.

"Evidence suggests that public pillars that combine all these functions are problematic for both efficiency and distributional reasons."

I believe evidence shows the opposite. The U.S. Social Security program has significantly reduced poverty among the population aged 65 and over. It operates very efficiently, with administrative expenses representing only about 0.8 % of tax income currently.

"A dominant pay-as-you-go public pillar also misses an opportunity for capital market development."

Such market development should be achieved another way. This is not the purpose of Social Security.

"When the first old generations get pensions that exceed their savings, national consumption may rise and savings may decline. The next few cohorts pay their Social Security tax instead of saving for their old age, so they may never make up this loss in savings."

We cannot tell whether this really occurs. This is mere economic supposition.

"Each type of arrangement has its own advantages and disadvantages, and a judicious mix is probably a cautious approach."

Yes, but the public system should be a broad social insurance plan, without a means test (which the report advocates). The authors do not realize, possibly because they have "ivory tower" backgrounds and no practical experience with a Social Security system, how bad a means-tested system as the floor of protection would be. The disadvantages are that it is divisive, costly to administer, encourages fraud and abuse through transfer of assets and, most important, discourages savings by all except individuals with a higher income.

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## Economic assumption (continued from page 3)

1. How does unemployment affect actuarial assumptions? (It seems it would be difficult to project this out more than two or three years.)
2. Conduct a more focused survey on how actuaries involved in insurance company modeling set the new business assumption. (It may be difficult to generate enthusiasm for this, because cash flow testing does not use a new business assumption. Most appraisals place little weight on the value of new business.)

In summary, what we have from the survey are "impressions" of the survey respondents about the relationship between various actuarial assumptions and various economic assumptions. The purpose of any future research should be to confirm or refute the "impressions" with "demonstrations."

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