# Public Pension Reforms: Experiences and Challenges to Attain Equitable Outcomes



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IN THE POST-CRISIS WORLD

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# Structure of the presentation



1. Historical overview of pension reforms
   - from full employment to labour shedding…
   - through retrenchment and refinancing
   - … to restructuring via privatization
2. Political conditions for equitable and sustainable outcomes
   - institutional configuration: majoritarian vs. consensual
   - trade-offs and packaged solutions
3. Recent trends in policymaking
   - gradual elimination of the social partners (mainly trade unions)
     - from daily management of social security
     - from broader decision-making

# Historical overview



- Three layers of a socialist pension system
  - Bismarckian core
    - (constitutionally guaranteed right to) work as legal basis of retirement
  - post-war socialist social solidarity
    - PAYG system; increased coverage (small entrepreneurs and farmers)
  - imported Stalinist centralization
    - monolithic public administration
- Crisis under socialism
  - financial strains
    - low retirement age and long assimilated periods (e.g. maternity leave); best- or last-years calculation formulae
    - cross-subsidization of other budget expenditures (e.g. social assistance)
  - poverty in old age
    - the ‘old portfolio’ problem, due to insufficient indexation

# Labour shedding and consequences



- Transformational recessions
  - output decline
  - severe skills mismatches
- (In)voluntary labour shedding
  - steep rise in unemployment and informal employment
  - great abnormal pensioner booms

| 1990-2000 | Croatia | Hungary | Poland | Slovenia |
|---|---|---|---|---|
| Insured | -30% | -25% | -15% | -10% |
| Pensioners | +55% | +21% | +38% | +26% |

- Vicious circle
  - lower contributions and higher expenditures leading to deficits

| % of GDP | Croatia | | Hungary | | Poland | | Slovenia | |
|---|---|---|---|---|---|---|---|---|
| Deficit/year | 6% | 2001 | 0.5% | 1990s | 6% | 1992-4 | 4% | 1999 |

# Retrenchment and refinancing



- Refinancing
  - rapid increase in social security contributions

| | | | | | | |
|---|---|---|---|---|---|---|
| Croatia | 18.5% | 1991 | 22% | 1992-3 | 27% | 1994 |
| Poland | 25% | 1981 | 38% | 1987-9 | 45% | 1990 |
| Slovenia | 22.7% | 1990 | 28.8% | 1991-2 | 31% | 1993-5 |

  - discontinued due to declining international competitiveness
- Retrenchment
  - arbitrary freezing of indexation of all but minimum benefits
    - struck down by Constitutional Courts (no exceptional circumstances)
  - scaling down of public pillars
    - NDC in LV, PL, RU
    - point systems in HR, RO, SK, SRB, UKR

| | Substitutive | Parallel | Mixed |
|---|---|---|---|
| 90s | Kazakhstan (1998) | | Hungary (1998)<br>Poland (1999) |
| 2000s | Kosovo (2002) | Lithuania (2004) | Bulgaria (2000)<br>Latvia (2001)<br>Croatia (2002)<br>Estonia (2002)<br>Russia (2003)<br>Slovakia (2005)<br>Uzbekistan (2005)<br>Macedonia (2006)<br>Romania (2008) |
| 10s | | Czech Republic (2013) | |

- Restructuring via privatization
  - politically superior, allows for quid-pro-quos
  - resonates with the public (equity as individualization)
  - obfuscates cuts in public pillar
- Size of mandatory funded pillar
  - Substantial HU 6→8/33.5 LV 2→10/20 PL 7.3/19.52 SK 9/18
  - Medium BG 2→5/23 CZ 3+2/28 HR 5/20 EE 4+2/20 LT 2.5→5.5/18.5 RO 2.5→6/28

# Institutional conditions for equity and sustainability



| | Majoritarian | Consensual |
|---|---|---|
| **High polarization** | Democracy<br>Swift legislation<br>High reform capacity<br>Policy reversals during implementation | Democracy<br>Gridlocked legislation<br>Low reform capacity<br>Policy stability during implementation |
| **Low polarization** | (Often) autocracy<br>Swift legislation<br>Low reform capacity<br>Policy reversals during implementation | Democracy<br>Slow legislation<br>High reform capacity<br>Policy stability during implementation |

# Trade-offs and packaged solutions



- Political arena
  - importance of *quid-pro-quos* between coalition partners
    - diffuse vs. concentrated redistributive consequences
      - compensation (often exclusionary)
  - *credit claiming* in addition to *blame avoidance*
    - policy innovation as main reform driver
- Corporatist arena
  - increasing *insider-outsider* dynamics
    - major constituencies shielded through e.g. long phasing in periods
  - *office-seeking* by the social partners
    - cooptation of union leadership
    - maintenance and/or expansion of managerial role to unions
    - expansion of tasks of institutions under unions' control

# In the aftermath of the crisis



- Temporary measures
  - many CEE countries froze the indexation of pensions (wages of public employees, social transfers) during 2010-12
- Reversal of privatization
  - governments prefer to spend for Keynesian measures than for transition costs
- Parametric reforms
  - various CEE countries introduced a number of 'overdue' parametric reforms:
    - higher and equalized retirement age
    - fewer early retirement venues
    - lower regular indexation

# Social partners and pension management



- *De facto* exclusion through multi-pillarization
  - private mandatory pillars
    - despite initial attempts, only marginal involvement of social partners in private fund management
  - private voluntary pillars
    - underdeveloped occupational supplementary schemes via CA
  - étatization of minimum benefits and/or social assistance
    - social pension in BG, HU, SI
- *De jure* exclusion from social insurance institutes
  - shifting tasks to other governmental agencies (HR)
  - elimination of administrative boards (HU)
  - changes in boards' composition favourable to government (SI)

# Social partners and decision-making



- *De facto* elimination of tripartite concertation
  - limited or no consultation with social partners
    - PL pensionable age rise and equalization in 2012
  - abandonment of consultations
    - SI parametric pension reform in 2010-11
  - repudiation of previously agreed reforms
    - BG pension reforms in 2011
- *De jure* elimination of tripartite forums
  - HU replaced its main tripartite forum (National Interest Reconciliation Council) with a non-representative body
  - RO changed the composition of the Economic and Social Council: unclear membership and mandate