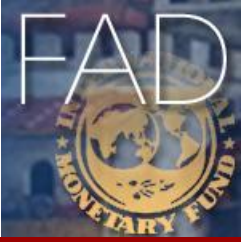


Public Pension Systems in Emerging Europe Challenges and Reform Options

Sanjeev Gupta
Fiscal Affairs Department
International Monetary Fund
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Plan of Presentation

I. Pension Challenges

II. Reform Options

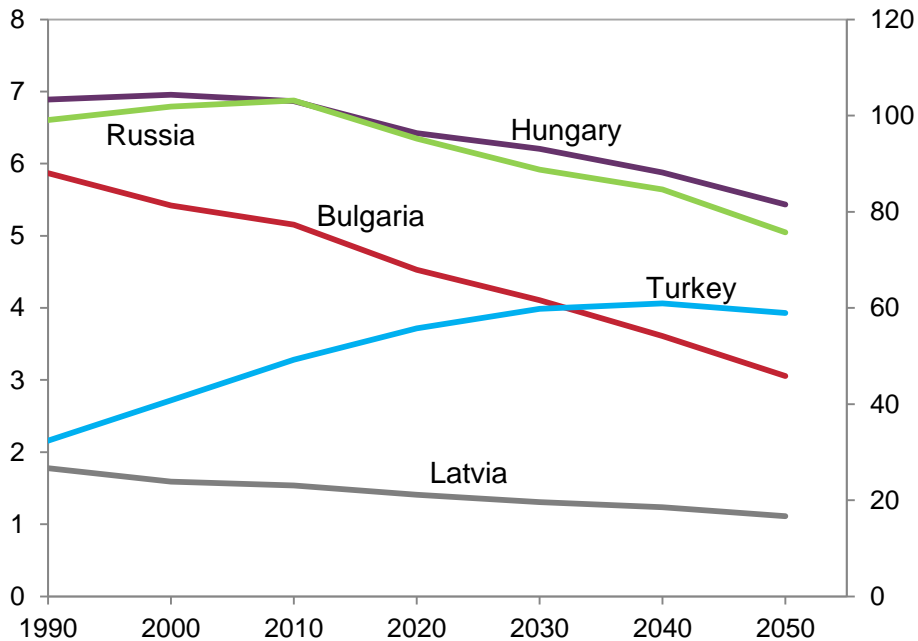
III. Risks to Enacted Reforms and Reform Options

IV. Conclusions

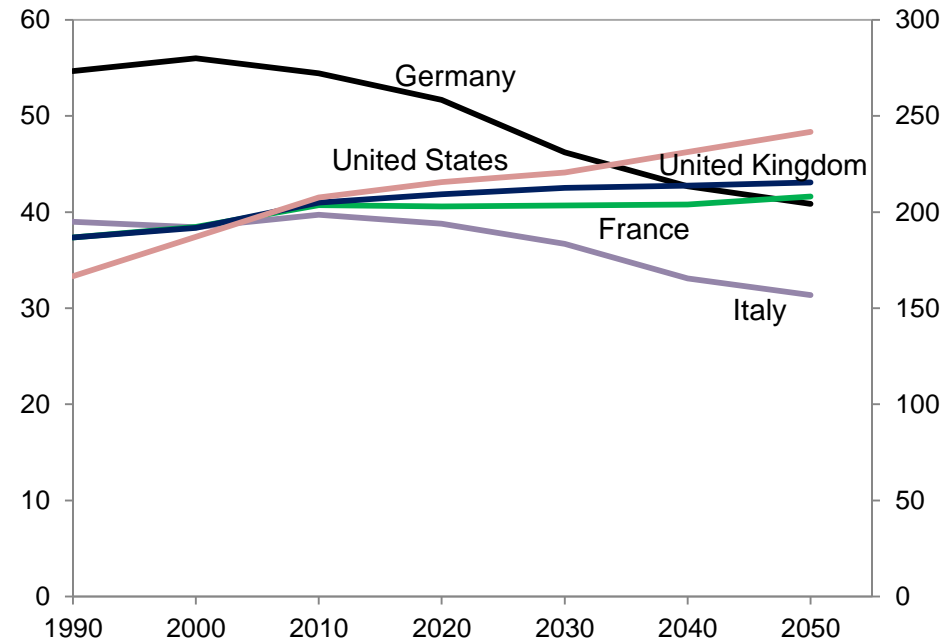
I. Pension Challenges

I. Challenges: Working-age population

Population aged 15-64 (in millions)



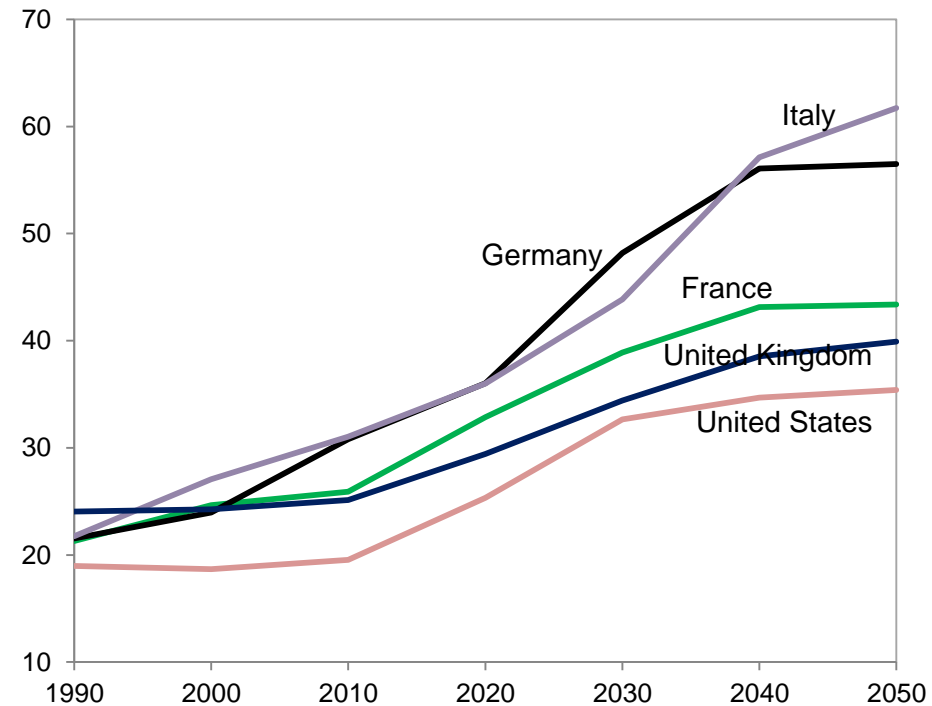
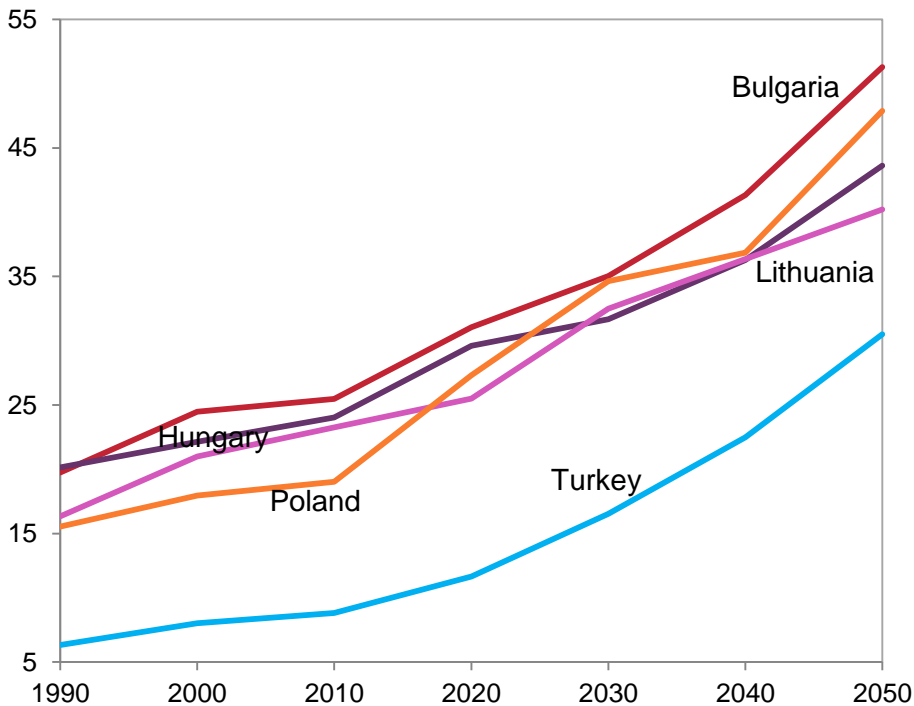
Note: Russia and Turkey right hand axis
Source: UN.



Note: United States right hand axis

I. Challenges: Old-age dependency ratio

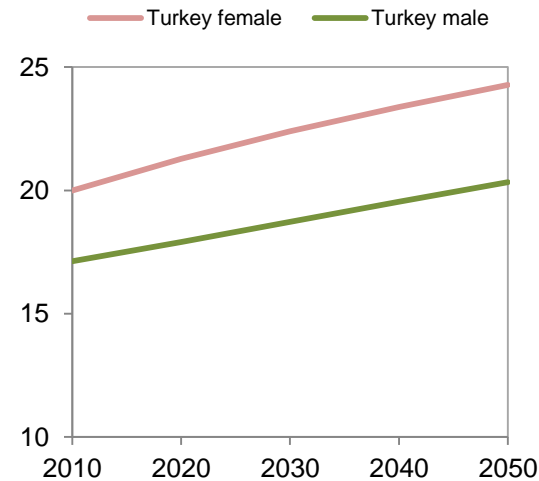
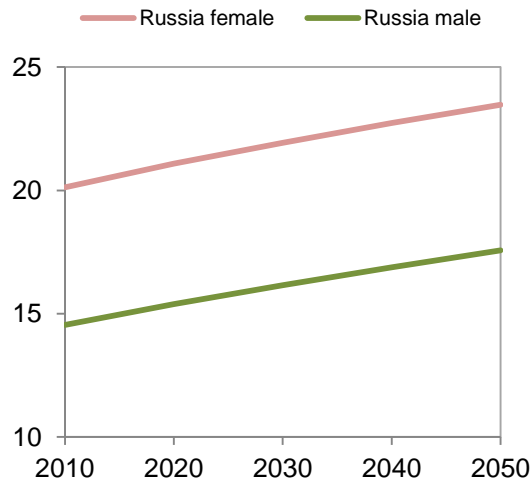
Population 65 and older as a share of population aged 15-64



Source: UN.

I. Challenges: Life expectancy trends

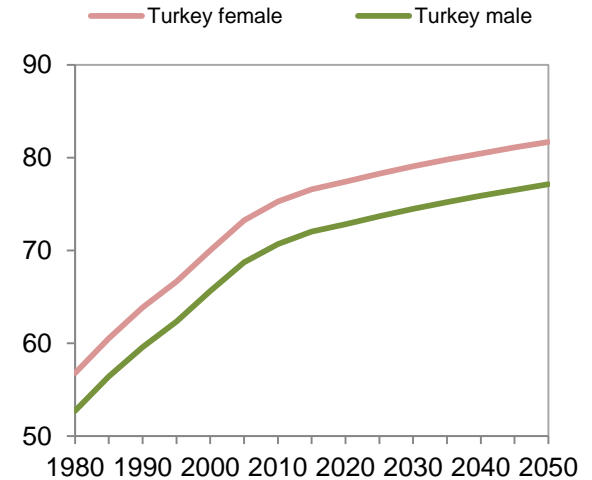
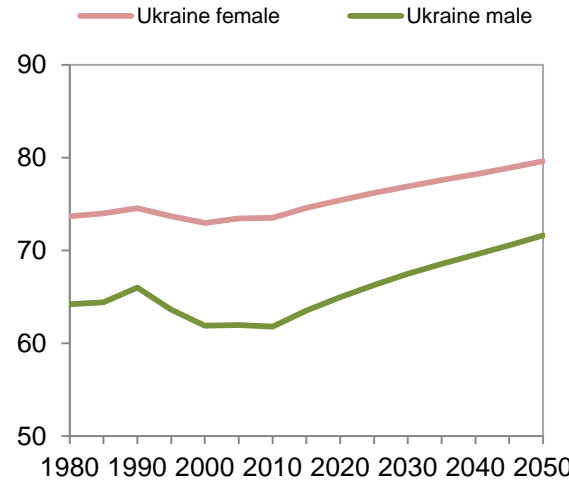
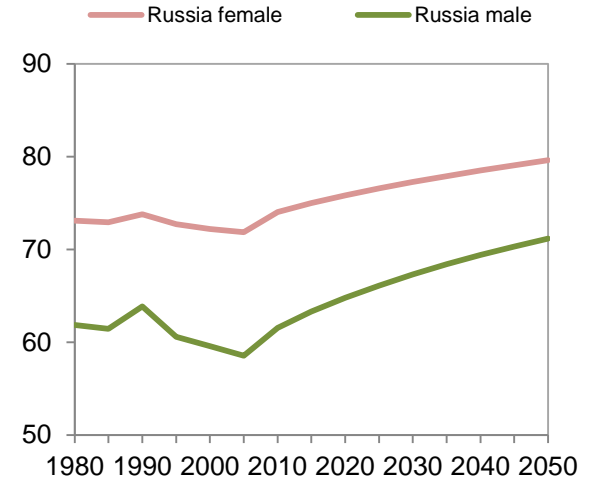
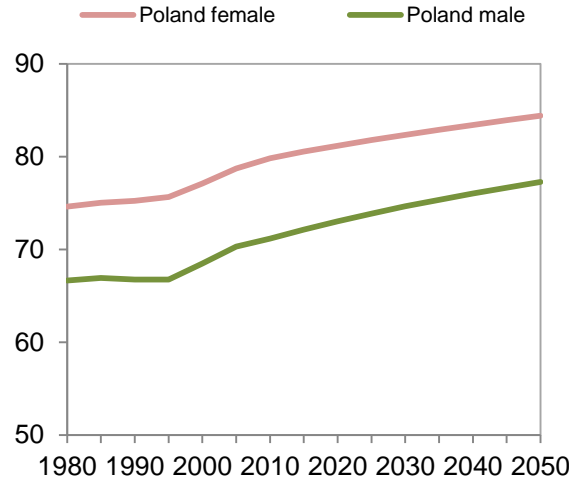
- ❑ Life expectancy trends, gender and socio-economic status
- ❑ Life expectancy higher for females than males
- ❑ Widening gap in life expectancy between lowest and highest socioeconomic groups



Source: UN.

I. Challenges: Historical life expectancy trends

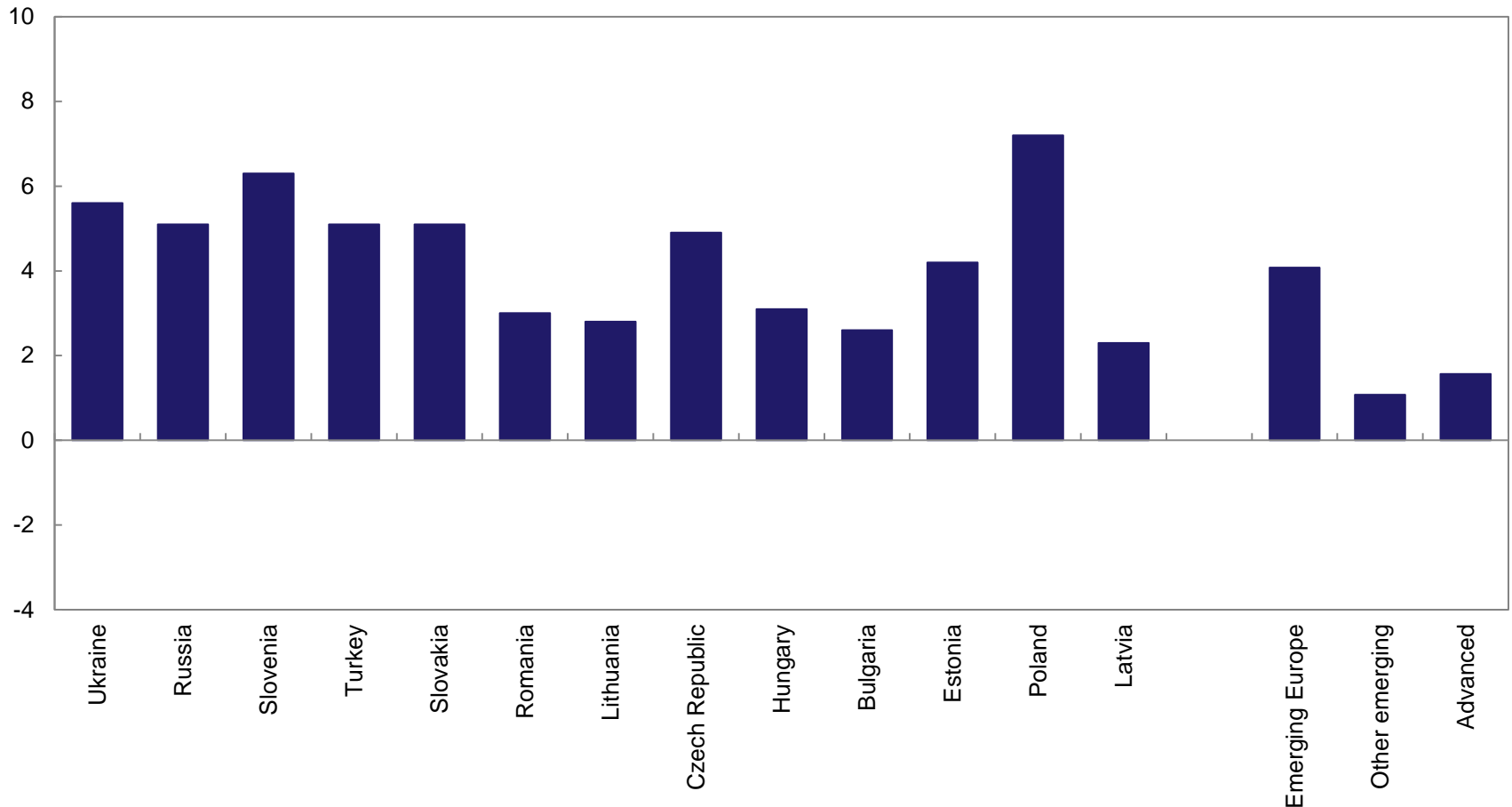
Emerging Europe generally experienced stagnation or drop in life expectancy at birth during transition period



I. Challenges: Without policy changes aging would increase public pension spending significantly...



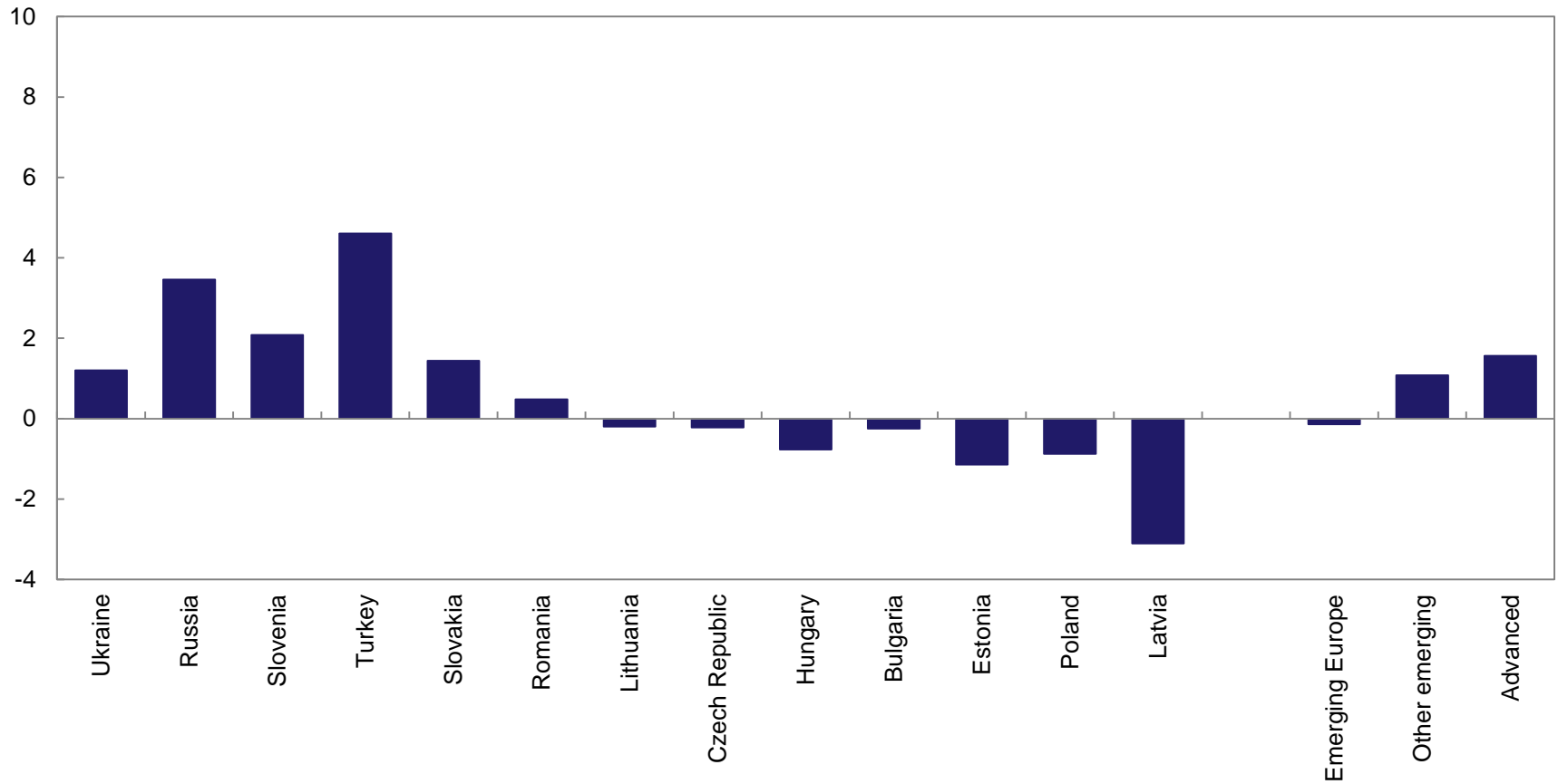
Increase in Pension Spending Due to Aging, 2011–2030
(Percent of GDP)



I. ...but many countries have implemented reforms to counter this up to 2030...



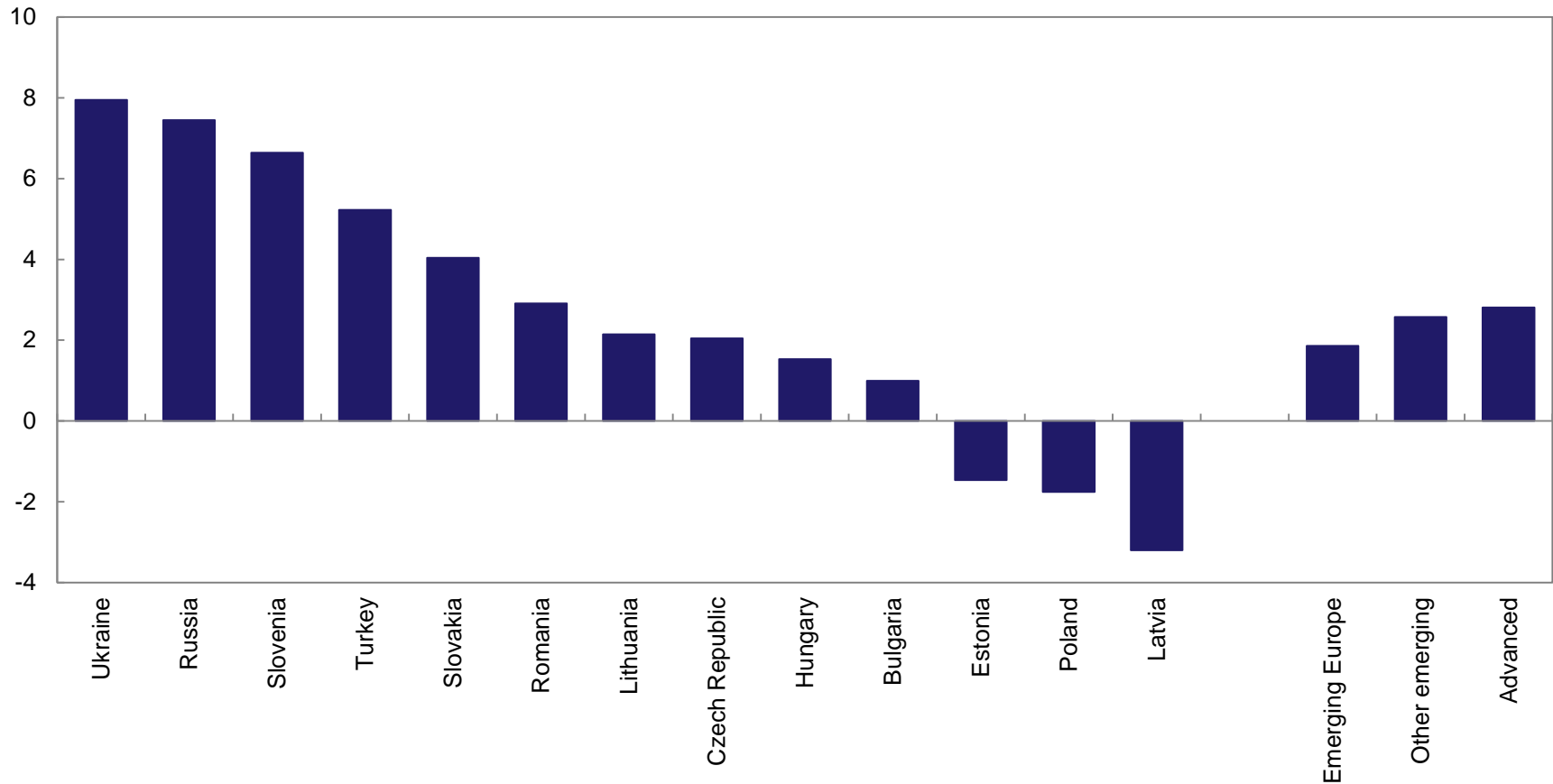
Increase in Pension Spending with Reforms, 2011–2030
(Percent of GDP)



I. ...though beyond 2030 their impact starts to fade and aging pressures dominate yet again

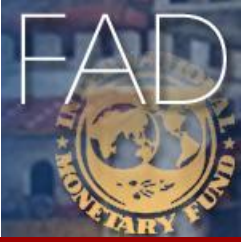


Increase in Pension Spending with Reforms, 2011–2050
(Percent of GDP)



II. Reform options

II. Countries have a number of options to control spending trends over coming decades



- Regardless of what reforms have already been implemented, in most countries further efforts are required to deal with rising public pension spending up to 2050. There are a number of options:**
 - Raise retirement age**
 - Reduce replacement rates**
 - Increase payroll contributions or other revenue**
 - In practice use a combination of the above**



II. Reform Options

Raise Retirement Age

Measures

- Increase statutory retirement age with rising life expectancy
- Reduce early retirement incentives with the aim to raise effective retirement age
- Tighten eligibility, e.g. raise minimum contribution years

Attractive Option

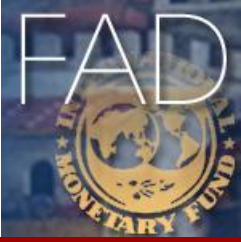
- No need to reduce benefit generosity
- Short- and long-term positive effect on output

II. Reform Options

Raise Retirement Age



Statutory retirement ages and life expectancy								
	Male				Female			
	2010	2030	2050	Projected increase in life expectancy at 65 during 2010 and 2050	2010	2030	2050	Projected increase in life expectancy at 65 during 2010 and 2050
Bulgaria	63	63	63	2.7	60	60	60	3.6
Estonia	63	65	65	2.6	61	65	65	3.1
Hungary	60	65	65	2.9	59	65	65	3.8
Latvia	62	62	62	2.8	62	62	62	3.4
Lithuania	63	63	63	2.4	60	60	60	3.1
Poland	65	65	65	2.6	60	60	60	3.1
Romania	64	65	65	2.8	59	60	60	3.7
Russia	60	60	60	2.3	55	55	55	3.0
Turkey	60	60	65	2.8	58	58	65	3.9
Ukraine	60	60	60	2.7	55	60	60	3.4
France	61	62	62	3.1	61	62	62	3.0
Germany	65	65	65	3.6	65	65	65	3.4
Italy	59	66	68	3.0	59	66	68	3.4
United Kingdom	65	66	68	3.1	60	66	68	3.5
United States	66	67	67	3.0	66	67	67	3.4

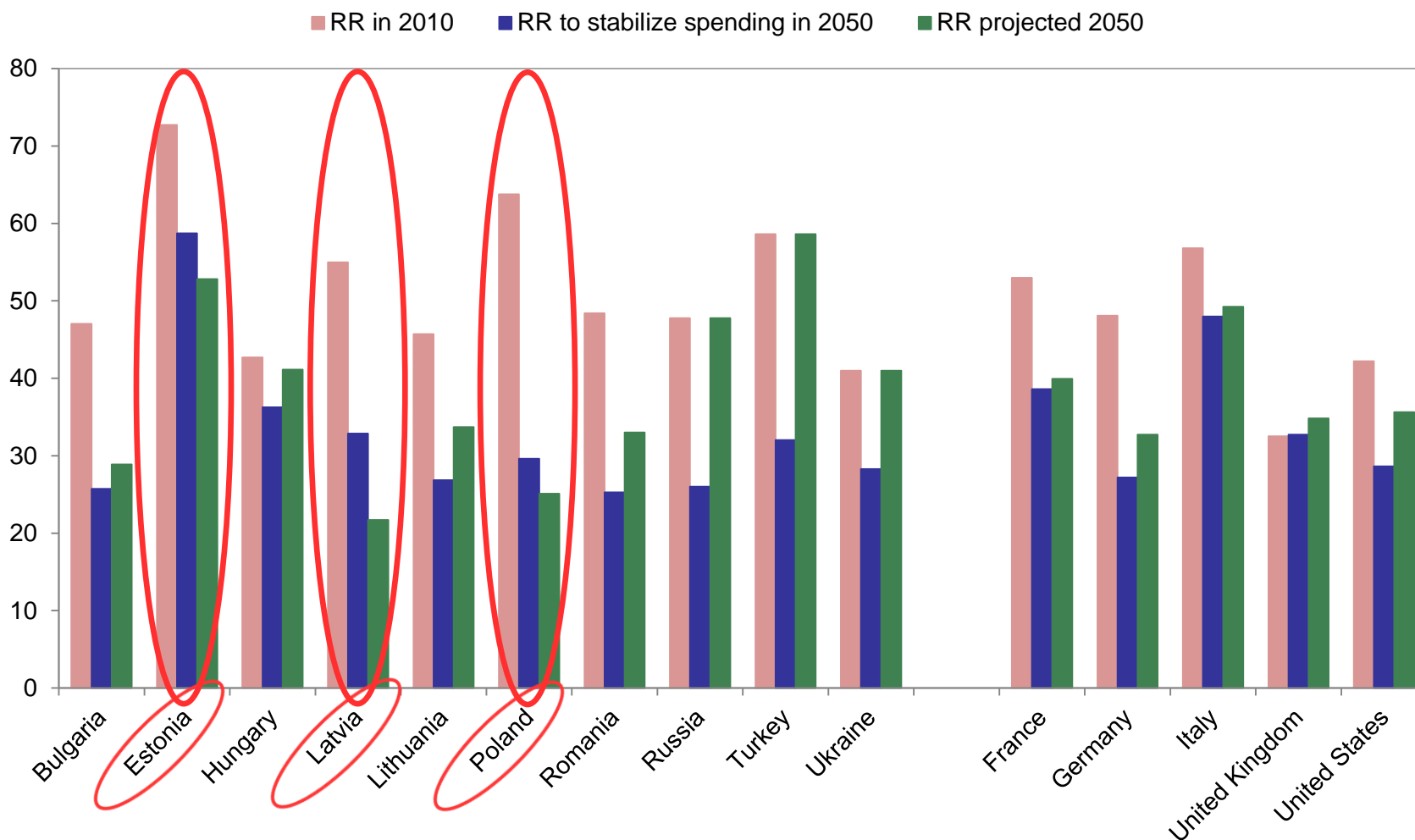


II. Reform Options

Reduce Replacement Rates

- ❑ **Measures**
 - ❑ **Indexation to inflation rather than earnings**
 - ❑ **Move from final salary to career average to calculate pension entitlement**
 - ❑ **Macroeconomic Indexation (Japan) or sustainability factor (Germany, Sweden), which change benefits according to ratio of beneficiaries and contributors**

II. Reform Options Reduce Replacement Rates



Source: IMF staff estimates.



II. Reform Options

Sustainability and Equity Considerations

- Fairness of the public pension system and reform options across genders, income (socioeconomic) groups and generations needs to be considered**
 - Raising retirement age by the same for all socioeconomic groups could raise equity issues. Those who cannot work longer need to be protected**
 - Reducing replacement rates could lead to inadequate pension incomes. Other sources of income, in particular private pensions, need to be developed to prevent pension poverty**
 - Moving from unfunded to funded pensions will create transition costs. Who will pay for these?**

**III. Risks to
already enacted
reforms and
reform options**



III. Risks

- ❑ **Reforms insufficient**
 - ❑ For example, longevity increases more pronounced than predicted or fertility rates failing to increase as assumed
- ❑ **Pension strategy does not deliver desired outcomes**
 - ❑ For example, inadequate future pension incomes from insufficient pension savings or returns remaining below expectations
 - ❑ Shift to private pensions leaves government exposed to contingent liabilities

III. Risks

Lack of Implementation

- Governments shy away from implementing unpopular policies or (eventually) introduce new policies to offset impact of original policy, thus negating previous initiatives
- Examples: Japan's Macroeconomic Indexing not fully implemented or Germany's decision to modify indexation rules to prevent pensions from falling in nominal terms during economic crisis

Reform Reversal

- Authorities could undo legislation enacted by previous governments and change pension strategy, e.g. closure of funded pensions in central and emerging Europe



IV. Conclusions

- ❑ Achieving sustainable public finances major challenge given pressure of demographic change on public pension and healthcare spending**
- ❑ Past reforms in number of countries welcome but challenges remain, including avoiding policy reversal**
- ❑ Countries with unreformed public pension systems have range of options to control future spending**
- ❑ Sustainability and equity considerations should guide reform efforts**



Thank you!