Public Pension Reforms: Experiences and Challenges to Attain Equitable Outcomes

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INTERNATIONAL MONETARY FUND
FISCAL AFFAIRS AND EUROPEAN DEPARTMENTS CONFERENCE:
DESIGNING FiscALLY SUSTAINABLE AND EQUiTABLE PENSION SYSTEMS IN EMERGING EUROPE IN THE POST-CRISIS WORLD
VIENNA, AUSTRIA
MONDAY, MARCH 18, 2013
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

<table>
<thead>
<tr>
<th></th>
<th>Croatia</th>
<th>Hungary</th>
<th>Poland</th>
<th>Slovenia</th>
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<tbody>
<tr>
<td>Insured</td>
<td>-30%</td>
<td>-25%</td>
<td>-15%</td>
<td>-10%</td>
</tr>
<tr>
<td>Pensioners</td>
<td>+55%</td>
<td>+21%</td>
<td>+38%</td>
<td>+26%</td>
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- Vicious circle
  - lower contributions and higher expenditures leading to deficits

<table>
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<tr>
<th>% of GDP</th>
<th>Croatia</th>
<th>Hungary</th>
<th>Poland</th>
<th>Slovenia</th>
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<tbody>
<tr>
<td>Deficit/year</td>
<td>6%</td>
<td>2001</td>
<td>0.5%</td>
<td>1990s</td>
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</table>
Retrenchment and refinancing

- **Refinancing**
  - rapid increase in social security contributions
    - 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
### Restructuring via privatization
- politically superior, allows for quid-pro-quaos
- 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

<table>
<thead>
<tr>
<th>Decade</th>
<th>Substitutive</th>
<th>Parallel</th>
<th>Mixed</th>
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<tr>
<td>10s</td>
<td></td>
<td>Czech Republic (2013)</td>
<td></td>
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Institutional conditions for equity and sustainability

<table>
<thead>
<tr>
<th>High polarization</th>
<th>Majoritarian</th>
<th>Consensual</th>
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<tbody>
<tr>
<td>Democracy</td>
<td>Swift legislation</td>
<td>Gridlocked legislation</td>
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<tr>
<td></td>
<td>High reform capacity</td>
<td>Low reform capacity</td>
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<tr>
<td></td>
<td>Policy reversals during implementation</td>
<td>Policy stability during implementation</td>
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<td>Swift legislation</td>
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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