



ADVANCED AND EMERGING EUROPE: DIFFERENT STARTING POINTS BUT COMMON CHALLENGES

Anna Cristina D'ADDIO

Social Policy division, Directorate for
Employment, Labour and Social Affairs
OECD

<http://www.oecd.org/els/social/pensions>

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emerging Europe in the post-crisis world”, Vienna, 18 March 2013



Outline

- Overview
- Common or different starting points?
- Common challenges?
- General trends in pension reforms and risks
- Conclusion and policy directions

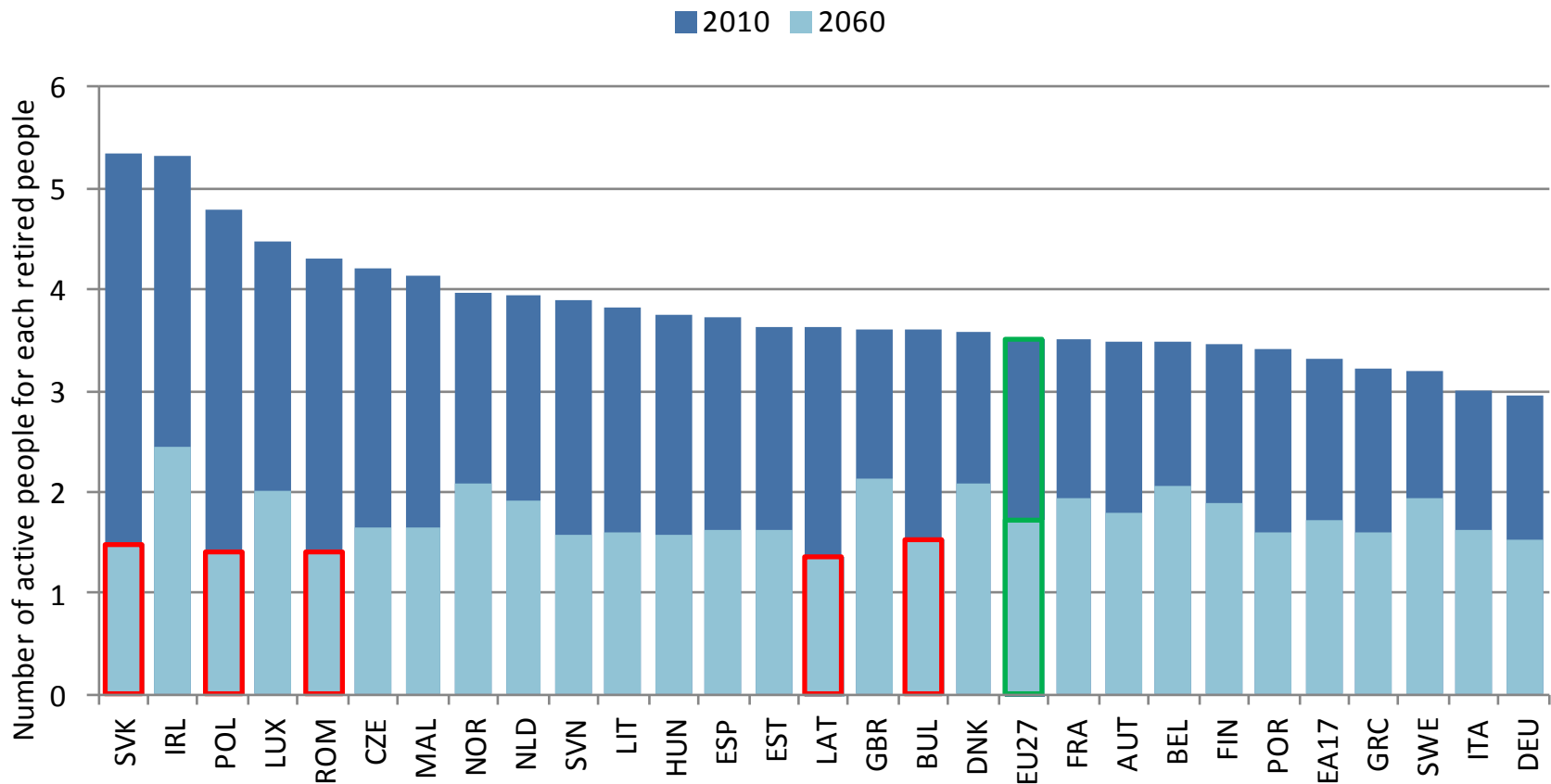


Different starting points?

- Population ageing
- Labour markets
 - participation (at different ages) and its stress on pensions
 - Changing working patterns
- Pension systems
 - Structure and degree of maturity
- Extent of fiscal space
- The crisis: a different starting point?



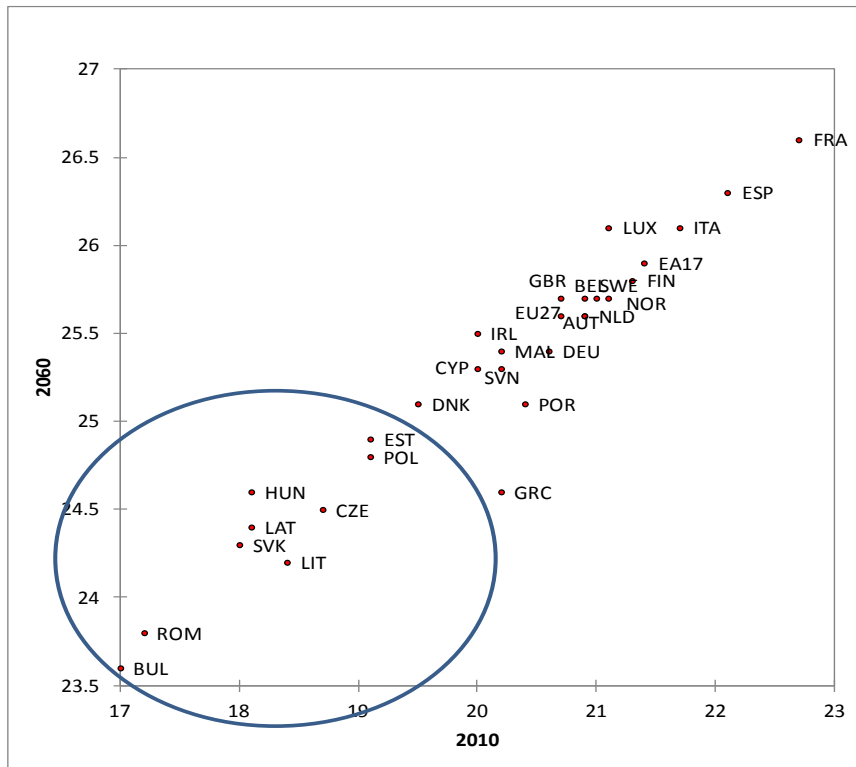
The decline in the support ratio is much sharper in many Eastern EU countries...



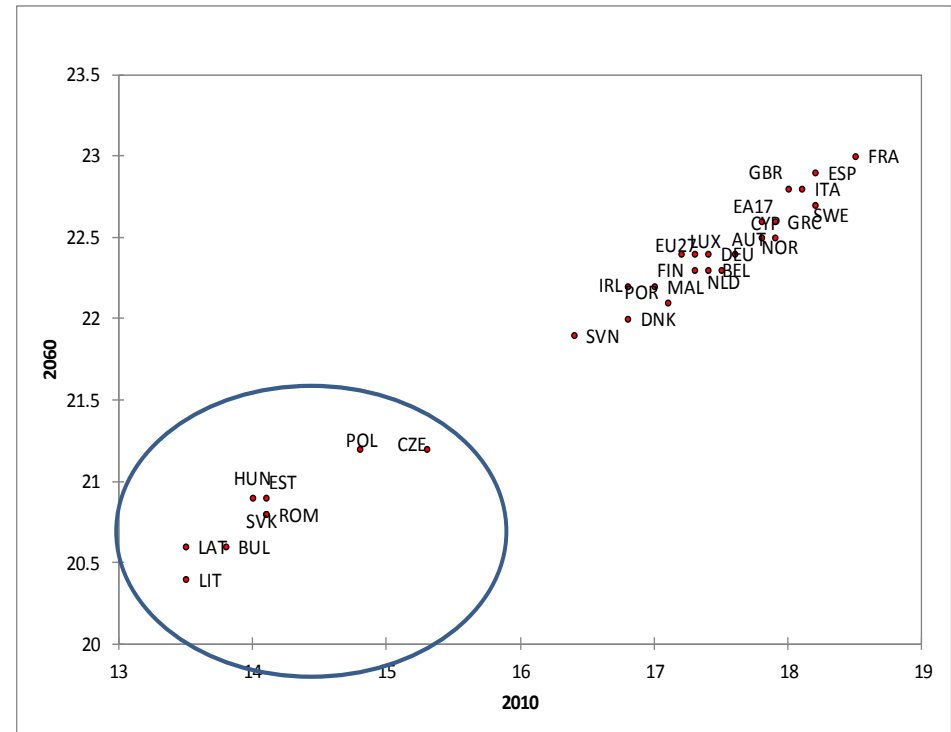


Life expectancy (at age 65) is high for men and women and it will increase...but less in Eastern Europe...

Women



Men

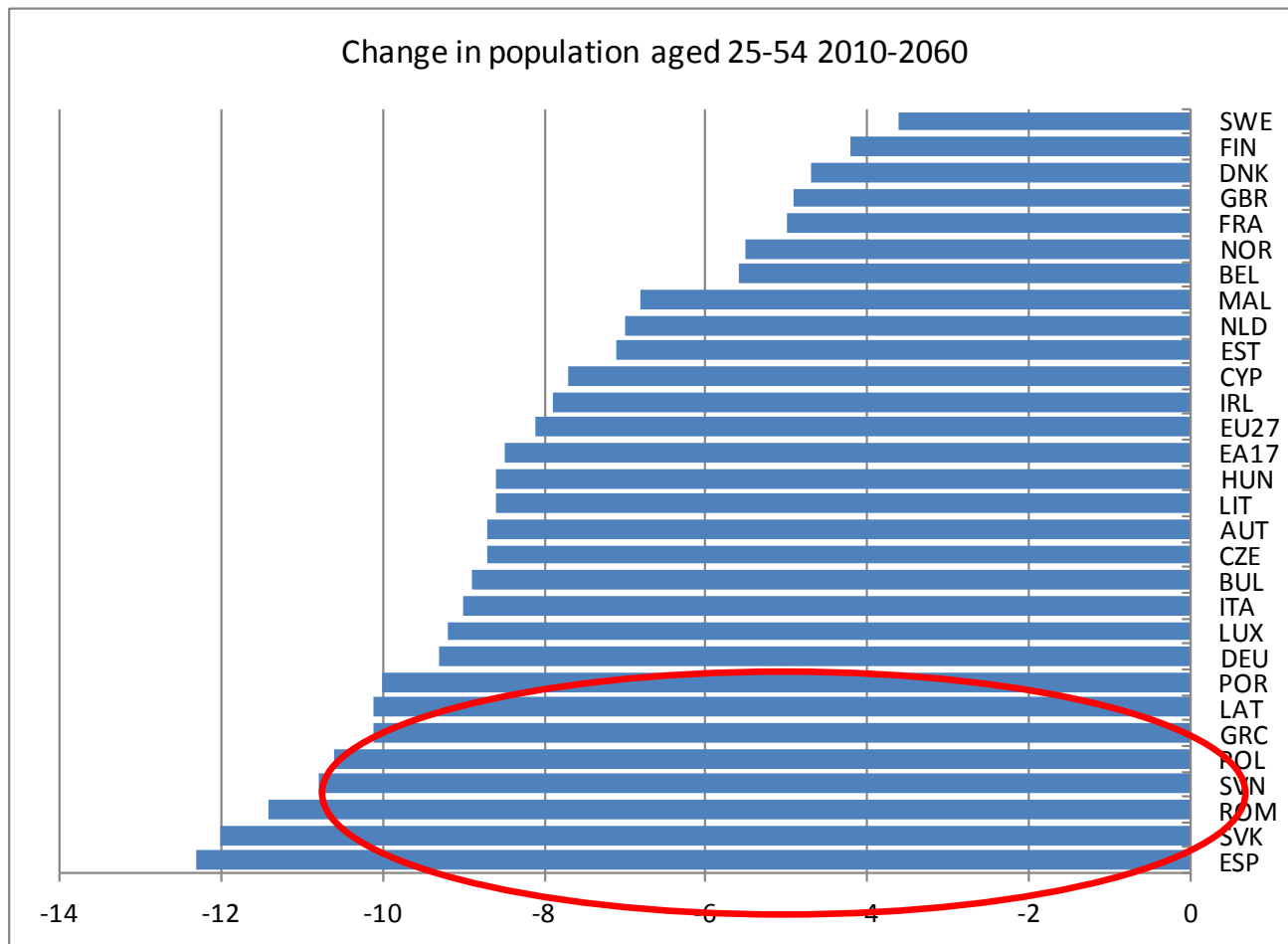


And

- 1) declines in fertility rate have been much sharper there too...
- 2) Emigration is also an issue..



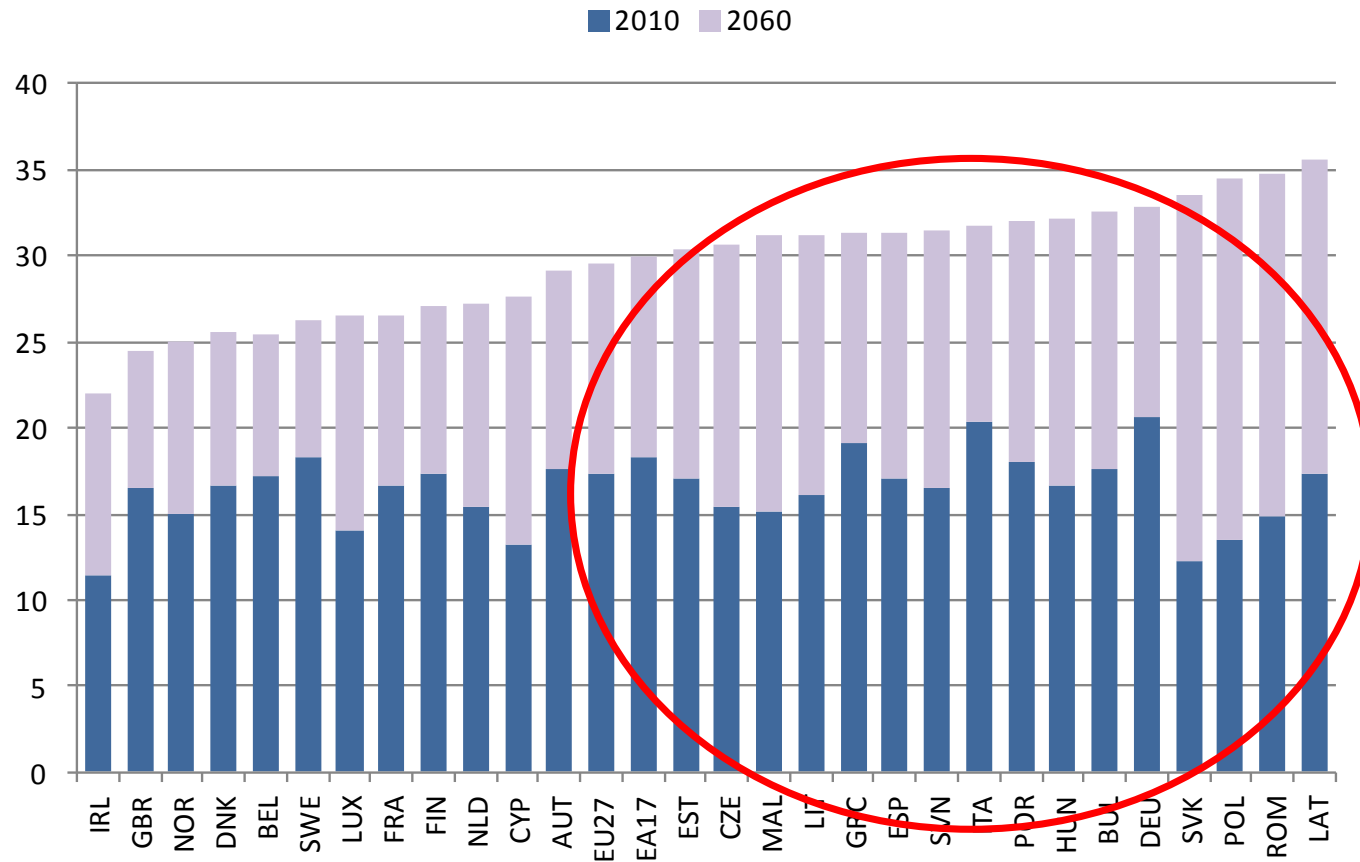
The prime-age population will decline faster in some CEE countries but less in others





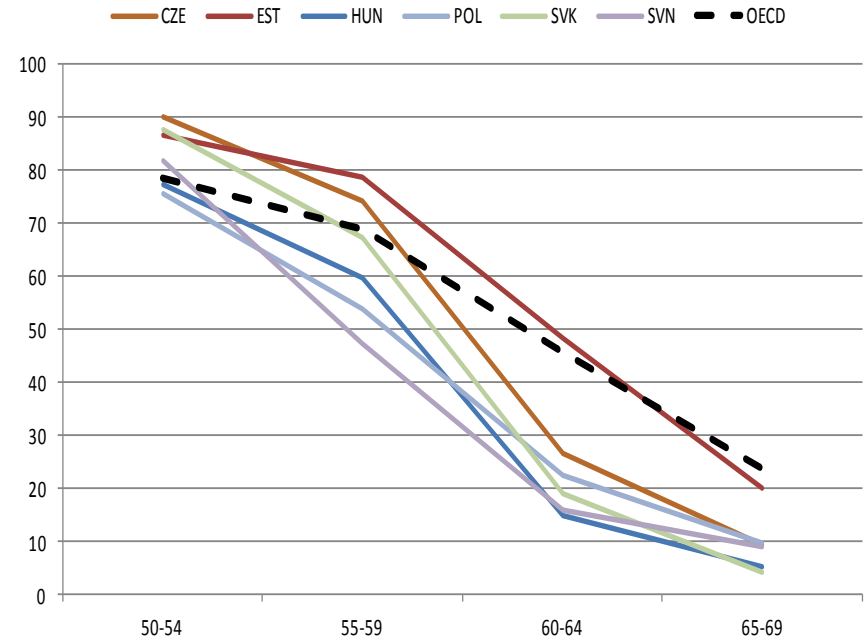
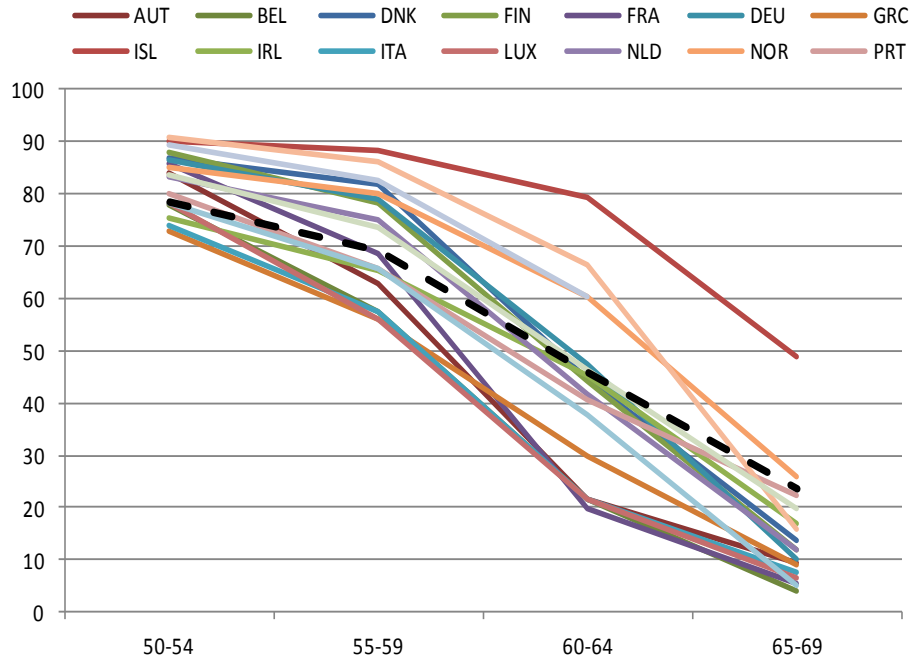
As the proportion of the elderly in the population...

Proportion of the elderly in the total population



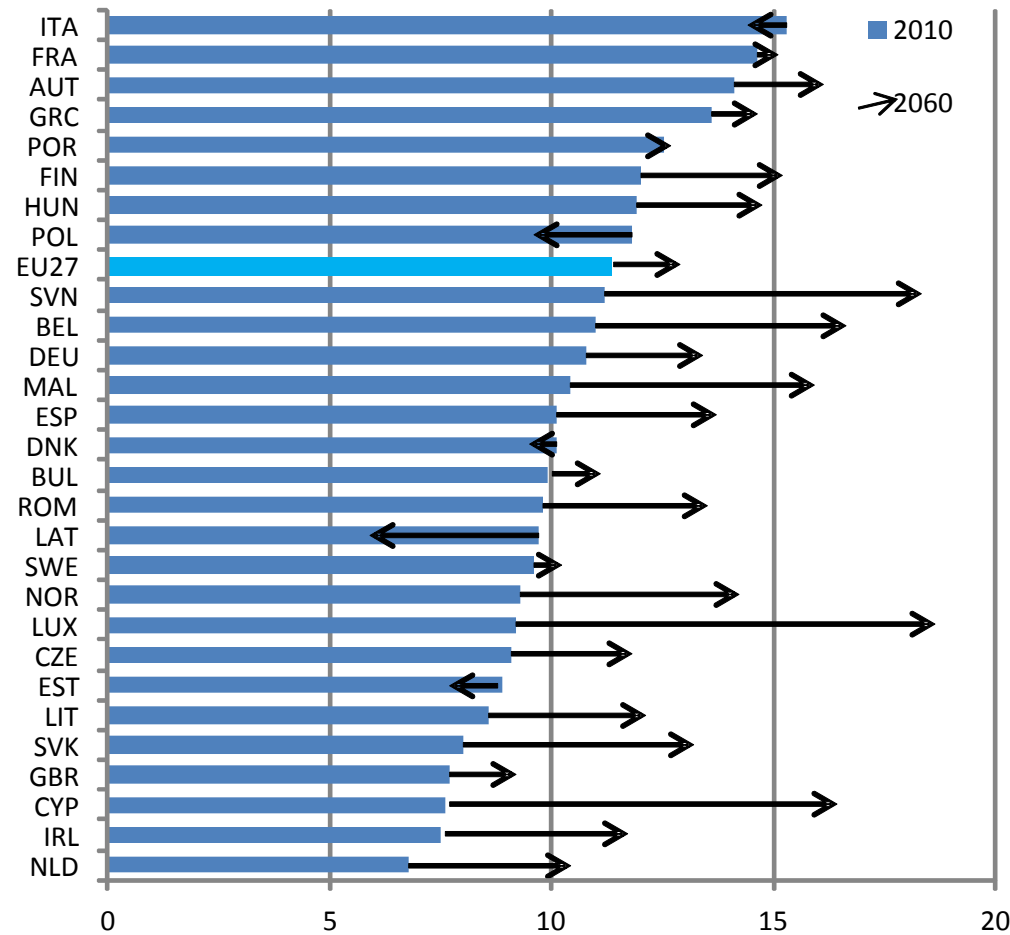


Participation rates at older ages tend generally to be lower ...





The financing of pension system is under stress





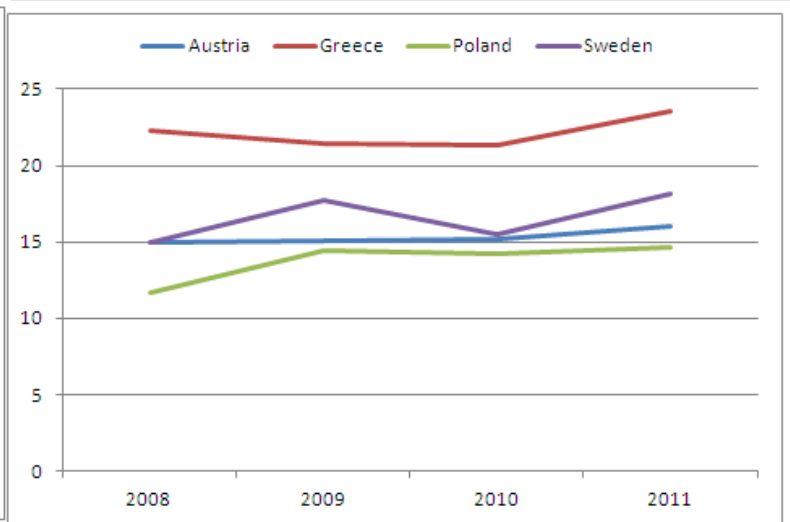
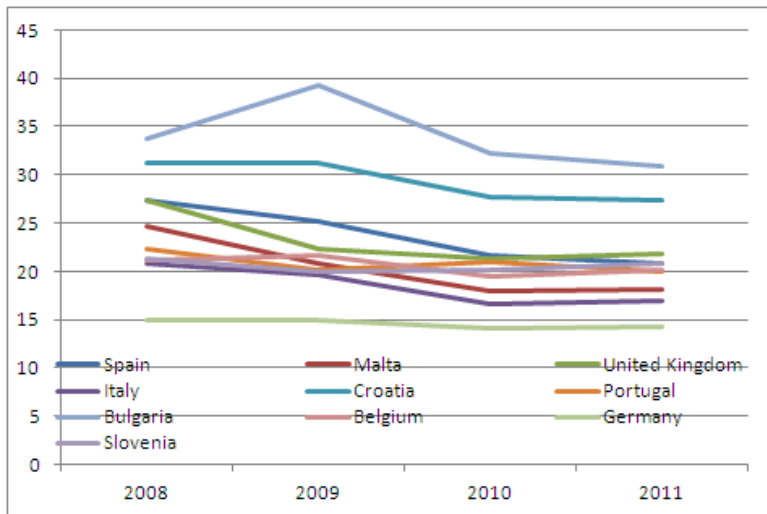
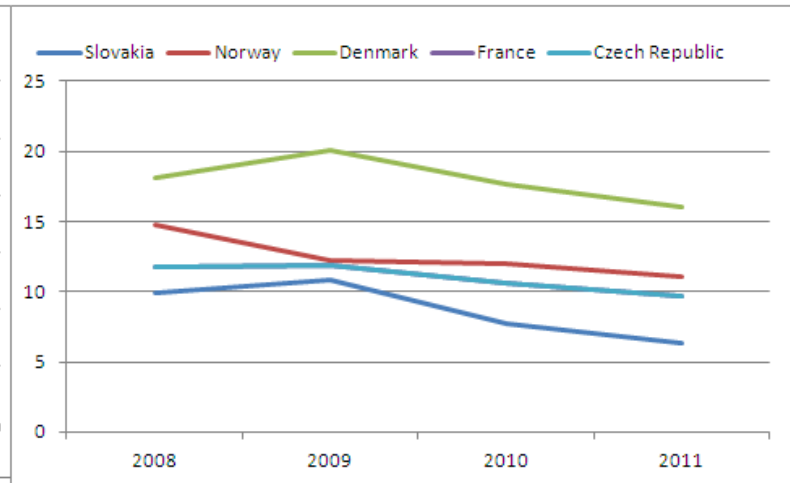
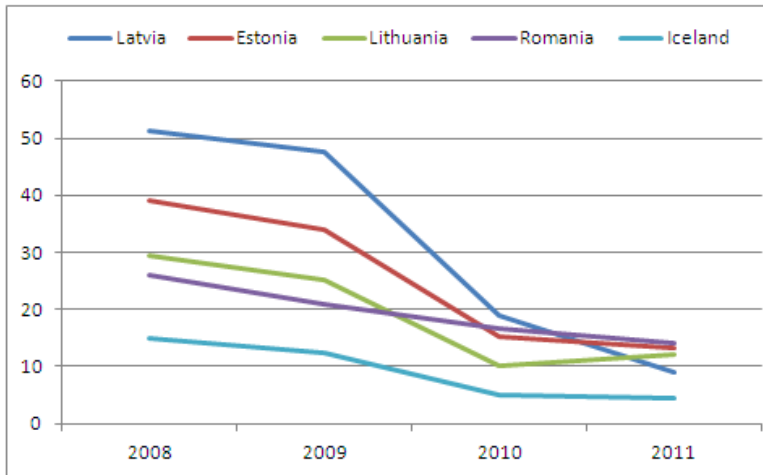
Pension systems: different approaches ... and structures

	Public			Public	Private		Public			Public	Private
	Resource- tested	Basic	Minimum	Type	Type		Resource- tested	Basic	Minimum	Type	Type
Europe-OECD						Norway			✓	NDC	DC
Austria				DB		Poland			✓	NDC	DC
Belgium	✓		✓	DB		Portugal			✓	DB	
Czech Republic		✓	✓	DB		Slovak Republic			✓	Points	DC
Denmark	✓	✓			DC	Slovenia			✓	DB	
Estonia		✓		Points	DC	Spain			✓	DB	
Finland			✓	DB		Sweden			✓	NDC	DC
France			✓	DB+points		Switzerland	✓		✓	DB	DB
Germany	✓			Points		United Kingdom	✓	✓	✓	DB	
Greece			✓	DB		<i>Other Europe</i>					
Hungary				DB	DC	Bulgaria			✓	DB	DC
Iceland	✓	✓			DB	Latvia			✓	NDC	DC
Ireland		✓				Lithuania		✓		DB	DC
Italy	✓			NDC		Malta		✓		DB	
Luxembourg	✓	✓	✓	DB		Romania				Points	DC
Netherlands		✓			DB						

And different degrees of maturity....

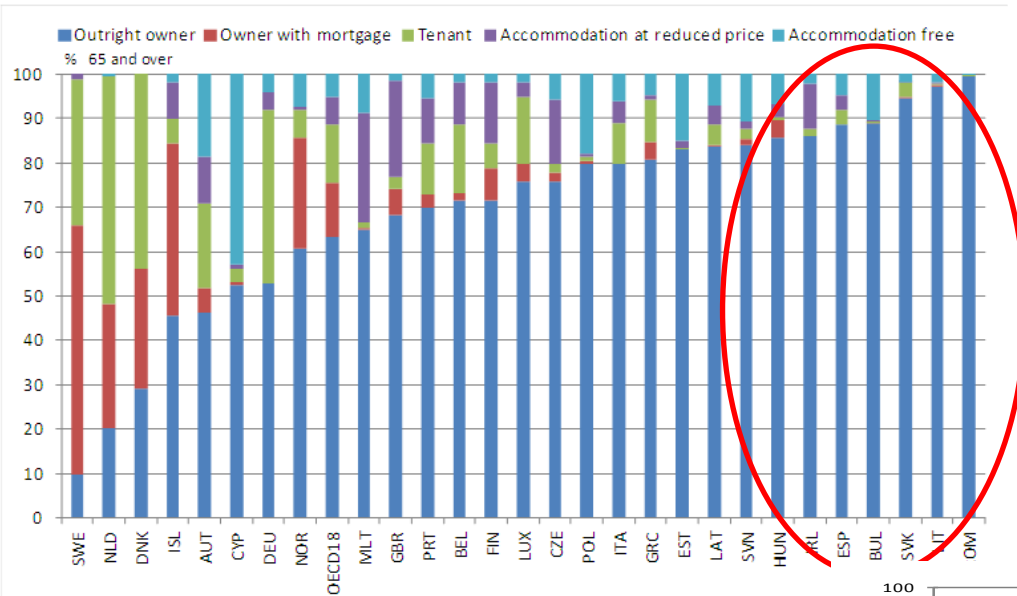


Poverty at older ages has dropped much more than in other countries but started from higher levels...



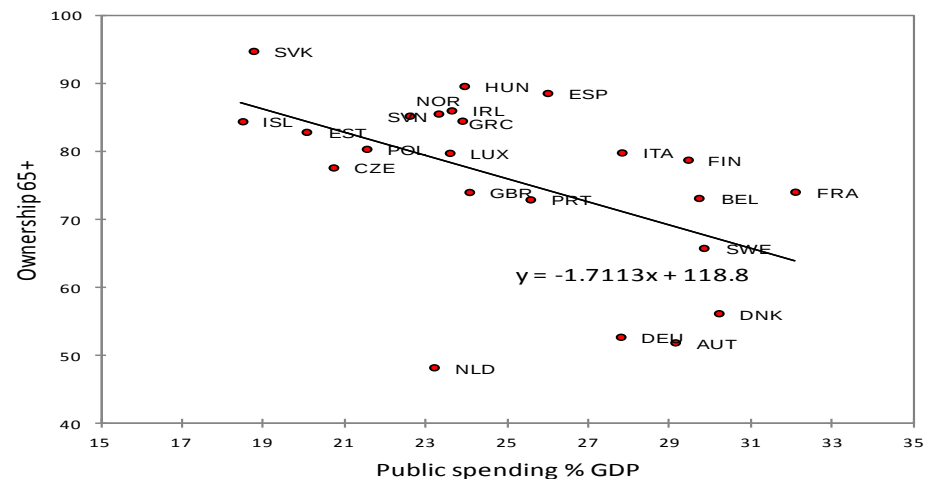


But this also depends on other factors...



Home ownership among the elderly is higher in CEE...

And generally higher where public social spending is lower...





The crisis: a different starting point?

- Advanced Europe: 2007-2008
- Emerging Europe: 2009
- Financial crisis led to “fiscal crisis”
 - Fall in revenues as unemployment rose and wages stagnated or fell
 - Expenditures tended to increase
 - ➔ To finance the pension deficit has become more difficult



The crisis: a different starting point?

- Transmission of the crisis from advanced to emerging Europe
- Pre-existing problems (fiscal space, inflation, exchange rates) were key factors as they limited the amount of public spending to mitigate the micro transmission of shocks to households.



The crisis: a different starting point?

- Period of contraction in emerging Europe much more severe, on average, than that experienced by advanced Europe
- Severity depended on the degree of integration of financial and supply markets
- Tighter conditions from the Stability and Growth Pact
- ➔ The financial crisis has led to reform reversal to help lower their fiscal deficits (large cost of pre-funding)
 - Hungary, Latvia, Lithuania, Estonia (in 2009 and in 2010), Poland



Reforms reversal...going backwards?

- Six CEE countries reduced pensions pre-funding
 - By diverting pension contributions from the private to the public pension systems
 - Estonia (temporary), Poland (temporary), Latvia, Lithuania
 - By postponing planned increases in private pension contributions
 - Romania
 - By eliminating permanently the private pension system
 - Hungary – the pension funds were nationalised
- Discussion on the introduction of second pillar
 - Czech republic, Slovenia and Ukraine
- But also discussion on mixed system on in other countries (e.g. FRA, DEU)



Common challenges...

- To improve financial sustainability being affordable to taxpayers and contributors:
- To improve risk diversification in the face of risk and uncertainty
- To improve retirement-income adequacy and benefit coverage
- To be perceived as fair
 - within the same generation for different groups of individuals (occupation, gender)
 - Across generations



How ?

- Extend working lives by increasing effective retirement age:
 - Improved work incentives and higher pension ages will reduce costs , by reducing the duration over which pensions are paid but some people may suffer more than others
- Reduction of benefits:
 - Direct benefit cuts remain rare: e.g. 13th month benefits (Greece, Hungary)
 - Indirect cuts through less generous indexation policy (Greece, Hungary Norway) or changed earnings measure (Greece, Spain)
 - Again people may rely more on safety nets losing the savings brought in by these measures...
- Increase contribution rates
 - may be perceived as taxes



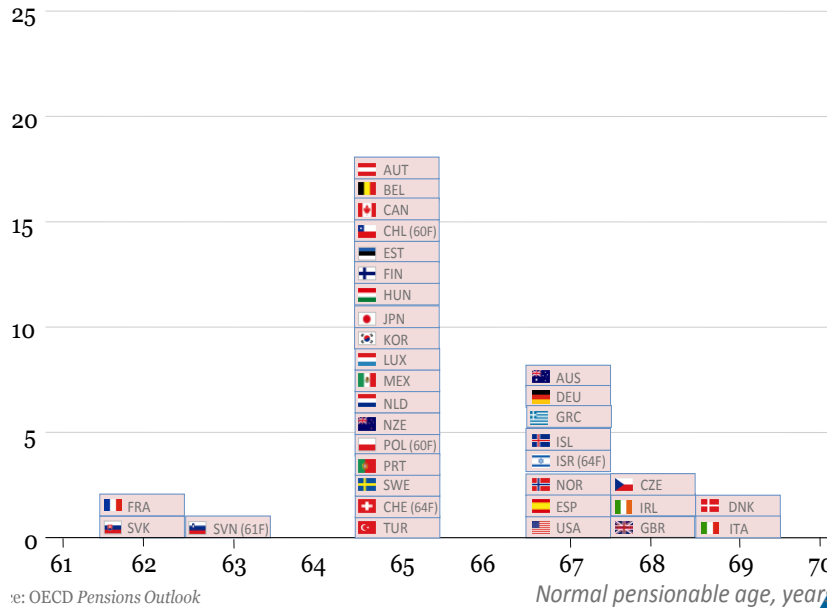
General trends in pension reforms and risks

- Strengthening of contributory principles
 - → performance of labour markets
- Greater role for prefunding
 - Mandatory individual, enhanced voluntary, automatic enrolment, occupational → (performance of capital markets)
- Automatic adjustment mechanisms
 - trade off between financial balance and uncertainty for individuals but reduction in the risk of political veto
- **!!!EQUITY concerns need to be factored in!!!**



Equity across individuals and gender

Number of OECD-34 countries

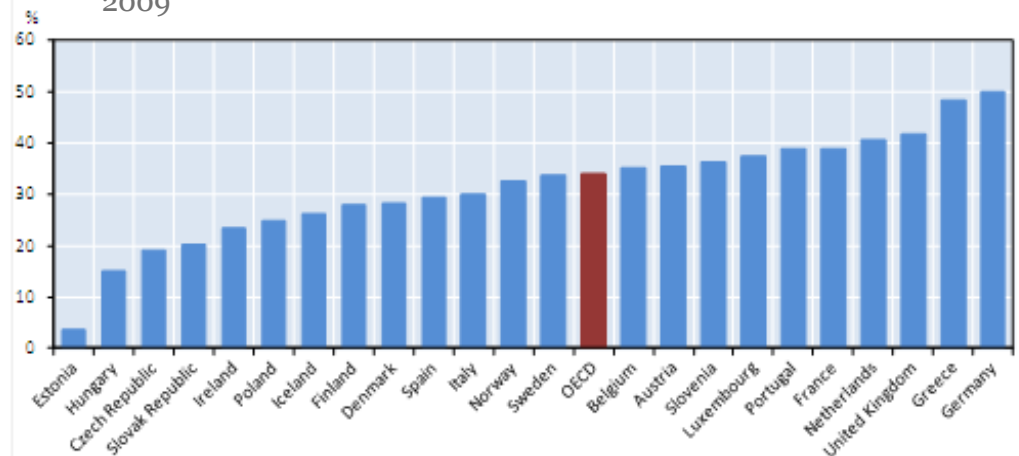


People will retire later but

life expectancy does not increase uniformly ...because there are differences in socio-economic mortality...

And the pension gap between gender is large...

Gender pension gap, mandatory schemes selected OECD countries, 2009



Source: Women and Pensions, OECD (2013) forthcoming



Conclusion and policy directions (I)

- The common challenge: How to maintain adequacy without jeopardizing sustainability?
 - Longer working lives
 - Greater targeting of public retirement-income provision on the most vulnerable
 - Larger private-pension saving to make up for reductions in public benefits that have already been decided or are likely to be required
- Taking into account of Equity issues



Conclusion and policy directions (II)

- Pace of reform accelerated during the crisis and beyond
- Need for longer working lives widely accepted
- But cuts in public benefits to achieve financial sustainability leaves ‘pension gaps’
 - risks from reversal of reforms
- Need for greater private pension saving



Thank you for your attention!

Pensions at a Glance

PUBLIC POLICIES
ACROSS OECD COUNTRIES

Pensions at a Glance

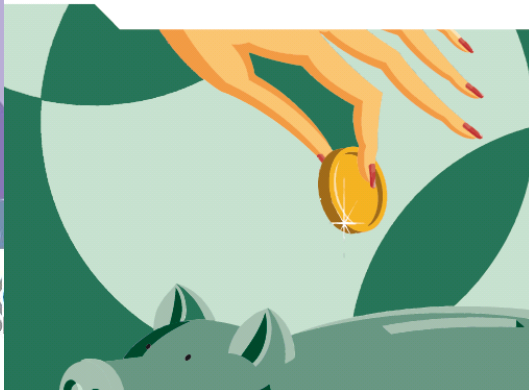
PUBLIC POLICIES
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Pensions at a Glance 2009

RETIREMENT-INCOME SYSTEMS
IN OECD COUNTRIES

Pensions at a Glance 2011

RETIREMENT-INCOME SYSTEMS IN OECD
AND G20 COUNTRIES



E:mail: anna.daddio@oecd.org

<http://www.oecd.org/els/social/pensions>

