

NBP

Narodowy Bank Polski

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Sustainable pension reforms – what can we learn from Polish and EU experiences?

Vienna, CEEI Conference 20.11.2017

Session: „Best practices - which reforms are sustainable?”



Outline

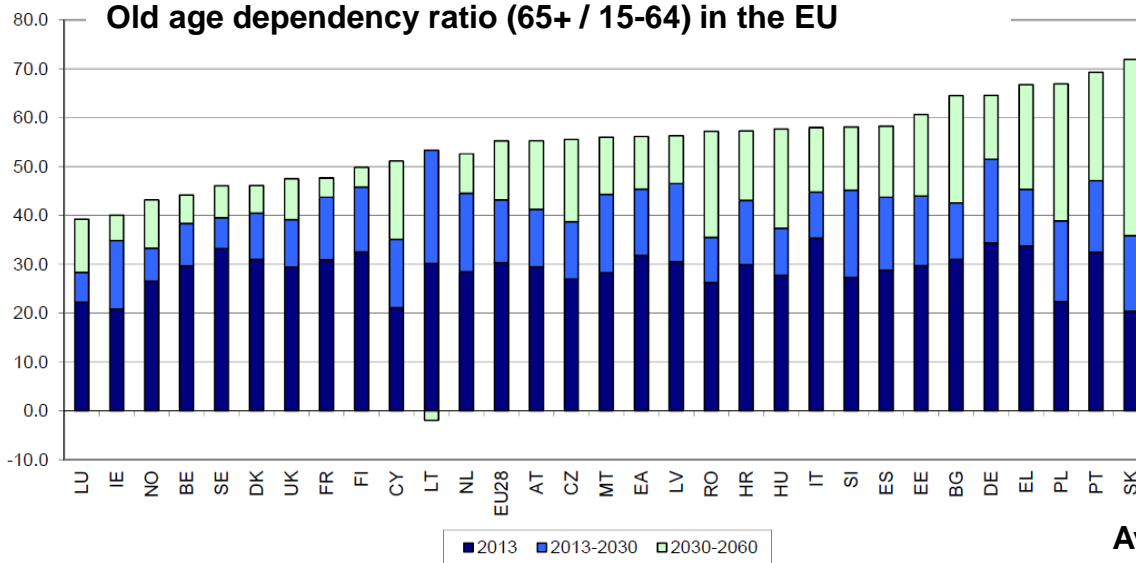
Why pension reforms are not easy?

Learning from the short history of pension reforms in Poland

Learning from the EU experiences - why so many pension reforms were introduced during crisis?

Thinking about future – Do androids pay pension contributions?

The problem of population ageing



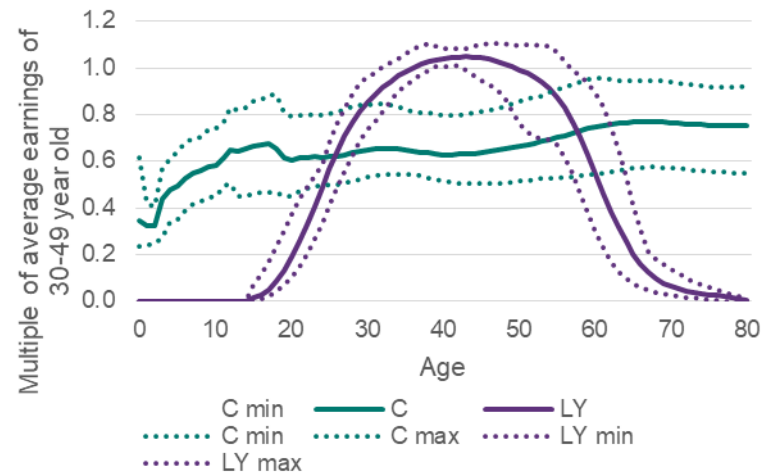
Source: EC(2015) The 2015 Ageing Report, p. 24

Problem to address:
population ageing



- consequences → probable changes in the income and consumption in the EU economies
- challenge for public expenditures for pensions

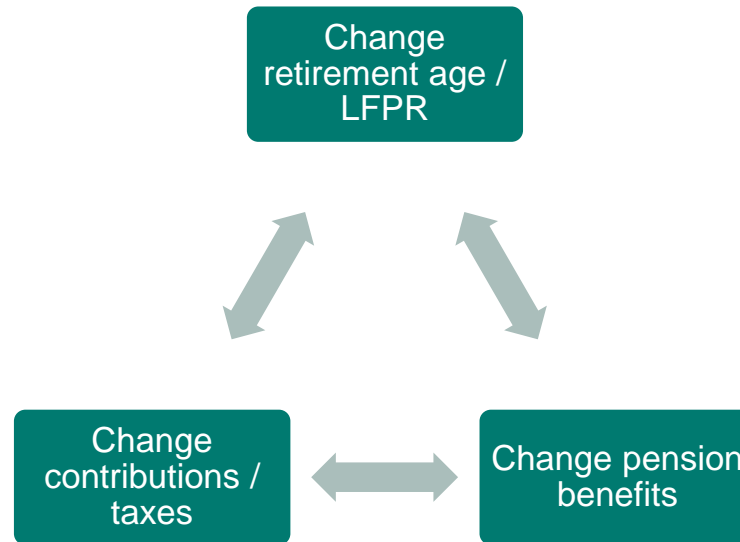
Average, lowest and highest age profiles of consumption and labour income for 25 EU countries



Source: National Transfer Account project: Chlon et al. (2017)

Not easy solutions

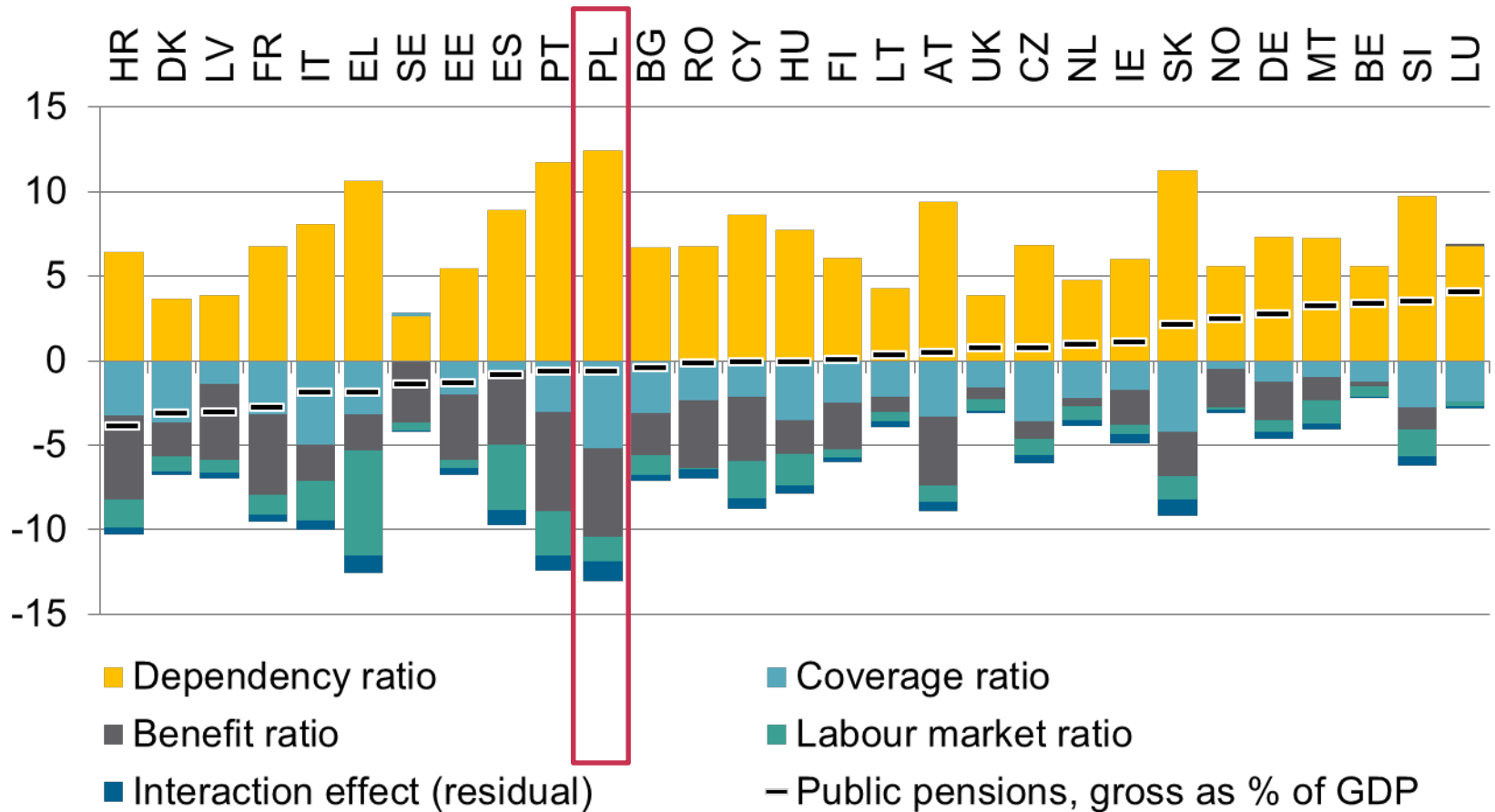
- **The three possible solutions** to reduce the consequences of population ageing for the pension system



- **The dynamic inconsistency problem:**
pension reform can be optimal long-term solution but ...
... in the short-term can be perceived only as a burden.

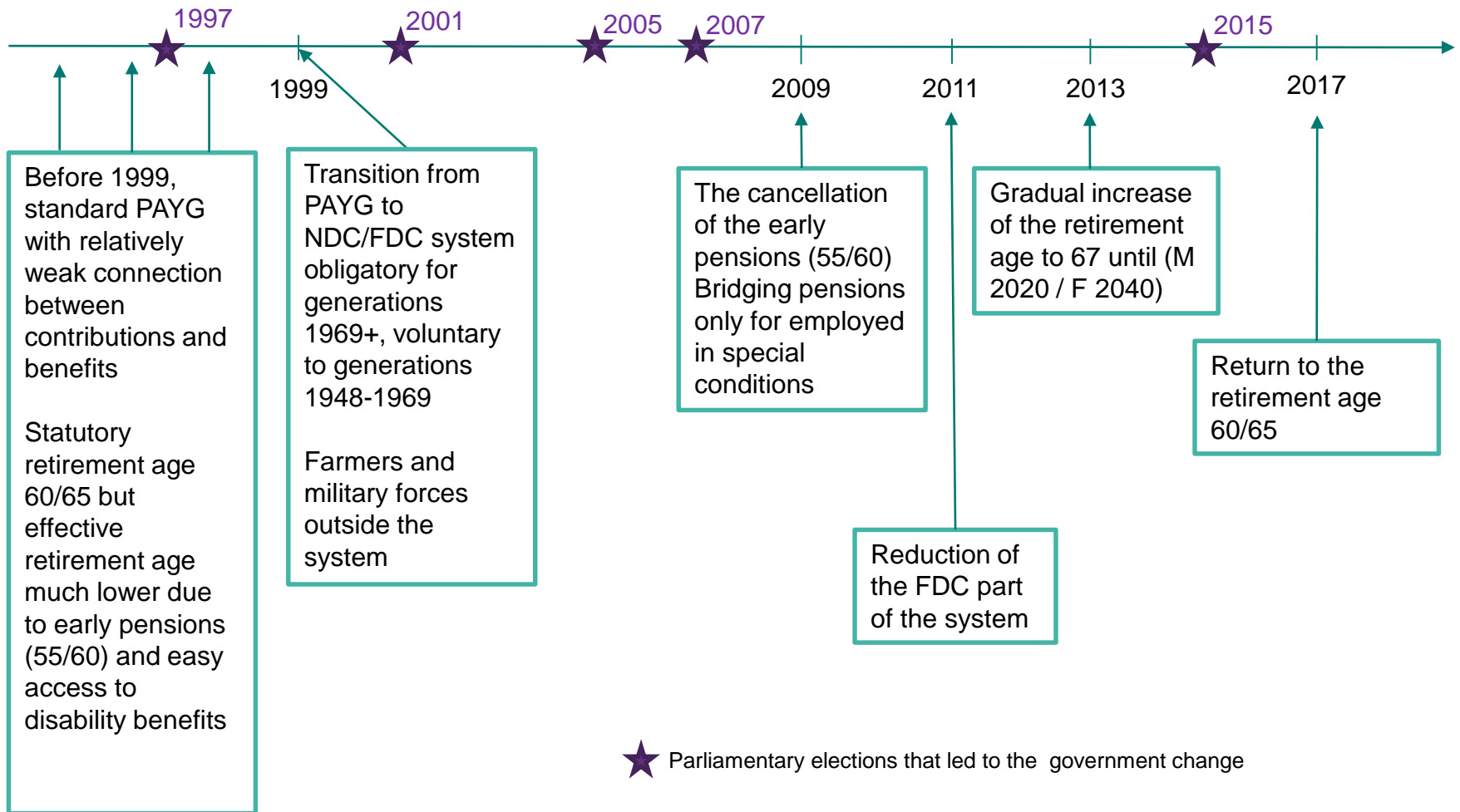
Models of adjustment

Long-term adjustments to population ageing in the EU countries

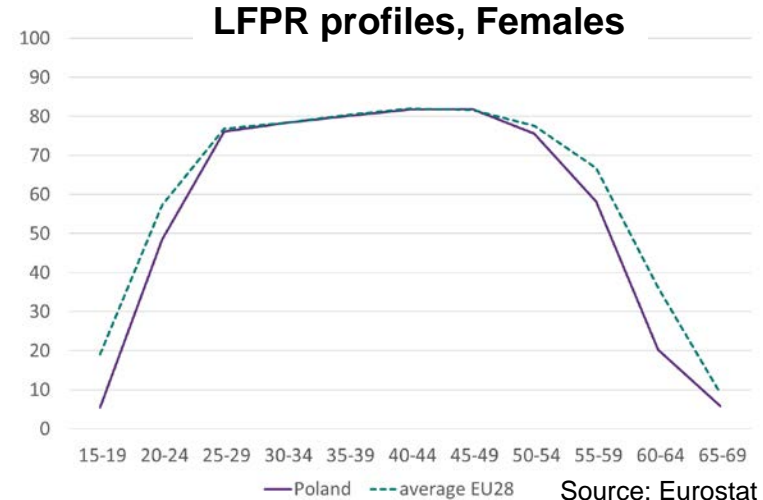
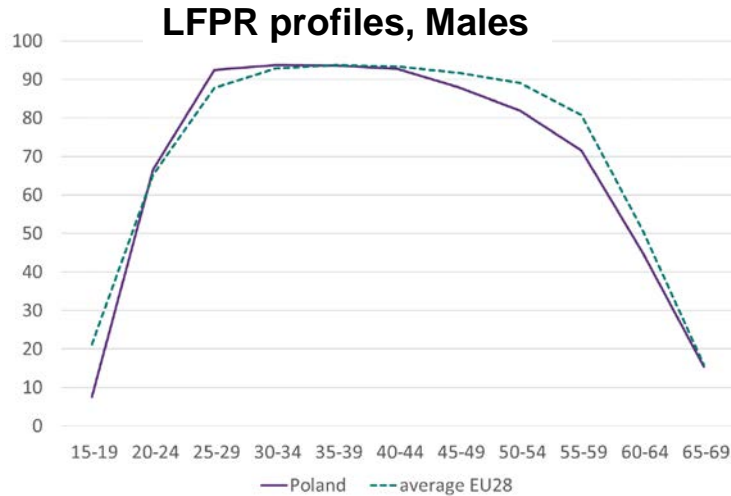


Source: EC(2015) The 2015 Ageing Report, p. 87

Major pension reforms in Poland

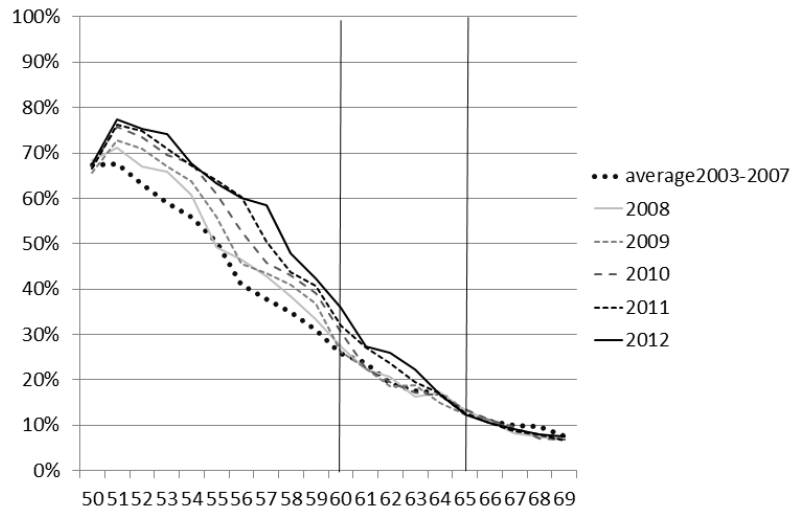


Positive LFPR effects of the early pensions reform in 2009

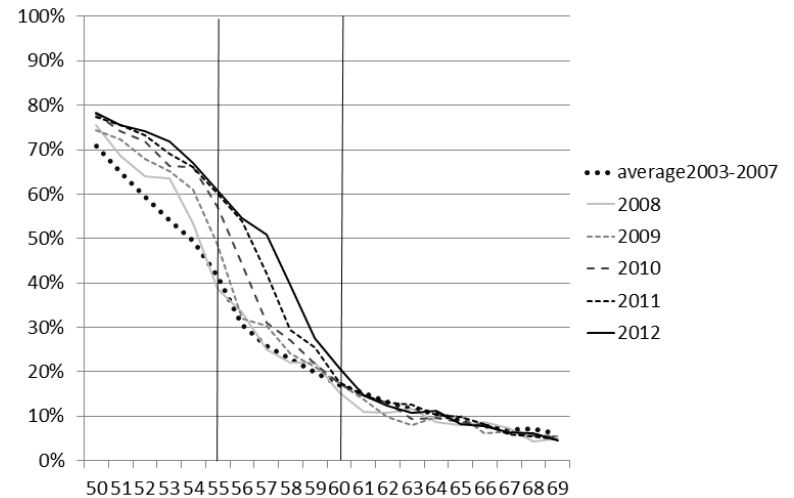


Source: Eurostat

LFPRs 2008-2012, Males



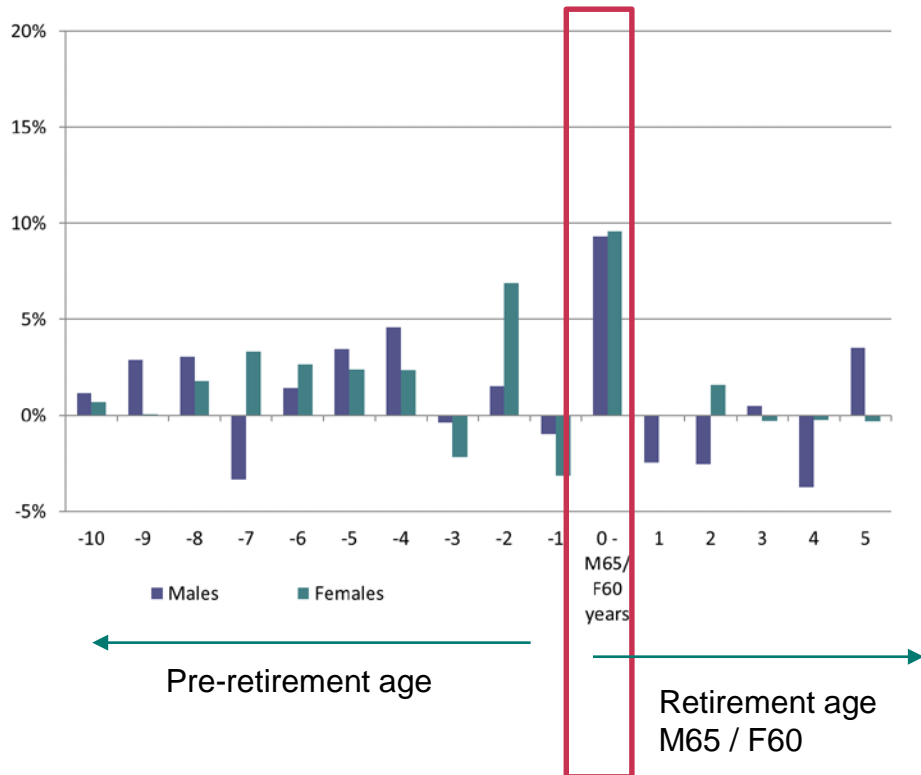
LFPRs 2008-2012, Females



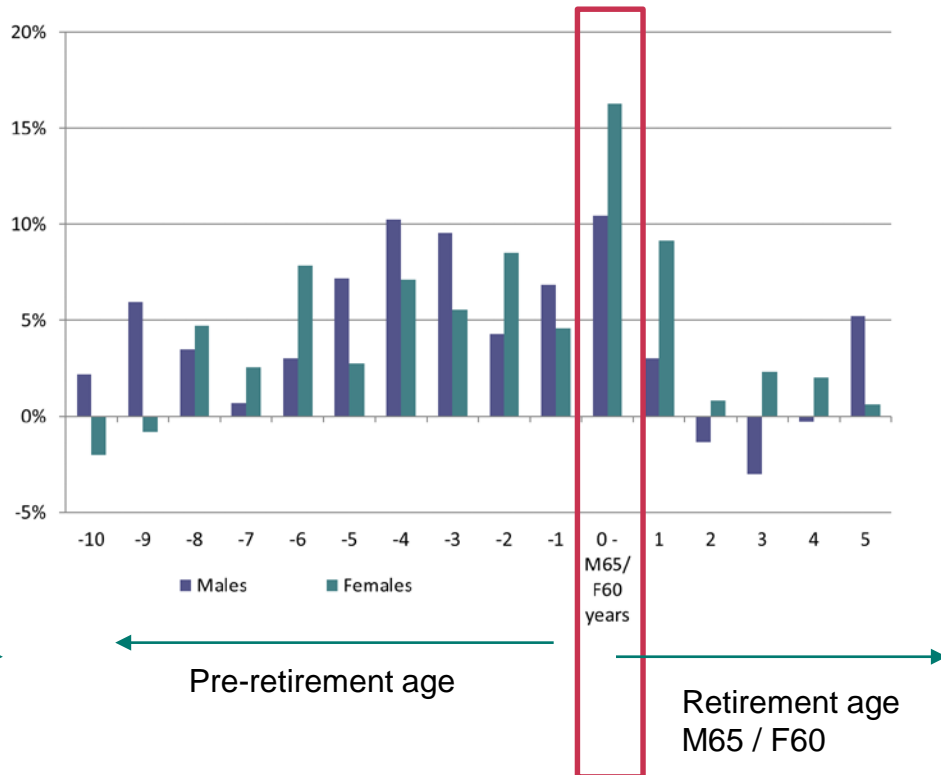
Source: Strzelecki, Tyrowicz (2015) Crowding (out) the retirees? ..., University of Warsaw Working Paper

Initial LFPR effects of retirement age increase in 2013

LFPR changes in 2013-2015



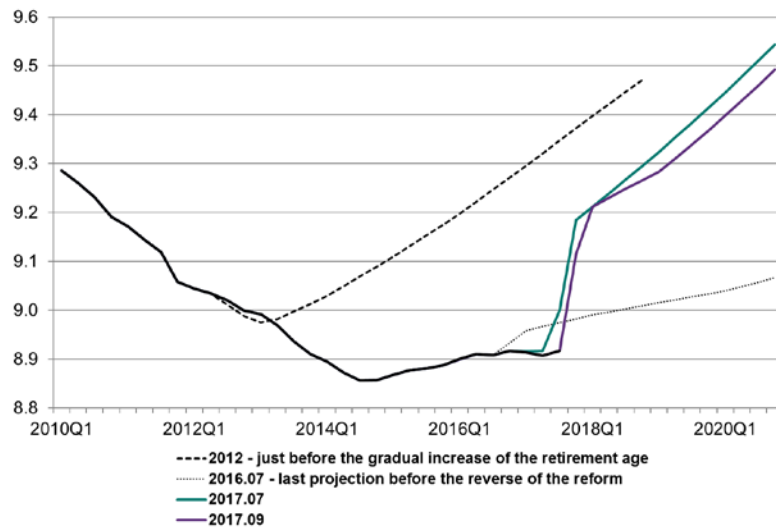
LFPR changes in 2013-2017



Source: Own calculations, PL LFS microdata

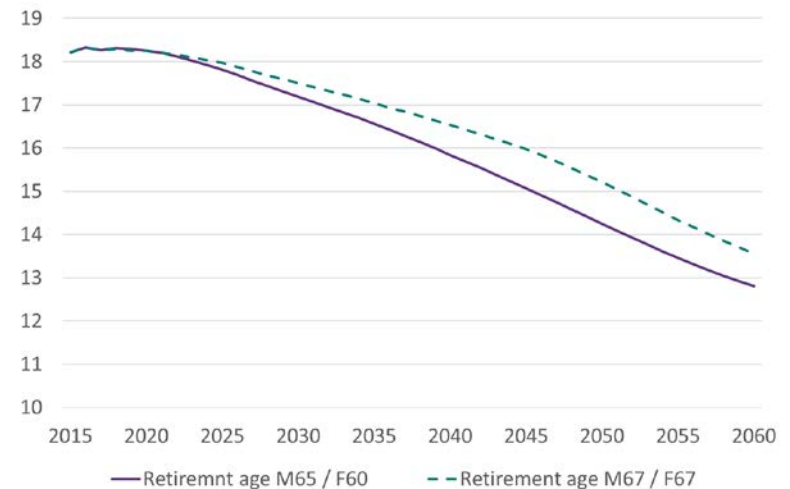
Effects of the return to 60/65 retirement age

Assumptions of the number of pensioners in the NBP inflation and GDP projections



Source: NBP, www.nbp.pl

Long-term labour supply projections



Source: Own calculations based on EUROPOP 2017 population projection CSM method of LFPR projections

DC principle remains unchanged since 1999

- Despite the changes in the Polish pension system...
- ...the DC principle remains the stable element of the system and it is essential in the responsible discussion about the future adjustment to population ageing
- The trend to keep stable replacement rate should extort other ways of adjustment

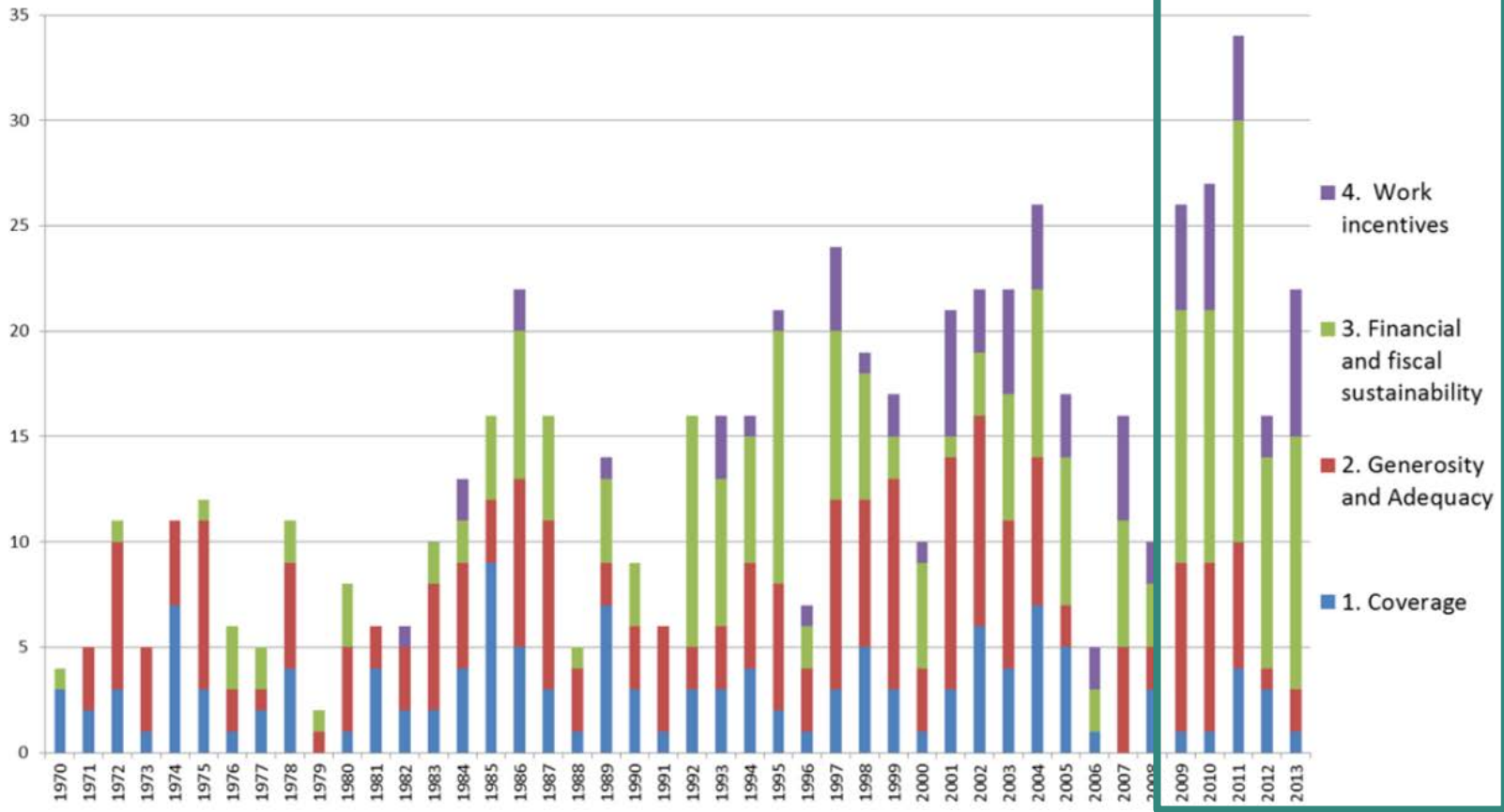
Total gross replacement rates in the Polish pension system (observations and predictions)

	2005	2007	2010	2013	2020	2030	2040	2050	2060
AWG 2009 (60/65)	46.3	45.4	46.3	47.1	48.8	39.1	32.2	28.8	27.7
AWG 2012 (60/65)	46.3	47.7	51.7	43.8	43.6	37.5	28.6	24.5	23.5
AWG 2013 (67)	46.3	47.7	51.7	46.9	46.2	45.5	41.2	31.1	28.5
AWG 2015 (67)	46.3	47.7	51.7	53.0	53.8	47.9	39.4	31.2	28.7

Source: Own elaboration, EC AWG reports

Crisis and the number of pension reforms

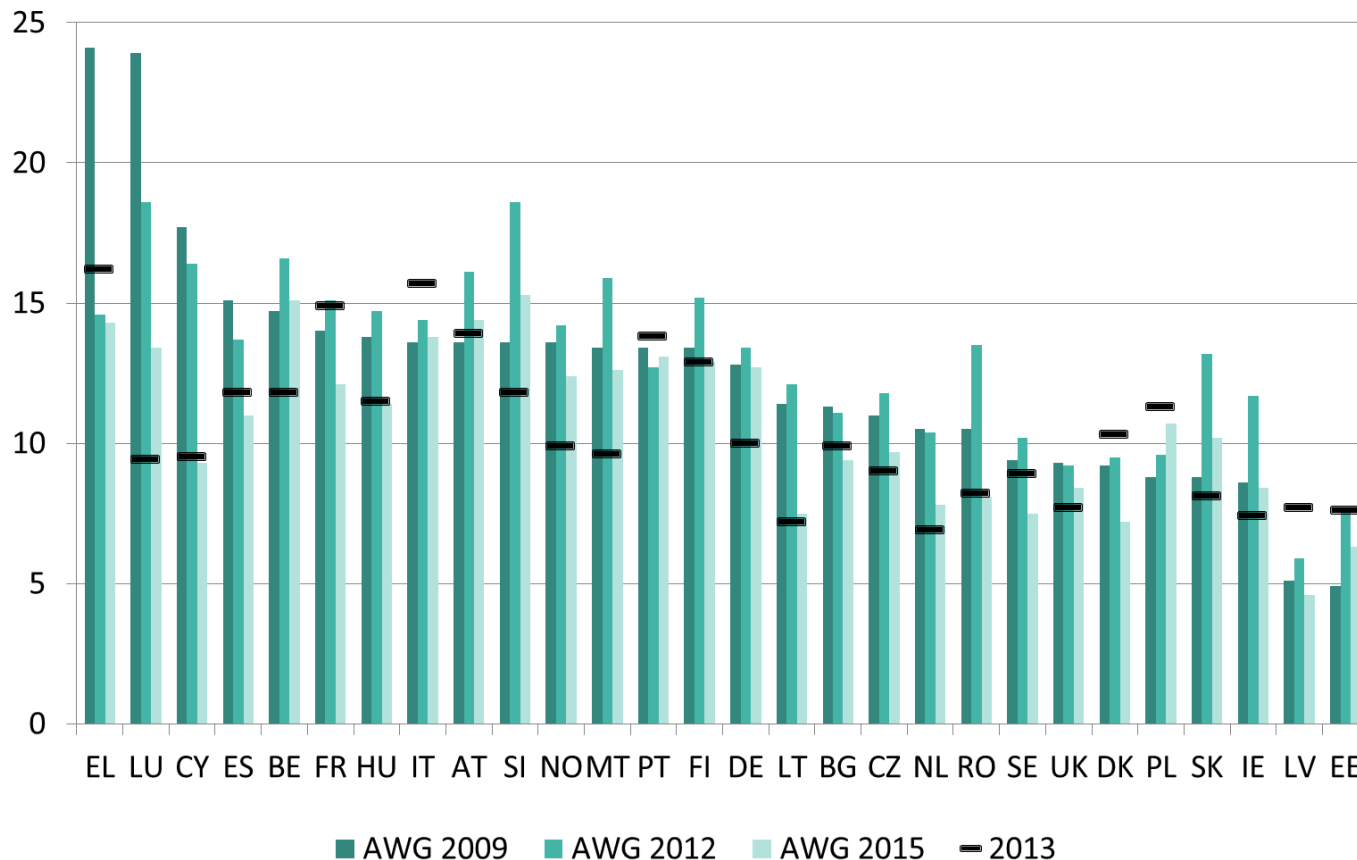
The number of pension reforms in the OECD countries



Source: Beetsma et al. (2017) What drives pension reform measures in the OECD? ..., DP12313, OECD

EU pension projections – before and after crisis

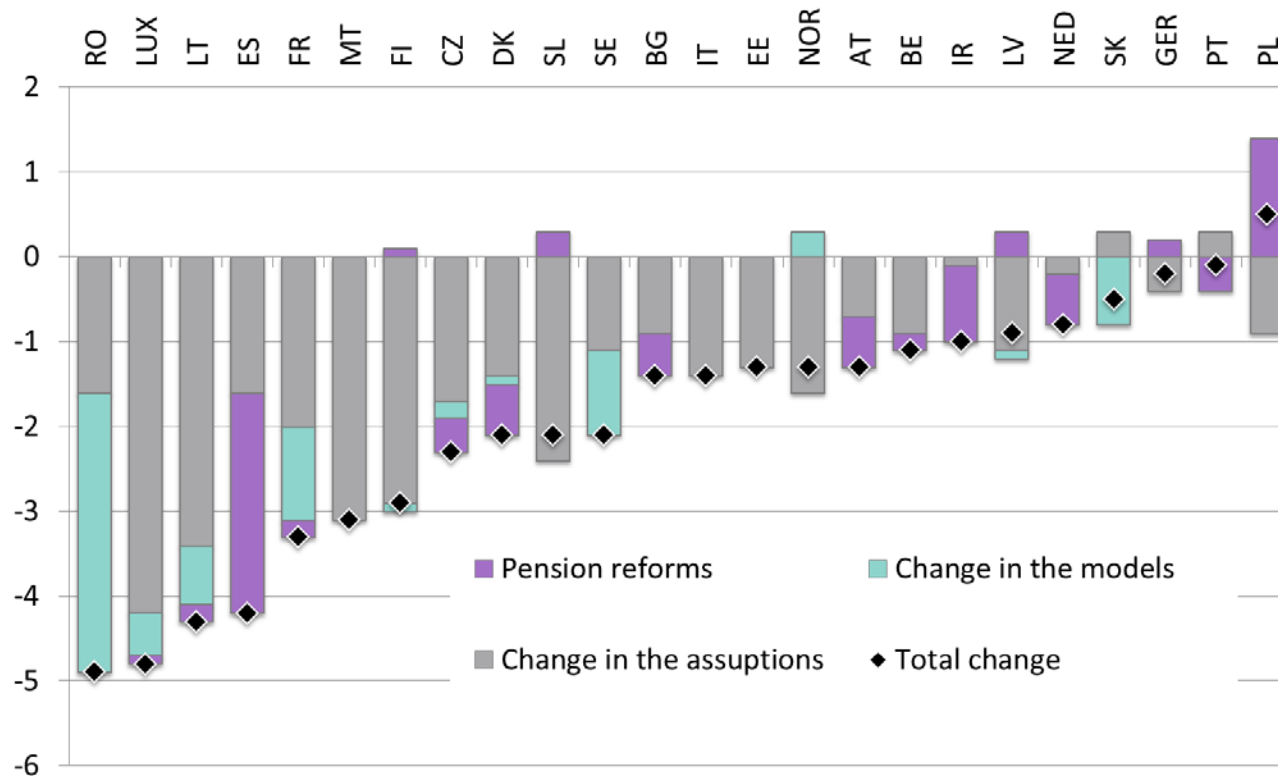
Pension expenditures to GDP in 2060 according to **AWG projections 2009, 2012, 2015** and the level of expenditures in 2013



Source: Own elaboration based on EC AWG publications

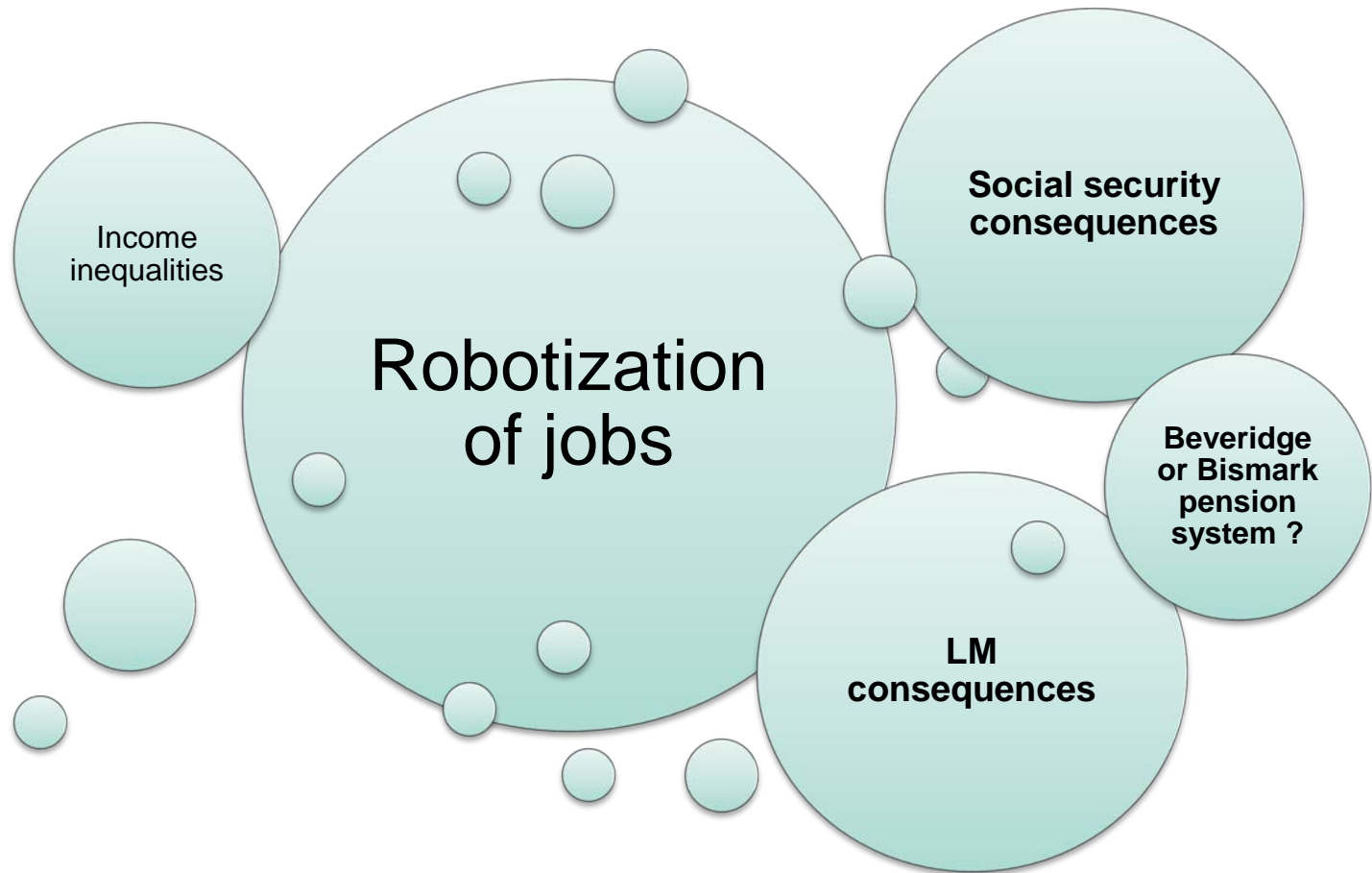
Reforms and expectations

Changes in the projected pension expenditures in 2060 - AWG 2015 vs AWG 2012
The decompositions of the sources of the changes between projections



Source: Own elaboration based on EC AWG materials

Pension science fiction



Conclusions

- **Structural reforms are sustainable if:**
 - efficiently respond to important social problems,
 - result from democratic consensus,
 - address the problem of potential dynamic inconsistency (commitment mechanisms)

- **Economic crisis forced most vulnerable countries to adjust to the problem of ageing („window of opportunity”) but:**
 - questions about sustainability of emergency measures

- **„sustainable” is not a synonym for „ultimate” or „everlasting”**
 - once introduced the solution is a new status quo and....
 - ... creates stable environment but ...
 - ... the future can require new, better and sometimes revolutionary solutions