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 views expressed herein belong to the author and have not been endorsed by Narodowy Bank Polski.
The problem of population ageing

Old age dependency ratio (65+ / 15-64) in the EU

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

Major pension reforms in Poland

Before 1999, standard PAYG with relatively weak connection between contributions and benefits
Statutory retirement age 60/65 but effective retirement age much lower due to early pensions (55/60) and easy access to disability benefits

1997

1999

Transition from PAYG to NDC/FDC system obligatory for generations 1969+, voluntary to generations 1948-1969
Farmers and military forces outside the system

2001

2005

2007

The cancellation of the early pensions (55/60) Bridging pensions only for employed in special conditions

2009

2011

2013

2015

2017

Gradual increase of the retirement age to 67 until (M 2020 / F 2040)
Return to the retirement age 60/65

2001

Reduction of the FDC part of the system

2005

Parliamentary elections that led to the government change
Positive LFPR effects of the early pensions reform in 2009


Source: Eurostat
Initial LFPR effects of retirement age increase in 2013

LFPR changes in 2013-2015

LFPR changes in 2013-2017

Pre-retirement age

Retirement age
M65 / F60

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)

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<th></th>
<th>2005</th>
<th>2007</th>
<th>2010</th>
<th>2013</th>
<th>2020</th>
<th>2030</th>
<th>2040</th>
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<tbody>
<tr>
<td>AWG 2009 (60/65)</td>
<td>46.3</td>
<td>45.4</td>
<td>46.3</td>
<td>47.1</td>
<td>48.8</td>
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<td>AWG 2012 (60/65)</td>
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<td>AWG 2013 (67)</td>
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Source: Own elaboration, EC AWG reports
Crisis and the number of pension reforms

The number of pension reforms in the OECD countries

2009-2013 reforms after crisis

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

Robotization of jobs

- Income inequalities
- Social security consequences
- Beveridge or Bismark pension system?
- LM consequences

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

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