SECOND PILLAR PENSIONS

EUROPE AND CENTRAL ASIA

INITIAL VIEWS ON MANDATORY SECOND PILLAR

Pros:

- ECA benefits were usually fiscally unsustainable
- Reducing PAYG benefits, adding a funded pillar could reduce fiscal burden and maintain replacement rates'

Cons:

- Funding introduced capital market risks for retirees
- Establishment of capital markets in ECA appeared optimistic

ECA COUNTRIES INSTITUTING 2ND PILLARS

Reform Countries	Date
Hungary	1998
Kazakhstan	1998
Poland	1999
Latvia	2001
Bulgaria	2002
Croatia	2002
Estonia	2002
Russia	2002
Kosovo	2003
Lithuania	2003
Slovakia	2005
Macedonia	2006
Romania	2008
Ukraine	2009
Czech Republic	2011

ECA COUNTRIES NOT INSTITUTION 2ND PILLARS

Non-Reform Countries
Serbia
Albania
Slovenia
Bosnia
Moldova
Belarus
Georgia
Azerbaijan
Armenia
Kyrgyzstan
Turkmenistan
Tajikistan

REDUCTIONS IN MANDATORY CONTRIBUTIONS POST 2008

Reform Countries	Date	Parametric - rate changes	Date
Latvia	2001	Temporary reduction from 8% to 2%; then up to 4%t in 2013 and 6% in 2016 and years after -- continues to be a moving target	2009
Estonia	2002	Only mandatory for those born after 1983; voluntary for rest. Temporary decrease from 6% to 4% Increase back to 6% (2 percent worker; 4 percent state)	2009 2011
Lithuania	2003	Temporary reduction from 5.5% to 2%	2011
Slovakia	2005	Decrease from 9% to 4%	2012
Romania	2008	Mandatory contributions frozen at 2%; raised to 2.5 percent	2008 2010

ROLLBACKS IN MANDATORY 2ND PILLAR

Reform Countries	Date	Second Pillar Reversal	Date
Hungary	1998	Population had to switch pension assets to state unless documentation was submitted in person to opt out of the state plan Discussions now to nationaize all plans that remain.	2010 2014
Kazakhstan	1998	Mandatory pension funds were merged into state fund - to be completed by April 2014	2013
Poland	1999	Switched pension assets to state and cancelled bonds it acquired from funds	2014
Russia	2002	Freeze on DC pensions and diversion to state for 2014 and 2015; issue of making accumulation plan voluntary under discussion	2014 2015

INTERESTING SPECIAL CASES

Reform Countries	Date	Current Situation
Czech Republic	2011	Discussion in 2014 on abolishing funded pillar
Ukraine	2009	Not implemented yet
Armenia	2014	Court ruled that pension reform was unconstitutional; with popular protests; were to pay 5-10 % salary into one of two pension funds

REASONS GIVEN FOR ROLLBACK

Global Fiscal Crisis (Great Recession)

- **Reduce of short-term budget deficit**
- **Reduce Government debt (broader)**
- **Relieve pressure on sovereign wealth fund**

Fund Specific Failures

- **High administrative costs**
- **Low rates of return**
- **Low coverage**
- **Lack of public confidence in system**

CONCLUSIONS

- **World Bank less wedded to mandatory second pillars now**
- **Good actuarial offices are necessary (estimates of life expectancy; birth rates; rates of return, etc.)**
- **Good actuarial offices are necessary but not sufficient**
- **Public opinion and buy-in is crucial**
- **Political considerations also paramount**
- **Pensions will always be the first line of defense against macroeconomic difficulties whether falling tax revenue or increasing debt**

DOONSBURY