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Pension reforms in Central and Eastern Europe in a global perspective: Lessons learned

Address by

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Ladies and Gentlemen,

Let me first thank the organizers for inviting the International Labour Office (ILO) to this event celebrating the Sozialbeirat's 50th anniversary. The Sozialbeirat is probably the most influential national advisory body on social security policy in Europe, and I am honoured to be here.

I am grateful for the opportunity to share with you the ILO's view on the major pension reforms that have taken place in the world, and especially Central and Eastern Europe, during the past two to three decades. A longer version of this intervention has been made available to all of you in English. Let me first place the reforms in Central and Eastern Europe in their historical context and that of the global policy debate on pension reform. I will then briefly look at their effects, and finally draw some general conclusions from particular countries' experience of pension reform. This experience has influenced the ILO's general policy stance on the question.

The historical context and the policy debate

The debate on the appropriate strategy to reform public pension systems dates back to the early 1980s when Chile reformed its social security pension scheme, replacing the partially funded defined benefit scheme by a fully funded defined contribution scheme, i.e. a privately managed mandatory retirement savings scheme. While the ILO remained sceptical, the World Bank embraced the new model.

The policy debate

In 1994 the World Bank, in a landmark publication, *Averting the old age crisis*,[1] advocated three-pillar pension systems consisting of a first tier in the form of a modest targeted or universal social assistance pension financed from taxation, a second tier made up of a mandatory individual savings scheme based on the Chilean model, and a third tier consisting of a voluntary individual savings scheme, as a means to avoid anticipated upward-spiralling pension costs. The focus of the reform paradigm was clearly on the second tier, i.e. the privately managed fully funded component of the system. The main message of the book was that this system would insulate the pension scheme against the effects of ageing societies and also increase growth thanks to a rise in national savings. We have to concede here that the ILO expressed its scepticism in a relatively modest manner as the decision was made to research the issue in more depth and respond through a substantial publication that would provide a full analysis of the complex issue of pension reform. The process took its time. In hindsight, it was probably too long.

[1] World Bank: *Averting the old age crisis: Policies to protect the old* and *promote growth.* World Bank Policy Research Report (Washington, DC, 1994).

Towards the end of the 1990s, academic criticism of the World Bank model and, in particular, its focus on the forced savings components drew criticism from within and outside the Bretton Woods institutions. Criticism centred on several key issues.

It was shown that it was by no means clear that national pre-funding of pension schemes actually made pensions less vulnerable to the effects of ageing, bad governance or economic shocks. The evidence of the impact on growth was also considered inconclusive. It was shown that both pay-as-you-go (PAYG) and funded systems require good governance and enduring economic output to ensure their viability. Privatization per se did not improve the quality of governance. Systemic reforms often camouflaged the fact that actual benefit levels were reduced over time. Many authors also pointed out that the financing of the transition from PAYG or partially funded to fully funded schemes caused transitional fiscal problems in most countries.

In 2000, the ILO published its response to the World Bank pension policy in a compendium called *Social security pensions: Development and reform*[2] that de facto presented the ILO position towards multi-tiered pension systems. The ILO is less prescriptive about its paradigm. In contrast to the World Bank, the ILO stresses the importance of adequacy of benefit levels (to provide income security in old age and thus give people the right to affordable retirement), the extension of coverage (with the ultimate objective of making it universal) and the role of good governance as sine qua non conditions for the proper functioning of all pension systems. The bottom line of the ILO position was summed up in 2000 by an author from the OECD: “the ILO is fundamentally unwilling to accept systems which cannot guarantee insured persons with a full contributions record any more than benefits at the subsistence level.”[3] Since the minimum replacement rates required by the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), are close to many national relative poverty lines, the ILO so far has maintained its stance.

Historical developments

While the academic policy debate was raging within and outside the institutions, a variety of pension reforms were introduced in a number of countries during the 1990s and early 2000s. Following the Chilean reform, 11 more countries in Latin America have included mandatory savings tiers in their pension systems. The first wave of such **systemic paradigmatic reforms** in Latin America was followed by reforms in 13 countries in Central and Eastern Europe and Central Asia (Bulgaria, Croatia, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, the former Yugoslav Republic of Macedonia, Poland, Romania, the Russian Federation, Slovakia and Ukraine; as well as Kosovo), which implemented multi-tier systems that were essentially scaled down versions of the Latin American reforms.

Simultaneously, but often overlooked, a substantial number of other European countries adopted so-called **parametric reforms** of their pension systems that did not radically change the paradigm of old age income security. Among these countries was Germany. These reforms have generally focused on the adjustment of some parameters, prominently through:

[2] C. Gillion et al. (eds.): *Social security pensions: Development and reform* (Geneva, ILO, 2000).

[3] M. Queisser: “Pension reform and international organizations: From conflict to convergence”, in *International Social Security Review* (Geneva, ISSA, 2000), Vol. 53, No. 2, pp. 31–45.

(1) increasing retirement age,
(2) modifying eligibility conditions,
(3) reducing benefit entitlements through changes in the pension formula or indexing rules,
(4) adding a new tier to the pension system.

The ILO has advocated and been involved in a number of such reform processes. Major corrections in terms of retirement ages and benefit generosity have been legislated in many European countries outside of Central and Eastern Europe.

The situation in Central and Eastern Europe at the beginning of the 1990s

In the early 1990s, when ILO experts analysed the national pension schemes that countries in Central and Eastern Europe had inherited from the socialist era, the diagnosis most often resembled the following:

(1) The systems had too high dependency ratios, i.e., people retired too early.
(2) Pensions promised in terms of replacement rates were high.
(3) There were multiple privileges for special groups that represented a high financial burden for taxpayers and contributors.
(4) There was a profound lack of compliance with contribution payments, largely due to the enormous economic challenges that public enterprises faced during the transition.
(5) There was an unclear relationship between the general budget and the budget of the social insurance schemes.
(6) There were no clear budgetary lines of demarcation between the different branches of social security cash benefits.
(7) Contribution rates were high compared with Western European standards.
(8) Benefit levels, even if initially high, deteriorated over time due to non-existent indexation provisions.

However,

(9) The pension systems in the region mostly succeeded in paying pensions, even in difficult circumstances.

The schemes were clearly in need of reform. The ILO, in most of its technical advisory reports, advocated parametric reforms of the pension schemes as well as of the larger social insurance environment. However, except for the Czech Republic and Slovenia, most countries decided on a major **paradigmatic** shift consisting of splitting the mono-pillar pension systems into a PAYG defined benefit (DB) scheme and a fully funded defined contribution (DC) scheme.

In the cases of Poland and Latvia the first tier was converted into a so-called Notional Defined Contribution (NDC) scheme that followed a concept developed by pension reformers in Sweden. Preserving PAYG financing, it makes the levels of pensions totally dependent on the value of contributions paid by an individual over the whole career and on the life expectancy at the age of retirement. This is – strictly actuarially speaking – equivalent to a DB pension scheme that keeps the contribution rate constant, is strictly earnings-related and adjusts actuarially the pension levels for early or late retirement. The second tier was practically a copy of the Chilean DC scheme, which in most countries is implemented by private pension funds owned largely by big banks or major European insurance companies.

The reason quoted everywhere for the necessity of paradigmatic reforms was the need to contain pension expenditure in the face of demographic ageing. This is indeed a fast advancing process in most parts of Europe.

But there were other reasons, too. First, there was lobbying from the private insurance industry that saw new business opportunities in the emerging market economies. Second, the private sector saw a need for increased domestic savings to be generated by pension savings to feed investments in the restructuring processes.

A further reason was that paradigmatic reforms – at first sight – were simple and clear. People would save and obtain as pension the equivalent of their savings. The deep mistrust of citizens towards all government-owned and -dominated systems facilitated a greater reliance on the private sector, which was seen and sold as a panacea. Nobody ever demonstrated the full likely future effects of the reforms on pension levels. Nor did anybody discuss the fundamental uncertainties that large-scale reliance on the capital market for pension financing could entail.

In some cases the reform process lacked transparency. In particular, there was no assurance that the public was widely aware of the consequences of the reform on the long-term financial situation of the public pension scheme, of the high level of unpredictability of benefit amounts or of the expected levels of administrative charges in the privately managed second tier (which ultimately reduces the amounts of individual savings and hence pensions). Not many alternative reform scenarios with possible parametric changes in the public PAYG scheme were studied (or published). There was apparently no awareness that the transition cost caused by the changeover would have to be paid at some point in time by one or more generations of pensioners or insured persons through higher tax rates than otherwise necessary, or lower pension levels than otherwise affordable. There was no appreciation, either, of the fact that financial deficits in the first tier would emerge much faster than expected.

The effects of pension reforms

Paradigmatic reforms in Latin America were summarized as having had some degree of fiscal and financial success with respect to containing expenditure. This is an obvious consequence of introducing tiers (i.e. the savings tiers) which are in automatic financial equilibrium. Savings schemes pay out only what has been saved. This will inevitably bring expenditure down in the long run. The same applies to Central and Eastern Europe. However, low coverage and low compliance are the most important problems that haunt the systemic reform countries. Low compliance will either create substantial long-term old age poverty or trigger renewed public expenditure on basic social assistance to compensate for low pension levels. Countries that resorted to parametric reforms (i.e. the Czech Republic and Slovenia) were able to maintain their traditionally high population coverage and compliance.

But let us have a closer look at four countries in Central and Eastern Europe: the Czech Republic, Hungary, Poland and Slovakia.

The Czech Republic did not follow the system advocated by the World Bank. It did, however, reform its PAYG system through reductions in replacement rates and increases in the retirement age, at the same time establishing supplementary voluntary pension provisions subsidized by the State for low-income earners. The post-reform pension system is still characterized by a relatively high degree of redistribution. At least part of the explanation for the reform path taken lies in the fact that its transition policies were from the beginning rather cautious and gradualist. Furthermore, financial scandals had significantly undermined popular confidence in private financial institutions and capital markets. At the same time the governance of the social security system was sound, which prevented a crisis of confidence to the extent of that experienced in most other countries of the region.

Poland and Hungary managed to successfully implement much higher standards when they regulated their financial and capital markets and thus mostly avoided scandals in these sectors such as those experienced in the Czech Republic. This may explain why it was easier for the public to accept that private financial companies would manage a part of the pension system. Furthermore, in both these countries, this made the lobbying by local and international financial services companies in favour of pension funding more successful than in the Czech Republic.

While in Poland there was practically no significant opposition to the idea of a purely earnings-related pension system (thus NDC or DC) and only very narrow opposition to partial funding concepts, in Hungary nobody really questioned that the first tier should be PAYG defined benefit with a certain degree of redistribution to those with lower earnings. In Hungary, in contrast to Poland, there was quite a strong opposition to a funded tier. At the beginning this was voiced by a coalition of the social security administration, part of the trade union movement, and the association of the mutual funds operating voluntary health and pension insurance in Hungary. The trade unions, after gaining concessions on transitory provisions, eventually agreed to the reform proposals, as did the mutual funds, which achieved their aim of being allowed to participate in the mandatory funded tier.

Slovakia, the latecomer, undertook the most radical reform in 2004 and 2005. The mono-pillar defined benefit PAYG system was changed to a multi-tier system with a DB first tier which retained only 50 per cent of the former total old age pension contributions of 18 per cent of insurable earnings. The other 50 per cent of contributions were transferred to the second tier mandatory pension scheme, managed by six private pension funds owned or at least co-owned by big European insurance and banking companies that now manage an annual contribution income of about 2.5 per cent of Slovak GDP.

The former government pushed through the reform in record time. It was “sold” successfully to the Slovak public through a publicity campaign that was partly financed by a World Bank project. A total of about 1.5 million of the 2.6 million insured persons transferred to the new system, also apparently including people whose remaining savings period till retirement age was too short to make the switch financially worthwhile.

Replacement rate effects

The new pension systems will reduce replacement rates significantly in all “paradigmatic” reform countries. According to recent EU projections,[4] total post-reform pension expenditure

[4] Economic Policy Committee: *The impact of ageing on public expenditure: Projections for the EU25 Member States on pensions, health care, long-term care, education and unemployment*

in some countries will either stagnate (Slovakia) or even decrease (Poland) between 2005 and 2050. The current and prospective demographic situation in all these countries is similar: the demographic dependency ratios will double by 2050. This has one simple mathematical consequence: replacement rates will have to go down. They will also be highly uncertain, largely due to the unpredictable performance of the capital market. In Poland, calculations by the institution supervising pension funds show future median replacement rates for men to be 51 per cent and for women 33 per cent (assuming that men work 44 years and retire at the age of 65, whereas women work 39 years and retire at the age of 60, the present statutory retirement ages). These replacement rates are much lower than the pre-reform levels, which were on average well above 60 per cent. Similar results came out of a recent EU study.[5] Additionally, the reforms are quite regressive in their effects: in Poland, for example, replacement rates will decrease the most for those with the lowest earnings while actually increasing for those with the highest earnings.

Likewise in Slovakia, according to the government's own projections, it is likely that the relative income levels of pensioners will be falling and there will be more variance and volatility than before the reform. There are, furthermore, strong reasons to expect that the reforms will also disadvantage lower-income groups disproportionately. Taking into consideration the very high past unemployment rates of groups hardest hit by the economic transition, the benefit levels of many low-income people will be very low and may lead to the social exclusion of large groups of old people and those with disabilities, whose income will drop to the social assistance line.

However, calculations by the EU referred to earlier show that countries that embarked on so-called paradigmatic reforms will not be the only ones to see replacement rates going down – unless people contribute significantly longer and retire much later. Simulations for France and the Czech Republic show that even countries that followed so-called parametric reforms may see future replacement rates reduced quite considerably. However, these reductions are more predictable than the ones resulting from paradigmatic reforms.

It is also worth looking at the protective functions of pension schemes in more detail. Turbulence on national labour markets – with respect to changing patterns of work-sharing in an increasingly globalizing labour market – coupled with the global adjustment processes, may for many people lead to "broken" careers that are dotted with spells of unemployment or periods of retraining. For these people, pensions from the DC schemes, i.e. those subjected to paradigmatic reforms, will in future fall the most. Resulting replacement rates may no longer meet even the minimum requirements of ILO Conventions – which means that they no longer provide a guaranteed insurance against poverty in old age and disability. Income uncertainty may creep back into the lives of many workers and pensioners in Europe. We are very concerned about that development.

transfers (2004-2050). Report prepared by the Economic Policy Committee and the European Commission (DG ECFIN), European Economy, Special report No. 1/2006 (Brussels, European Commission, 2006).

[5] Social Protection Committee: *Current and prospective theoretical pension replacement rates.* Report by the Indicators' Sub-Group (Brussels, European Commission, 2006).

Fiscal implications

While the paradigmatic pension reforms are expected to reduce public pension expenditure in the long run, their direct and immediate – albeit durable – effect is actually to increase the burden on public budgets. The paradigmatic reforms all include the diversion of a certain share of pension contributions into private accounts. Logically these diverted funds are no longer available for the financing of current pensions and acquired pension rights. Hence a major financing gap opens up due to the necessity of financing already acquired pension rights. The gap has to be covered by government out of tax revenue or additional borrowing. The size of these so-called “transition costs” was certainly a major criterion in all the countries when deciding on the size of the second, fully funded tier.

Both Poland and Hungary decided that about one third of the total old age pension contribution would go to the private (second) tier. In both countries this implies an annual financing gap of about 2-4 per cent of GDP which needs to be covered by the government. This gap is small at the onset as only relatively young workers join the second tier but it is bound to grow gradually up to the level mentioned. The financing gap will decrease only after a significant number of persons start receiving (lower) pensions from the new system and, thus, the deficit of the PAYG (first) tier decreases.

Due to the size of the second tier, the biggest systemic shortfall of resources in the first tier of the old age pension system was created in Slovakia. The immediate deficits were to be covered by proceeds from the privatization of state-owned assets. However, these transfers are sufficient to cover the deficit of the scheme only until the end of the first quarter of 2009.

The Ministries of Finance in all three countries accepted that the gap be covered from fiscal resources – but a precise formulation of the financing obligations by the state budget for each year has not been legislated. As soon as reforms started to be implemented and actual budget allocations had to be made, enthusiasm for financing the reform costs faded away. In Hungary, where the reform started in 1998 with only 7 per cent of gross wages going to private pension funds and the law foreseeing annual stepwise increases – 8 per cent in 1999 and 9 per cent in 2000 – this gradual increase of allocation to the second tier was already suspended in the first year of the reform. It only reached its anticipated target in 2004. This suspension saved the state budget more than 0.5 per cent of GDP each year but was met with rather angry reactions from the pension funds and the financial sector.

In Poland, although there were voices calling for decreases in the share of contributions going to the private tier, the strategy undertaken by the fiscal authorities at the beginning of the reform was to pay a smaller than necessary subsidy to the Social Insurance Institution (ZUS) which administers the first tier but collects the contributions for both tiers (ZUS is expected to make appropriate transfers to the private pension funds). ZUS placed priority on payment of current pensions, and thus transferred to the private pension funds smaller amounts than were due. The effect was, of course, similar to what happened in Hungary, although the size of the reduction in contributions was smaller. And – at least in theory – all contributions in arrears are to be paid sooner or later.

In Slovakia the new government is contemplating various ways to consolidate the first tier in the long run. One option is to downsize the second tier.

Poland, Hungary and Slovakia, now members of the European Union and hoping to enter the Euro zone, are struggling with attempts to keep their public deficit within the limits imposed by the Stability and Growth Pact. The size of the fiscal implications of the pension reform is more or less equivalent to the size of the public deficit allowed by the Maastricht criteria. But these countries had deficits close to 3 per cent of GDP even before the reform, which means that in the medium term the only source of financing for the financial gap caused by the pension reform will have to be cuts in other public spending. Sooner or later this situation will have to result in significant reductions in public expenditure and – as social expenditure consumes the majority of all public spending – particularly reductions in expenditure on many social programmes.

Are paradigmatic reforms needed to "disarm" the "ageing crisis"?

Before we can draw conclusions for future ILO pensions and social security policy, we have to spend some time putting the ageing challenge in Europe into perspective. After all, ageing is the most quoted systemic reason for paradigmatic pension reforms.

Let us put the key message first. Perhaps surprisingly, there is still reason to believe that the European demographic transition poses a manageable challenge. The key indicator for Europe's alleged "demographic catastrophe" in social security has always been the old age dependency rate. However, that problem may not be as big as it seems. The reason is quite simple. It can easily be shown that on the basis of the demography of rapidly ageing Western Europe, increasing the de facto time spent in employment is probably a solution for most pension schemes. This can be achieved by increasing the labour force participation rates in the 15-to-64 age group through various measures such as increasing the labour force participation rates of women to levels slightly below those of men, and increasing overall labour participation rates due to earlier entry into the labour force. But first and foremost, the old age demographic dependency rate in Europe can most likely be kept at the present level for the next five decades through a gradual increase in the de facto retirement age from about 60 (as at present) to 65. ILO actuarial calculations have time and again shown that countries like Latvia, the Czech Republic, Poland, Slovakia and Ukraine could have consolidated their pension schemes by implementing parametric measures.

However, perhaps much more importantly, we must expect that GDP and per capita GDP growth rates are at risk when the population ages and the employable labour force shrinks. An EU publication[6] submitted to the EU Summit in October 2005, for example, conceded that ageing under status quo conditions may act as a brake to economic growth, bringing it down on average from 2.0–2.5 per cent per annum to half that rate.

Achieving increased labour force participation rates for all ages over 18 to 20 is imperative for the maintenance of standards of living in ageing societies and not only for the stabilization of pension schemes. Further increasing the retirement age, de facto not de jure, and in a fair way, as is at present being attempted in many European countries, will remain a political challenge. But it will be inevitable. If generations decide to have fewer children, they will have to stay

[6] EU: *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: European values in the globalised world.* Contribution of the Commission to the October Meeting of Heads of State and Government (Brussels, 2005, p. 9).

young longer. But the most important task for the next decade – which is creating suitable jobs for older workers – remains the real challenge for ageing societies and is one of the key policy tools for disarming the "ageing crisis".

But even if – in the worst of all scenarios – the management of the demographic challenge were to fail generally, the effects on the sustainability of national social transfer systems, even in countries with highly developed systems, might be less dramatic than commonly assumed. The Economic Policy Committee of the European Union produces projections of the combined cost of the most important social security benefits as a result of ageing populations. There are obvious problem cases but, on average, the projections show a cost increase of less than 4 percentage points of GDP over a period of 45 years. This appears to be – overall – a manageable order of magnitude.[7]

Conclusions for ILO pension and social protection policies

I take the opportunity that I have in speaking to an important forum like this to draw a few conclusions from the history of pension reforms in the world and in Central and Eastern Europe in particular. On balance it seems that the paradigmatic reforms of the pension systems in Central and Eastern Europe will probably lead to a financial consolidation of the schemes in the very long run. That is the positive aspect. On the less positive side of the balance sheet we have, first and foremost, the increasing income insecurity, and likely re-emergence of old age poverty, for larger groups of the population than today. We probably have to put social safeguards into some of the reforms by strengthening the first tier. In a global context, Chile is taking the lead again and at present strengthening the anti-poverty dimension of its pension scheme.

Undue and unnecessary fiscal burdens during transition periods of at least two decades are another major problem at a time when countries are struggling with the deficit limits imposed by European stability policy. We have also witnessed some lack of transparency in the reform processes. Reducing levels of protection through paradigmatic changes is easier than administering transparent and visible cuts in an existing system. Furthermore, we think that most paradigmatic reforms were not really necessary to consolidate the pension schemes systemically. The explicit increase of retirement ages, which some of the reforms try to avoid, will be necessary under any type of pension reform – first of all for economic reasons. But they need to be fair to all workers and not have hidden tendencies to push lower-income workers out of the labour market early while the better educated and better paid can earn comfortable pensions in comfortable jobs.

Our main concern – as the ILO – remains the emerging uncertainty and the risk of poverty. We are not alone. The EU requires national pension systems to:

- *"Ensure that older people are not placed at risk of poverty and can enjoy a decent standard of living; that they share in the economic well-being of their country and can accordingly participate actively in public, social and cultural life;*

[7] Economic Policy Committee (2006), op. cit.

- *Provide access for all individuals to appropriate pension arrangements, public and/or private, which allow them to earn pension entitlements enabling them to maintain, to a reasonable degree, their living standard after retirement; and*
- *Promote solidarity within and between generations."*[8]

A pension system is viable only if both its broad objectives – adequacy and financial sustainability – are ensured. Inadequate benefit levels may eventually also undermine the financial sustainability of the whole pension system, discouraging the active population from contributing, and forcing governments to allocate additional resources to alleviate poverty among the inactive population.

Our role in the pension reform debate so far has been to promote the idea of pragmatic parametric reforms rather than major dramatic changes that can incur major social risks. We have not been as successful as we should have been. The most likely reason is that we underestimated the power of the political economy and hidden economic agendas. But we continued to give advice. Developments during the past few years showed that we were probably right in many ways, but we could not change the direction of reforms radically.

However, we have decided to take a pragmatic stance now and focus on the mandate of the ILO, i.e. safeguarding social outcomes, rather than to argue about process and methods. This has a very clear consequence. Many of you have asked us in recent years what the ILO pension reform model is. The message here is that the ILO does not have a specific pension reform model – but it does have a set of basic requirements for pension systems. The ILO's mandate, as determined by its Constitution and its Conventions and Recommendations, requires it to promote the following ten basic guarantees of national social pension schemes:

(1) **Universal coverage:** Everybody should have a right to affordable retirement through pension systems that provide all residents with at least a minimum level of income protection in old age and disability.
(2) **Benefits as a right:** Entitlements to pension benefits should be precisely specified as predictable rights of residents and/or contributors.
(3) **Protection against poverty:** Pension systems should provide a reliable minimum benefit guarantee that effectively protects people against poverty.
(4) **Income security:** Those with lower than average incomes and whose contributions have been paid for at least 30 years should not have a total of pensions from different sources which is lower than 40 per cent of their pre-retirement income (this reflects the minimum requirements set by ILO Convention No. 102).
(5) **Actuarial equivalence of contributions and pension levels:** A minimum replacement rate for all contributors adequately reflecting the level of the contributions paid should be guaranteed.
(6) **Guarantee of a minimum rate of return on savings:** The real value of contributions paid into savings schemes should be protected.
(7) Gender fairness: Benefit provisions should be gender-neutral and gender-fair for working parents.

[8] Social Protection Committee and Economic Policy Committee: *Quality and viability of pensions – Joint report on objectives and working methods in the area of pensions* (Brussels, European Commission, 2001, p. 6).

(8) Sound financing: Schemes should be financed in such a way as to avoid uncertainty about their long-term viability.
(9) Fiscal responsibility: Pension schemes should not crowd out the fiscal space for other social benefits in the context of limited overall national social budgets.
(10) State responsibility: The State should remain the ultimate guarantor of the right to affordable retirement and access to adequate pensions.

We will promote and support systems that can create these guarantees. We do not have a strong view on the exact architecture of national pension systems, as long as they provide the ten social outcomes mentioned above. There may be innovative ways to combine the defined benefit principle with the defined contribution approach. One could think of a DB guarantee that DC schemes could be asked to provide, i.e. a kind of minimum social rate of return of a pension scheme. In Germany one could challenge the “Riester Rente”, for example, to generate, with 4 per cent of contributions, a replacement rate that is at least equivalent to 20 per cent of the benefit level generated by the PAYG scheme (with its 19 per cent contribution rate). I leave you to think about this.

If there is one conclusion stemming from almost three decades of pension reforms in Central and Eastern Europe, Western Europe and the world, then it is that the debate should not be over. The ILO will promote its mandate, to create income security for people in old age and disability, and we will see how we can make modern thinking contribute to this goal. Income security for people who are old or disabled was a dream that was realized by many in Europe in the twentieth century. There is no reason to give it up in a more prosperous twenty-first.

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