Pension reform in Central and Eastern Europe: An Update on the Restructuring of National Pension Schemes in Selected Countries

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PENSION REFORM IN CENTRAL AND EASTERN EUROPE: AN UPDATE ON THE RESTRUCTURING OF NATIONAL PENSION SCHEMES IN SELECTED COUNTRIES

Elaine Fultz and Markus Ruck

OVERVIEW:

This paper provides an update on the progress of initiatives underway in selected Central and Eastern European countries to restructure national pension schemes. Its main source of information is the proceedings from a regional pension conference held in Prague in April 2000, sponsored jointly by the the Czech Ministry of Labour and Social Affairs and the International Labour Organization. This conference was organized to promote an exchange of information and ideas among pension experts from nine countries: Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, and Slovenia, as well as the Czech Republic. The spring of 2000 was an opportune time for such exchange since CEE countries have taken different approaches to pension restructuring and are proceeding at different paces, a situation which allows those at earlier stages to benefit from the experience of others which have moved further in particular directions. From this perspective, the latest events in Hungary and Poland were of high interest to conference participants, since both are now in the process of implementing so-called radical reforms which partially replace public pension schemes with mandatory systems of commercially-managed individual savings accounts. Reflecting this interest, the paper focuses heavily on these countries' experience.

The analysis has three parts. Part one provides background, portraying the pension schemes which were inherited by CEE governments from the socialist period, the impact of the transition on their benefits and financing, and the expected role of changing demographics on scheme costs in coming decades. Part two describes the reforms undertaken across the region during the 1990s. These are discussed in two broad categories, restructuring of public schemes and privatization, and a set of early patterns is identifed. The third part offers conclusions and suggests measures which could strengthen reform deliberations. Because pension reform is by its nature a long-term undertaking, the conclusions are formulated tentatively, with a recognition that forces which are not yet obvious may shape ultimate outcomes. They are the authors' views and not necessarily those of conference participants, nor are they an official position of the ILO.

In general, the analysis shows that:

- The transitional costs of moving from pay-as-you-go financing to pre-funding of pensions are turning out to be higher than projected in both Hungary and Poland, due primarily to larger than expected numbers of workers opting for private pensions. In the range of 0.5-1.2 per cent of GDP per year, these transitional costs pose a heavy fiscal burden. In Hungary, their higher-than-expected level was a factor in the government's repeal of a planned increase in the portion of scheme income allocated to the new private tier, an action which may trigger legal guarantees of private benefit levels in future years, further increasing reform costs.
- The political and economic environments in which pension reform is being carried out are volatile in most CEE countries, due to small and newly established financial markets and frequent changes in government. The former is leading private pension managers to invest high levels of worker savings in public, as opposed to private, securities, while the latter is leading to mid-course revisions in reform polices. This lack of continuity is most problematic with respect to radical reforms which must be put in place over a period of years.

- Key issues related to the structure of private benefit payments are as yet unresolved in both Hungary and Poland. These uncertainties left current workers in both countries without knowledge needed to make an informed choice of whether to join a new private supplemental scheme or not. They also make it difficult to assess the reforms in terms of the key criterion of retirement security.
- The variety of reform measures being pursued across the region is increasingly diverse. While several countries are planning radical reforms along similar lines with Hungary and Poland, others, i.e., the Czech Republic, Estonia, and Slovenia, are restructuring their public pay-as-you-go schemes without establishing a mandatory private pillar. A key consideration for those governments which have taken the latter approach is the fiscal burden of high transition costs.
- Social dialogue on pension reform is limited in most CEE countries, and tripartite consensus is not often achieved. This is due in part to the lack of a tradition of such dialogue, to some governments' failure to recognize the need for it, and to limited experience on the part of workers and employers in fulfilling their roles. The degree of consensus achieved in Poland stands out in demonstrating that support by the social partners can help to provide stability for reform legislation, keeping it on track despite changes in government.

I. THE CONTEXT FOR REFORM

The options for pension reform open to CEE countries are shaped by the characteristics of the pension systems they inherited, the impact of economic and policy changes on these systems during the early years of the transition, and the likely influence of demographic developments in coming years. This section provides a context for analysis of the reforms undertaken by examining these factors.

A. Pre-transition pension schemes

One of the legacies of the socialist era in CEE countries was the state's large role in providing retirement benefits: pensions were a major responsibility of government, and there were almost no private arrangements. Pensions were financed on a pay-as-you-go basis through transfers of funds from state-owned firms to a social security budget within the state budget.[1] Direct contributions from workers were rare and, when required, usually only symbolic. Benefits for different contingencies (old age, disability, survivors) were financed from the same budget or pool of resources. There was little transparency in the collection and allocation of resources.

Retirement ages in CEE countries were somewhat lower than those in OECD, as shown in Table 1. In many CEE countries, male workers could retire at age 60 with 25 years of service, while women could often retire at 55 or, in some countries, at an age determined by the number of children raised.[2] There were also many avenues to early retirement, and in many countries young pensioners continued to work while receiving benefits.

Table 1. Average retirement ages, 1950 and 1990

	1950	1990
OECD countries		
Male	68.5	62.2
Female	66.0	60.0
CEE countries		
Male	67.6	60.9
Female	62.5	57.6

Source: Latulippe, D., "Effective Retirement Age and Duration of Retirement in the Industrial Countries between 1950 and 1990." *Issues of Social Protection*, International Labour Office, Discussion Paper No. 2 (Geneva) 1996.

In general, the pre-reform schemes were designed to redistribute income, and the link between contributions and benefits was weak. Benefits were commonly calculated as a fixed percentage of a worker's reference income for a minimum number of years, often with a flat-rate component and/or a benefit maximum. These features produced a relatively flat benefit structure. However, there were many so-called privileges – i.e., lower retirement ages and higher benefit amounts for occupations favoured by the state. In many countries, privileges were extended not only to workers in risky and strategic occupations but also to entire industrial sectors (i.e., to mining management and administration as well as underground workers) but were financed through contributions paid on

1 Like pension schemes in Western Europe, these schemes were originally fully funded; but their reserves were depleted during World War II, leading to pay-as-you-go financing in the post war period. Muller, Katharina, "Ten Years After: Pension Reforms in Central and Eastern Europe and the Former Soviet Union," Frankfurt Institute for International Studies, February 2000.

2 Hagemejer, Krzysztof, "The Transformation of Social Security in Central and Eastern Europe", in Katharina Muller, Andreas Ryll, and Hans-Jurgen Wagener, eds., *Transformation of Social Security: Pensions in Central-Eastern Europe* (Heidelberg: Physica-Verlag, 1999), p. 49.

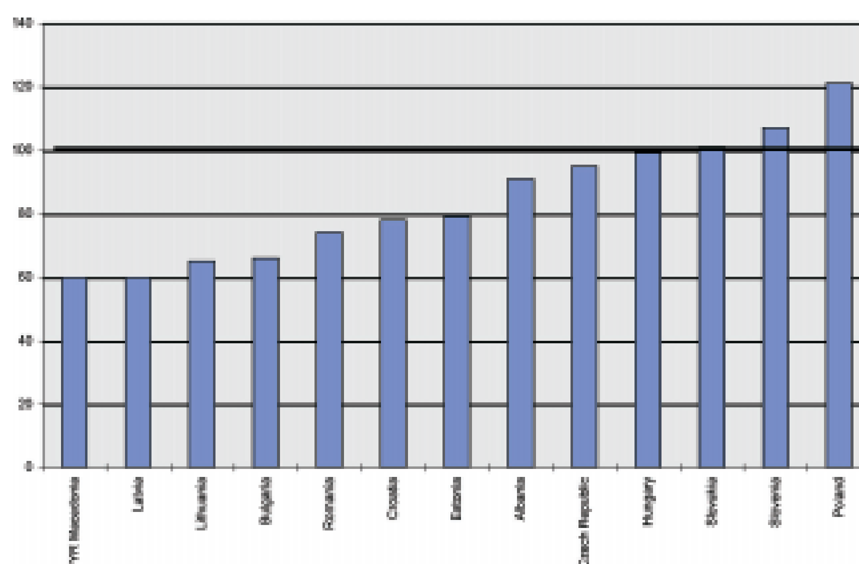
behalf of all workers, resulting in adverse redistribution. Benefit adjustments were generally not sufficient to take account of inflation or nominal wage increases, leading to distortions between old and new retirees. The longer a retiree collected a pension, the more inadequate it became in relation to current living costs.

At the beginning of the transition, system dependency ratios were in the range of 30-45 retirees for every 100 workers, though there was wide variation from country to country (e.g., 27 retirees per 100 workers in Albania, 62 in Ukraine).[3] While these rates were high compared with other parts of the world, pension expenditure as a percentage of GDP was relatively low, averaging just 5.6 per cent for the Baltic countries and 7.6 per cent for CEFTA countries in 1989.[4] This may be in part by the low share of wages in GDP, which at 30-40 per cent was well below than in most Western European countries.[5]

B. The impact of transition

In most countries, the transition brought a sharp contraction in output and employment, with production levels declining by 20-50 per cent below 1989 levels.[6] There has been wide variation in the rate of recovery. See Figure 1. The CEFTA countries generally resumed growth in 1993 and regained their pre-transition output levels in 1997.[7] They were followed by the Baltic countries where growth generally resumed in the second half of the decade. Growth in Southeast Europe, while now underway, has been less decisive.

Figure 1. Real GDP in 1999 (projected) as a percentage of 1989 (1989 =100)



Source: Phare Consensus, *Change and Choice in Social Protection: The Experience of Central and Eastern Europe* (Pantheron, The University of York, 1999), p. 51.

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3 Palacios, R., M. Rutkowski, and X. Yu, *Pension Reform in Transition Economies*, (Washington, D.C.: the World Bank, 1999), p. 105.

4 The 1990 ratio of retirees to workers was 24 per cent in the U.K, 21 per cent in France, 22 per cent in Germany, 18 per cent in the US, and 17 per cent in Japan. The CEFTA countries are those which signed the Central European Free Trade Agreement, but the ones referred to here are the Czech Republic, Hungary, Poland, Slovakia, and Slovenia (in 1997, Romania also became a member). Hagemejer in Muller (1999), p. 51.

5 This ratio was about 52 per cent in France and, in Germany and the UK, about 55 per cent. Hagemejer in Muller (1999), p. 47.

6 It should be noted, however, that the base on which this comparison is drawn, 1989, renders the comparison uncertain because of lack of reliable statistical data on GDP and employment for the pre-transition period.

7 Hagemejer in Muller (1999), p. 35.

Employment also declined sharply, as shown in Table 2. In 1995, the average unemployment rate was 12.5 per cent in CEFTA and Southeast Europe.[8] In CEFTA countries, the percentage decline in employment was greater than that in output (with the exception of the Czech Republic), while in other countries the drop in unemployment was less, reflecting hidden unemployment in the form of shorter working hours or unpaid leave. While many transition countries have now had two to six years of output recovery, employment has continued to shrink or stagnate. In four countries – the Czech Republic, Hungary, Poland, and the Slovak Republic – five million jobs have been lost since 1989.[9]

Table 2. Employment in selected countries as a percentage of 1989 levels (1989=100)

	1991	1993	1995	1997	1998
Albania	97.5	72.7	79.0	76.9	76.6
Bosnia and Herzegovina	58.1	9.9	10.1	34.4	36.4
Bulgaria	81.6	73.8	75.2	72.3	71.2
Croatia	88.5	76.5	73.9	73.4	..
Czech Republic	93.6	89.7	92.8	92.4	90.2
Hungary	86.8	72.1	69.3	69.1	70.3
Poland	90.1	84.3	86.7	90.8	91.1
Romania	98.5	91.9	86.7	82.4	..
Slovakia	85.9	80.4	80.7	81.5	81.2
Slovenia	88.7	81.3	79.1	78.6	78.7
FYR of Macedonia	95.6	86.2	73.9	66.8	65.0
Estonia	96.4	84.5	78.3	77.4	..
Latvia	99.3	85.6	74.3	73.7	74.1
Lithuania	99.7	93.4	86.4	87.7	87.0
Moldova	99.0	80.7	80.0	78.7	77.7
Ukraine	98.3	94.1	93.3	88.8	87.7

Source: Economic Commission for Europe and United Nations, Economic Survey of Europe (1999, No. 3), Appendix Table B.5.

From an economic and social perspective, this loss of employment had multiple impacts: it created severe hardship for the affected workers while at the same time reducing hidden unemployment and contributing to an increase in labour productivity. For pension schemes, however, the impact was uniformly negative: contributions fell and benefit payments increased, creating a widening financial gap. The number of scheme contributors declined by 30 per cent in Bulgaria, 45 per cent in Latvia, and over 60 per cent in Albania, while less severe losses occurred in the Czech Republic, seven to eight per cent, and the Slovak Republic, five per cent. [10] See Figure 2. In addition, many firms failed to make regular contributions on behalf of the workers they retained due to financial difficulties, leading to large accumulations of arrears. Those displaced workers who found employment in the region's expanding informal sector

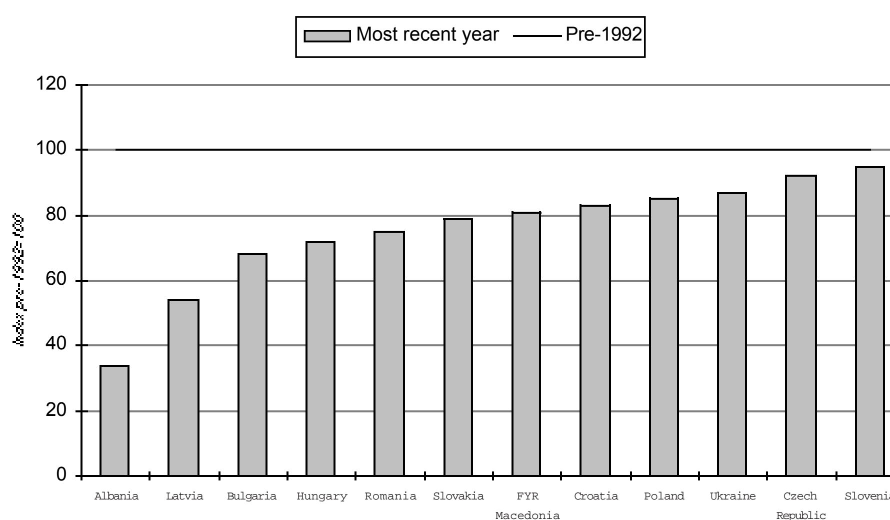
8 Hagemejer in Muller (1999), p. 35.

9 Augusztinovics, Maria, "Pension Systems and Reforms in the Transition Countries," in *Economic Survey of Europe* (Economic Commission for Europe and United Nations, 1999, Vol.3), p. 91.

10 The decline in Albania was accentuated by the privatization of agriculture. Here low levels of collection were attributable in part to weaknesses in the collection system after privatization and in part to lack of cash income among small subsistence farmers.

generally fell beyond the reach of social security collection agencies, resulting in a loss of coverage and scheme revenues. In some countries, these workers now total a quarter or more of the national work force: in Lithuania, the portion of unregistered workers is 22 per cent and, in Albania, 28 per cent.[11]

Figure 2. Contributors for selected countries as a percentage of pre-1992 levels (Index: pre-1992=100)

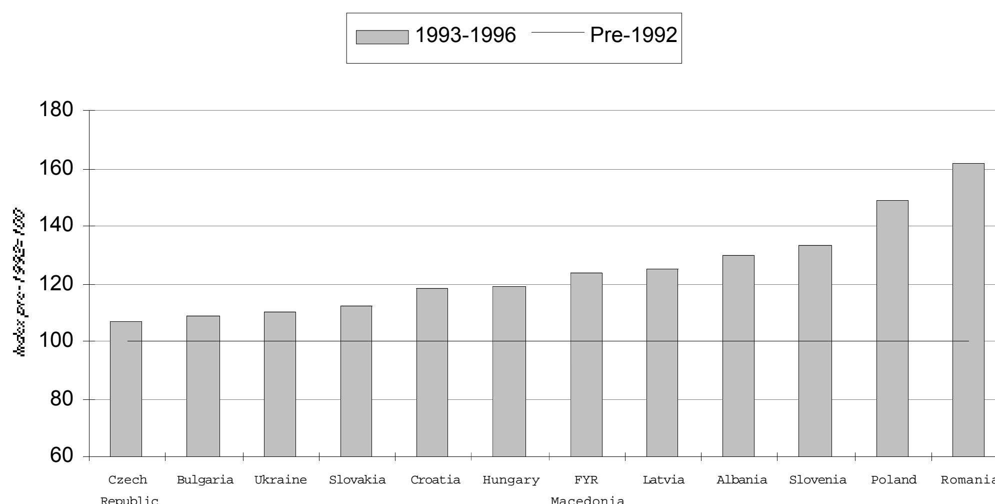


Source: Palacious, R., M. Rutkowski, and X. Yu, *Pension Reform in Transition Economies*, World Bank, Washington, D.C., June 1999.

On the cost side of the pension financing ledger, governments provided ad hoc benefit increases to compensate for inflation and for the curtailment of subsidies on basic goods. In addition, many governments liberalized disability and early retirement provisions to deal with rising unemployment. This use of pension schemes as a cushion in absorbing excess labour substituted for welfare and unemployment schemes, which were still being developed in many countries. However, it was considerably more costly than direct provision of unemployment benefits and placed a strain on pension scheme financing that will continue for many years. The sharpest increases in beneficiary caseloads occurred in Romania and Poland. See Figure 3.

11 For Lithuania, Phare Consensus Program, *Change and Choice in Social Protection: the Experience of Central and Eastern Europe* (Pantheron: the University of York, 1999), p. 52. In Albania, door-to-door inspections of firms were carried out jointly by the enforcement officers of the Social Security Institute and the Labour Ministry during May and June of 2000. The results showed a non-compliance rate of 28 per cent.

Figure 3. Percentage growth in pensioners for selected countries (Index pre-1992=100)



Source: Palacios, R., M. Rutkowski, and X. Yu, *Pension Reform in Transition Countries*, The World Bank, Washington, D.C.: June 1999.

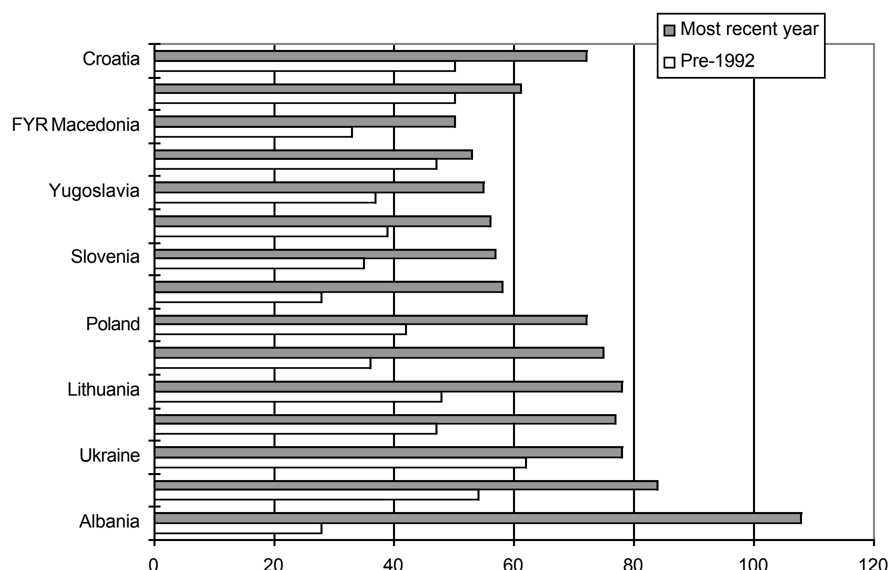
This combination of factors caused a sharp increase in the pension system dependency ratio in just a few years. See Figure 4. Albania, a young country demographically, moved from the lowest ratio to the highest. Latvia and Romania experienced increases of 100 per cent, while Hungary, Lithuania, Poland, and Slovenia experienced 50 per cent increases. With an increase of less then ten per cent, the Czech Republic contrasted sharply with neighbouring countries, though the recession it experienced in 1999-2000 may have since altered its position. Ukraine also had a relatively small increase, although there the actual figures are less certain due to the widespread practice of placing workers on administrative leave and to a large build up of contribution arrears.

Pay-as-you-go pension schemes are often described in terms of their vulnerability to demographic shifts. However, the large and swift increases noted here were not caused by changes in birth or death rates but by changes in the labour market. In this connection, Augusztinovics has noted:

> The main moral of this story ... is that in a changing economic environment, system dependency can be much more strongly affected by employment opportunities than by pure demographic trends. There need not be a huge change in output. Rather, the crucial factors may be changes in more general patterns of employment, which may result in attrition of regular, traditional contributors. The future of the pension system seems to be in the hands of the labour market. The present situation in the transition economies may become a testing ground for an unprecedented and harmful divergency between system and demographic dependency.[12]

12 Augusztinovics (1999), p. 96.

Figure 4. Pensioners as a per cent of workers in selected CEE countries in two years



Source: Palacious, R., M. Rutkowski, and X. Yu, *Pension Reform in Transition Economies*, Washington, D.C.: The World Bank,

C. Demographic projections:

Though demographic changes have not begun to be felt in most countries, projections indicate that they will raise future pension costs considerably. As can be seen in Table 3, Eastern Europe is on average "young" by European standards.[13] Today the elderly (here defined as those 65 and over) constitute just over 12 per cent of national populations, whereas in Northern, Southern, and Western Europe this group is a quarter larger. Average life expectancy is also considerably lower in Eastern Europe at 68.9 years compared to 76.5 years in Western Europe. Lower life expectancy, though not a plus for the individuals living in these countries, reduces demographic dependency rates in comparison with other parts of Europe.

Table 3. Major demographic indicators in Europe by geographic region, 1990-1995

	Eastern	Northern	Southern	Western
Crude birth rate (per thousand)	11.5	13.5	10.8	11.5
Crude death rate (per thousand)	12.2	11.3	9.5	10.6
Life expectancy at birth (years)				
Male.	63.8	72.7	73.0	73.0
Female	74.1	78.7	79.3	79.7
Both sexes	68.9	75.7	76.2	76.5
Population by age group (%)				
0-14	21.0	19.7	17.3	17.6
15-64	66.7	65.2	68.2	67.1
65+	12.3	15.2	14.5	14.9

Source: Augusztinovics in Economic Survey of Europe (1999), p. 90

13 These comparisons refer to geographical regions rather than geo-political grouping.

These varying regional averages also mask significant differences in national age structures. As shown in Table 4, Albania contrasts markedly with its neighbours in being the "youngest" country in Europe. More than 40 per cent of the Albanian population is under age 20 and just over nine per cent is age 60 and over. The portion under age 20 is roughly 30 per cent in Romania, FYR Macedonia, and the Slovak Republic, while in the remaining countries it is closer to 25 per cent.

An aging process is on the national horizon of nearly all the countries, as shown in both Tables 4 and 5.[14] Over the next 20 years the proportion of elderly will increase by a third in many countries, while the young population will contract significantly. Just as current national age structures differ, aging is projected to proceed at very different rates: in FYR Macedonia, currently a "young" country, the elderly will increase by over 70 per cent, from roughly 13 to 23 per cent of the population, in just 20 years. While other populations are expected to age more slowly, only Albania will continue to have a low proportion of elderly after two more decades.

How these projected rates of demographic dependency will translate into actual rates of dependency on national pension schemes depends heavily on economic and labour market factors, such as employment opportunities and conditions of work, as well as on policy decisions concerning the level of pension benefits provided, eligibility rules, and retirement ages. Still, taking into account the high system dependency rates which currently exist, it appears that the process of aging will pose major challenges for most countries.

A set of more detailed and longer term demographic projections are provided in the appendices A and B.

Table 4. Ratio of young, working age, and elderly to total population (percentages)

Country	1998			2020		
	-19	20-59	60+	-19	20-59	60+
Albania	42	49	9	32	55	12
Bulgaria	26	53	21	14	58	28
Czech Republic	25	57	18	19	54	27
Estonia	27	54	19	18	56	25
Hungary	26	55	19	NA	NA	NA
Latvia	26	54	20	18	57	25
Lithuania	28	54	18	23	55	21
FYR Macedonia	33	54	13	23	54	23
Poland	30	54	16	25	53	22
Romania	31	52	16	NA	NA	NA
Slovenia	24	57	18	22	52	26
Slovak Repub.	30	55	15	19	58	22

Source: Phare Consensus (1998), p. 63.

14 Forecasts for the longer term which include elderly dependence by age are provided in Appendices B and C.

Table 5: Elderly (age 60 and over) as a percentage of national populations

Country	1998	2020
Albania	19	22
Bulgaria	39	47
Czech Republic	32	50
Estonia	40	45
Hungary	35	NA
Latvia	37	44
Lithuania	33	39
FYR Macedonia	25	42
Poland	30	43
Romania	31	NA
Slovenia	32	49
Slovak Republic	28	38

Source: Phare Consensus (1999),p. 63.

II. APPROACHES TO REFORM

In the mid and late 1990s, most CEE countries undertook major pension reforms; but the pace of decision making and implementation has differed markedly from country to country. In some countries, legislation has been approved and is now being implemented (e.g., Hungary, Poland, and Latvia), while in others debate is still underway (e.g., Slovakia, Ukraine). The reforms aim not only at reducing system dependency ratios but also at adapting some of the pre-transition design features to new economic and political conditions. In all cases, this has meant a move away from universal redistributive policies toward systems in which benefits are more individualized and earnings related. In many countries reform has also entailed a shift toward greater reliance on the private sector for pension provision. The result is growing differentiation both within and among countries in the extent of protection provided. Table 6 shows the progress of pension reform in selected CEE countries.

Table 6. Status of pension reform in selected CEE countries

Country	Major first tier of reform (mandatory)			Introduction of mandatory second tier			Additional voluntary arrangement		
	in preparation	approved	legislated	in preparation	approved	legislated	in preparation	approved	legislated
Albania			X						X
Bulgaria			X			X			X
Croatia			X			X post-poned*			X
Czech Republic			X						X
Estonia			X		with-drawn*				X
Hungary			X			X			X
Latvia			X			X,			X
Lithuania			X	X					X
FYR macedonia			X			X			X
Poland			X			X			X
Romania			X		X		X		
Slovak Republic		X		X					X
Slovenia			X			rejected			X
Ukraine		X			X, post-poned*			X	

* Implementation of the Croatian law has been postponed by the new government pending improvements in the economy. The Ukrainian proposal calls for implementation only at the point when specified economic and political prerequisites are achieved. The Estonian government withdrew a proposal for a mandatory pillar, citing concerns about high transitional costs.

Sources: Phare Consensus (1999), p. 55, *Pensions International* (2000 issues), and updating information provided by conference participants.

From a chronological perspective, the earliest changes separated social security from the state budget and provided separate financing or accounting for the various types of benefits. All countries now have a pension budget, account, or fund which is distinct from the state budget or segregated within it. In addition, several countries, including Hungary and the Czech Republic, took early action to establish voluntary supplemental pension schemes. These were intended to encourage self-reliance in old age, as well as to provide long-term investment capital. In general, it appears that membership in these schemes have fallen short of original expectations and, in some cases, attracted only low levels of savings by members.[15]

The remaining reform measures fall into two broad categories: adjustments in the basic parameters of existing public schemes and establishment of new private arrangements for pension provision. Virtually all countries are pursuing the first approach, public scheme restructuring. The reforms underway include increasing national retirement ages, reducing redistribution and rates of wage replacement in benefit formulas, curtailing benefits to privileged categories of workers or providing a separate sources of financing for them, and strengthening procedures for collecting contributions. Retirement age increases are shown in Table 7. As can be seen, increases have been enacted by most countries, in the range of two to three years for men and three to six years for women. Most of these new statutes are the result of political compromise, with larger increases having been proposed initially and reduced through a process of negotiation with trade unions and, in some cases, employers. In several countries (e.g., Poland, Slovenia), equalization of the retirement age between men and women was initially proposed but rejected in favour of a continuing differential. In some countries, a second round of increases is under discussion (i.e., Czech Republic) or has been enacted (i.e., Latvia) as a means of addressing the expected aging of the population.

Countries have taken differing approaches to revising benefit formulas. Latvia and Poland have replaced traditional defined benefit systems with so-called notional defined contribution systems, in which benefit levels are set at retirement based on a worker’s life time contributions and an estimate of the average life expectancy of the age cohort to which he or she belongs at the standard retirement age.[16] Slovenia, by contrast, has retained a defined benefit system but with lower pension accrual rates for each year of work (a reduction from 2.0 to 1.5 per cent of average wages for each year) and the use of a larger number of years in computing average wages, thus strengthening the relationship between a worker’s lifetime earnings and his or her benefits. Revisions in the benefit formulas inherited at transition are still under consideration in some countries, e.g., the Czech Republic, the Slovak Republic, and Ukraine.

Action to curtail pension privileges is also uneven across the region. Some countries have eliminated such privileges or provided a separate source of financing for them (e.g., the Czech Republic, Latvia, Lithuania, Slovenia), while in other countries the issue remains on the national policy agenda (e.g., Poland, the Slovak Republic, and Ukraine).[17]

Some CEE countries are seeking to improve contribution collections through so-called unified collection systems. Here a single enforcement agency collects contributions to fund several social insurance schemes (e.g., pensions, health care, unemployment, sickness, employment injury) and may collect income taxes as well. This approach increases economies of scale in enforcement and gives the enforcement agency access to information on enterprises from multiple government sources. While holding promise for improving collections in the formal sector, this approach is less useful in reaching self-employed workers and workers in the informal economy. Unified contribution systems are being developed in Latvia, Lithuania, and Poland; and proposals are under active consideration in the Slovak Republic and Ukraine.[18]

15 In Hungary, voluntary private schemes have about one million members out of a economically population of four million and an active work force of 3.7 million. In the Czech Republic, about 40 per cent of workers participated in 1999; but rates of contribution were low, averaging just 2.5 per cent of gross wages, and a high portion of such savings was withdrawn within a relatively short period.

16 The contributions include some imputed interest based on an index which is linked to wage bill growth.

17 In the Slovak Republic, preferences were eliminated in the mid 1990s but are extended annually in response to strike threats. In Poland, the government is in the process of establishing “bridging” pensions for some of those who formerly had privileges in the currently active workforce.

18 Poland has unified contributions for social security benefits and health care but not tax revenues.

Table 7. Retirement ages in selected countries

	Current law	Men	Women
Albania	1995	60 with 35 years of service; partial pension with 20-35 years	55 with 35 years of service;50 with 30 years of service and six children; partial pension with 20-35 years
Croatia	1998	Increasing to 65 with 15 years of work by 2007. Anticipatory pension increasing to age 60 with 35 years of work.	Increasing to 60 with 15 years of work by 2007. Anticipatory pension increasing to age 55 with 30 years of work.
Czech Republic	1995	Increasing from 60 to 62 with 25 years of service, at a rate of 2 mos. per year between 1996 and 2006.	53-57, depending on no. of children, increasing to 57-61 at a rate of 4 mos. per year between 1996 and 2007.
Estonia	1998 (in force, 2000)	62.5, increasing to 63 in 2001.	57.5, increasing to 63 in 2016.
Hungary	1997	62	57, increasing to 62 in 2009.
Latvia	2000	Increasing from 60 to 62 in increments of six mos. per year.	Increasing from 57 to 62 in increments of six mos. per year.
Lithuania	1994	61, increasing in increments of 2 mos per year to 62.5 in 2009.	57, increasing in steps of 4 mos per year to 60 in 2009.
FYR Macedonia	2000	Will become 64 (31/12/01) with 15 years of work. Transition period till 2005 during which workers can retire with 35 years of work (no min. age) if more beneficial.	Will become 62 (31/12/07) with 15 years of work. Transition period till 2005 during which workers can retire with 30 years of work (no minimum age) if more beneficial.
Poland	1998	65 with 25 years of service. Early retirement being phased out.	60 with 20 years of service. Early retirement being phased out.
Romania	2000	Increasing from 62 (with early retirement at 60) to 65 by 2013.	Increasing from 57 (early retirement at 55) to 60 by 2013.
Slovak Republic	1988	Normal retirement age is 60; for selected professions, 55-58 with 25 years of service.	Normal retirement age is 53-56, depending on no. of children raised, with 25 of service.
Slovenia	2000	Increasing from 61 to 63 for full retirement with 40 year qualifying period, minimum retirement age 58.	Increasing from 53-58 to 58-61 for full retirement with 38 year qualifying period, minimum retirement age 58.

Sources: *Social Security Throughout the World* (US Social Security Administration, 1999), International Social Security Association, *Databases-Social Security Worldwide* (www.issa.int), Consensus Phare (1999), p. 33-8; and updating information provided by conference participants.

The second category of reforms, new private pension arrangements, differs from the approach to privatization taken in some Latin American countries where public schemes were fully replaced. Here the objective in most countries is to structure mixed pension systems under which future retirees will receive benefits from two sources, the public scheme and a second mandatory tier consisting of commercially-managed individual savings accounts. This arrangement eliminates the pooling of risk and redistribution of income with respect to savings invested in the second tier, providing workers with a simple return of their own contributions, plus investment earnings and minus administrative expenses. Workers are usually given a choice of pension management firm

and the right to transfer from one firm to another periodically. This arrangement effectively shifts the role of government from benefit provider to regulator vis-à-vis the private firms that make up the second tier. Mandatory second tier schemes were launched in Hungary in 1998 and in Poland in 1999. As shown in Table 6, several other countries are also planning such reforms or considering them.

Both approaches are necessarily long-term undertakings, due to the political difficulty of building consensus for changes which reduce social protection, the time required to construct new systems for individualized pension administration and regulation of private pension providers, and the need recognized in most countries to avoid abrupt losses for workers by providing long lead times for changes. While the recency of these reforms makes it difficult to reach definitive conclusions, several early patterns are discernible.

1. *The transitional costs of moving to a mixed pension scheme are higher than projected in Hungary and Poland, due to the unexpected strength of worker preferences for private pensions*. Countries incur transitional costs in moving from pay-as-you-go to mixed pension systems because they must build up reserves for the new pre-funded tier while continuing to meet existing pay-as-you-go benefit commitments. In CEE, this build-up involves specific problems, since most countries are operating under a constraint that prohibits increases in contributions. This constraint derives from the current rates, which are high in comparison with other parts of the world (see Table 8).[19] Governments striving for international competitiveness are under pressure to decrease these rates or at least stabilize them and thus must meet transitional costs in other ways.

Table 8. Worker and employer contribution rates in selected countries, 1999* and 2000 percent of insured wages)**

Country	Employers	Employees
Albania*	26.00	10.00
Bulgaria*	34.70	1.00
Croatia**	8.75	10.75
Czech Republic**	19.50	6.50
Estonia**	20.00	
Hungary**	22.00	8.00[1]
Latvia*	23.58	9.00
Lithuania**	22.50	2.50
FYR Macedonia*	20.00	
Poland**	16.26	16.26
Romania*	23.00[2]	5.00[3]
Slovenia*	15.50[4]	8.85 aver[5]
Slovak Republic*	21.60	5.90

1 For workers in the mixed system, 6 percentage points go to the funded private tier, 2 to social insurance.
2 23% for normal working conditions; for arduous and very arduous working conditions, the contribution rates are 28% and 33%, respectively.
3 For supplementary pensions.
4 Varying contribution rates, average about 15.50% of earnings. (Employee pays entire cost, employer reimburses employee for employer contribution.)
5 Varying contribution rates, average 8.85% of payroll.

Note: These rates are not fully comparable as they may apply to different wage bases in some countries and, in others, apply only to wages up to a ceiling.

Source: Phare Consensus (1999), p. 49 and SSA (1999), p. 286; for Croatia, the Faculty of Law, Department of Social Work, University of Zagreb; the Czech Republic, Ministry of Labour and Social Affairs; for Estonia, Ministry of Social Affairs; for Hungary, Institute of Economics of the Hungarian Academy of Sciences; for Lithuania, Social Policy Unit (SPU) of Lithuania; and for Poland, Ministry of Labour.

19 A large body of economic analysis shows that it is workers who actually pay social insurance contributions levied on employers, with the shift of incidence occuring through lower wage increases over time. See, for example, Brittain, John A., The Payroll Tax for Social Security, Washington, D.C.: Brookings Institution, 1992. However, in spite of this widely-accepted finding, social insurance contributions continue to be a major source of concern for employers and an issue in political debates about international competitiveness.

Operating within this constraint, the Polish government redirected about one-fifth of contribution revenues from the public, pay-as-you-go scheme to fund the new private tier (7.3 per cent out of the 32.52 per cent contribution rate for each second tier scheme member). It is planning to address the resulting deficit in the public scheme with increased borrowing, effectively issuing new bonds to retrieve contributions allocated to the new private system. In Hungary, the government also reallocated about a fifth of contributions (six per cent of the 30 per cent contribution rate for each second tier scheme member to the new funded second tier). It too will cover the resulting deficit in the public system by issuing additional debt.[20]

The increase in transitional costs over earlier projections derives from the discretion that both Hungary and Poland gave large segments of the current work force to join the new scheme or not. In Poland, all workers between age 30 and 50, and in Hungary, all current workers, were given the option.[21] In each case, the numbers which moved to the mixed system exceeded official estimate significantly.[22] In Poland, the government estimated that 50% of workers between 30 and 50 would switch, but 63% actually did so. As a result, the government had to increase the year 2000 state subsidy to the public scheme.[23] In Hungary it was estimated that 800,000 world switch in 1998, but 1.4 million actually did so and, since then, private scheme membership has grown to over two million. In the wake of these events, the Fidesz government repealed legislation redirecting two additional percentage points of the 31 per cent contribution rate to the private funds, leaving the second-tier rate at six per cent rather than eight.[24] Given this repeal, private fund assets are estimated to rise to 35 per cent of GDP over the next century compared to a previous projection of 47.6 per cent.[25] With significantly reduced revenues allocated to private savings, statutory guarantees of the second tier are more likely to be triggered in future years, further increasing the costs of reform.[26]

2. *The administrative costs of private commercial firms exceeded allocated resources last year, contributing to financial losses and pressures for consolidation.* Pension privatization carried out in other parts of the world (e.g., Chile and the UK) suggests that private management will be costly.[27] This results in part from reduced economies of scale inherent in a system of multiple private management firms, in part from the need to allow workers to switch from one firm to another, and in part from advertising expenditures which private firms incur in competing for members. In Hungary, operational costs hovered around eight per cent of contribution income during 1999, or more than four times the rate of administrative spending for the public pension scheme. However, these revenues turned out to be insufficient, requiring the parent companies of the new pension management firms (i.e., banks and insurance companies) to provide occasional, and in some cases, frequent subsidies.[28] In Poland, administrative costs fluctuated considerably over the short period of the private management firms' existence. In mid 1999, they were in the range

20 Simonovits, A., "The New Hungarian Pension System and its Problems," in Katharina Muller, Andreas Ryll, and Hang-Jurgen Wagener, eds., *Transformation of Social Security: Pensions in Central-Eastern Europe*, (Heidelberg: Physica-Verlag, 1999), p. 220.

21 The choice facing workers varied in the two countries. In Poland, all those between age 30 and 50 were given the choice between placing all their future contributions in the new notional defined contribution scheme or allocating a portion to a private fund. In Hungary, the choice was between remaining in the public defined benefit scheme with a slightly modified formula or switching a portion of future contributions to a privately managed defined contribution fund.

22 The strength of worker preferences for private pensions was rooted in several factors: extensive advertising campaigns by private firms seeking their business; workers' hopes of earning large returns in stock markets; their general receptiveness to new private, individualized arrangements of all types; and a lack of confidence in public schemes, due to the low transparency of the old socialist pension systems and an association in the minds of many between the public pension scheme and the previous government. Many Polish workers, for example, perceived ZUS as a symbol of the old system. Chlon Agnieszka, "Pension Reform and Public Information in Poland," in *World Bank Pension Reform Primer*, 2000, p. 23.

23 The state subsidy was increased by US$ 650 million (PLN 2.7 billion) over the 1999 level. In addition to the higher switching, the increase was also caused by the fact that the 1999 subsidy was lower, due to the transition.

24 The legislation called for an increase to seven per cent in January 1999 and eight per cent in January 2000.

25 Presentation by Tibor Parniczky, State Private Funds Supervision of Hungary, at the OECD Private Pension Conference, Prague, 3 April, 2000.

26 Provided via a complex formula, the statutory guarantee essentially states that no worker will lose more than seven per cent of the benefits he or she would have earned under the public system. Simonovits (1999), p. 222.

27 Administrative costs are estimated to consume about 40 percent of a worker's contributions over his or her life time in the UK and about 25 percent in Latin America. Quiesser, Monika, "Towards more individual choice in social protection?" presented at a conference of the International Social Security Association, Luxembourg, 19-21 May, 1999.

28 State Private Funds Supervision, *Report for the Third Quarter of 1999*, p. 16.

of 13-15 per cent of contribution income but fell to 6.5-10 per cent as the result of firms' efforts to attract more clients by the end-of-year deadline for switching to a private fund.[29] At the close of 1999, all firms recorded substantial losses (PLN1.6 billion, or US$403 million). These resulted primarily from high promotional costs, agent commissions, and advertising, the latter of which exceeded PLN400 million (US$100 million).[30]

In both countries, the potential for spreading high operating costs over larger number of members is leading to high levels of market concentration and fueling a process of consolidation. As of September 1999, 39 mandatory private pension funds were operating in Hungary, of which six had 80 per cent of all members. Regulators predict that consolidation will reduce the number of firms by nearly two thirds, to approximately ten, by 2004. In Poland, 21 funds were registered as of April 2000, of which three had 70 per cent of the market; and merger discussions are underway among a number of the smaller companies.[31]

3. *Privatization laws are being implemented with key issues concerning benefit payments unresolved.* The Hungarian and Polish privatization laws contain little detail on benefit payments and, in implementing them, both governments have placed emphasis on getting the new systems for private management up and running, further deferring resolution of issues related to benefits. In Hungary, a major uncertainty relates to inflation adjustments, which by law must be based on annual wage and price changes in equal proportion. While government is in a position to guarantee such protection by virtue of its taxation authority, it is not clear how private firms can do so.[32] In Poland, the unresolved issues are broader, relating to: (i) the means of converting a worker's accumulated savings to an annuity at the time of retirement and the associated costs (will there be multiple, competing annuity companies or a single national company?); (ii) whether the differing life expectancies of men and women will be taken into account in calculating pensions (i.e., unisex or gender-specific life tables); and (iii) how private benefits will be indexed. With these major issues unresolved, workers who were given a one-time choice as to whether to join a private savings scheme lacked knowledge with which to make an informed decision. The absence of information on these matters also precludes an assessment of the reforms in terms of the key criterion of retirement security.

4. *Private pension management firms are investing heavily in public, rather than private, assets.* Proponents of pension privatization offer as a key rationale the potential for workers to obtain the higher yields on private securities. However, in Hungary and Poland, the bulk of private pension savings is invested in public, as opposed to private, assets. In Poland, 68 per cent of worker savings was invested in Treasury and NPB bonds at the end of 1999, with 28 per cent in shares. In Hungary, the tendency toward public investment is more pronounced: approximately 85 per cent of funds were invested in government securities at the end of 1999 and about nine per cent in corporate bonds. Moreover, great majority of these public investments are in short-term rather than long-term securities.[33] The particularly low levels in Hungary reflect the volatility of the Budapest Stock Market, where the main index lost two thirds of its previous value in the wake of the Russian Crisis; and pension management firms reduced their private equity holdings by half, from about 14 to seven per cent of investments. A market resurgence was predicted for early 2000, but this has not occurred; and pension funds have continued to invest cautiously.

5. *Frequent changes in CEE governments are resulting in mid-course revisions in pension policy.* Change of government has been a sustained phenomenon in many CEE countries: since 1990, Latvia has had five governments; Lithuania, Slovakia and Slovenia have had four; Estonia, the Czech Republic, Hungary and Poland have had three; and Croatia, two.[34] The impact on pension reform seems to vary according to its stage. When a

29 *Pensions International*, November 1999, p. 6.

30 *Pensions International*, June 2000, "Profits scare for Polish COPF operators so far," at www.pensionsinternational.co.uk.

31 Pensions International, July 2000, "Consolidation of Polish Funds Expected," at www.pensionsinternational. co.uk.

32 One approach would be for the government to issue bonds whose yields are indexed for inflation and wage increases. A few developed countries offer inflation indexed bonds, but none to date has offered wage indexing; and the Hungarian government has not issued either form of security.

33 Specifically 54 per cent are in short-term government bonds maturing in less than one year, and another 20 per cent are in bonds maturing in one to two years. State Pension Fund Supervision, *Report for the Third Quarter of 1999*, p. 9.

34 Economist Intelligence Unit, *Country Profiles for 2000*, at www.eiu.com/schedule. For the purpose of this comparison, changes of government are counted only if they were results of general elections or involved a change in political party. If one counts additionally changes within the ruling party or coalition between elections, the numbers would be higher still. For example, in Lithuania, the overall number of changes of government is eleven (see website of the Lithuanian government at www.lrvk.lt), whereas the number of changes which involved a change in the ruling party or coalition was four.

reform proposal is still under consideration, a governmental change may result in a policy shift or reversal; but when it is legislated, the more likely effect is an incremental adjustment in implementation. The first pattern is observable in the Czech Republic and Slovak Republic: the current Czech government abandoned the previous regime's plans for privatization in favour of reforms of the existing public system, and the current Slovak government dropped the previous regime's plan to follow the Czech model for reform of the public system in favour of privatization. Variations on the second pattern are observable in Hungary, Croatia, and Latvia. In Hungary, leaders of the Fidesz government opposed pension privatization when they were in the minority and, upon returning to power, repealed a provision which would have increased the rate of contributions allocated to the new private savings pillar (subsection 1, above). In Croatia, the new government delayed the pension privatization law enacted by Tudjman regime but in recent months has accelerated preparations for its implementation.[35] In Latvia, the 1997 pension reform has since been amended nine times and in late 1999 was subjected to a national referendum; these events slowed down privatization, but the most recent government has given it new momentum. Noting these phenomena, one participant at the Prague conference observed:

> It seems to be the nature of pension reform that policies cannot be easily reversed once put into motion. After a certain point, there is no going back. Governments can't easily dismember a major reform so they chip away at it. The new government wants to make its mark, so suddenly we have the "*new*, new reform policy."

Poland provides a noteworthy exception to this pattern: there a change of government in the midst of reform deliberations (late 1997) did not have a significant impact on pension restructuring. This is attributable in part to broad public support for the reform and, in particular, to a tripartite consensus in favour of the second and third tier proposals.[36] Given this support, the parties agreed tacitly to keep pension reform on track and avoid making it a campaign issue.

6. *In many countries, however, social dialogue on pension reform is limited; and tripartite consensus is not often achieved*. In Hungary, trade unions were divided with respect to radical pension reform, as were national experts. In Slovenia, consensus was achieved only at the Parliamentary level after a requirement for a mandatory private pillar was deleted from reform legislation. In Croatia and Macedonia, radical reform proposals were enacted over strong trade union objections, which continue in the wake of Parliamentary action. The failure to reach consensus is attributable in part to trade union objections to cuts in benefits which workers believe they have earned and have come to expect – a situation which is not unique to the region. However, CEE countries also have difficulties which stem from the lack of a tradition of consultation with the social partners, from some governments' failure to recognize the need for it, and from lack of experience on the part of workers and employers in fulfilling their roles. These difficulties are accentuated by the greater weight given to macroeconomic effects in pension reform debates in recent years – i.e., increasing national savings rates and investment levels – a shift which has overshadowed more basic issues of social protection and has tended to marginalize the role of the social partners. While this shift of focus has a greater impact on trade unions, it also affects the region's new employer associations. Similar difficulties exist with respect to the tripartite boards of pension schemes in some countries, where workers and employer representatives are often unsure of their roles and unfamiliar with the operating principles of social security schemes. This lack of experience is reflected in dissatisfaction with the performance of boards in some countries.[37]

7. *The diversity of regional reforms is increasing, with momentum for privatization slowing in some countries and, in others, new efforts underway to restructure existing public systems*. The adoption of radical reforms in

35 Under amendments passed in June 2000, the second mandatory tier will be initiated on 1 January 2002.

36 In addition the agency which structured the reform, the Office of the Plenipotentiary was widely supported, in part because it was not linked to any political party.

37 In Hungary, the bipartite pension board was dissolved by the current Fidesz government upon taking power amid allegations of corruption, though these were never pursued. In Lithuania, government limited the powers of the national pension board (i.e., removed its authority to appoint the scheme director) due to what it regarded as a lack of assertiveness in scheme oversight. In the Slovak Republic, the governing board of the national pension scheme has been relatively inactive, due in part to the limited powers granted it by government.

Hungary and Poland led some observers to predict that most Central and Eastern Europe would eventually follow their model.[38] As can be seen in Table 6, several others governments have since adopted similar statutes or are at various stages of considering or planning this. However, this momentum slowed somewhat during 1999 and early 2000. In Romania, Parliament approved legislation to restructure the public scheme in mid 2000 but has been debating pension privatization without resolution for more than a year.[39] In Ukraine, the government responded to widespread opposition to radical reform by amending its proposal to add explicit criteria which will delay implementation of a mandatory second tier until the economy and fiscal outlook improve.[40] In Estonia, the government dropped a proposal to establish a mandatory private tier due to concerns about high transitional costs. Instead it is redrafting the legislation to establish an optional second tier with subsidies from the public scheme for those who participate.

In addition, some governments have adopted reform strategies which involve restructuring their public schemes without privatization. In December 1999, the Slovenian Parliament deleted a proposal for a new mandatory savings scheme for all private sector workers from a comprehensive pension reform bill, approving those provisions which strengthen the financing of the existing public scheme.[41] In the Czech Republic, the prospect of high transition costs led the current government to reject the previous government's plans for privatization. While it is still in the process of deciding on additional public reforms, the two countries taken together suggest a second pattern of pension reform in CEE which serves to strengthen and restructure the existing public system.

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38 For example, this prediction is made by World Bank officials advocating privatization in CEE. Bank officials often display a map with most of the region darkened in the year 2010, indicating the adoption of mandatory second tier systems.

39A major question in this debate is whether Romanian capital markets are sufficiently developed and regulated to accommodate a mandatory second tier. Doubts were renewed in May 2000, when Romania's largest investment fund collapsed. Operated by members of the former Communist secret police, the fund had 300,000 investors and US$120 million under management. It had claimed falsely that the deposits were insured. The operators withdrew their investments before the collapse. *Financial Times*, "Romanian Anger At Fund Collapse," 31 October 2000, p. A-2.

40 These include l) no deficit in the public pension scheme, 2) a state budget deficit no greater than one per cent of GDP, 3) two years of national economic growth, 4) development of the banking system and national financial markets (what is meant by development is not specified), 5) establishment of a system of individualized record keeping for pension contributors and launching of a unified system of collections, and 6) consideration of the experience of voluntary savings schemes.

41 Described previously, these include a retirement age increase, a significant cut in future benefits (25 per cent), and a limit on the indexing of pensions in payment. Labour Ministry officials explain this action in part as a response to trade union opposition but also as reflecting views widely held in Slovenia that the proposed privatization was not consistent the country's tradition or with Western European pension schemes.

III. CONCLUSION

These early patterns are not necessarily predictive of long-term results of pension restructuring, since some may disappear with time or be altered by events and conditions which are not yet obvious. They do, however, provide some surprises in relation to earlier projections and suggest a need to look again at claims and predictions based on these. What conclusions, if any, should be drawn at this stage? Recognizing a need for care, the authors offer three concluding observations.

First, early experience provides little indication that radical reforms are well suited to CEE political and economic environments. In Hungary and Poland, the high transitional expenditures required to build a private pre-funded tier while continuing to meet pay-as-you-go benefit obligations is raising the cost of reform above what would be required to restructure the existing system, in the neighbourhood of 0.5-1.3 per cent of GDP per year. Added to the high contribution rates already in effect, these costs are increasing the burden of pension financing considerably in both countries; and they may make it more difficult to comply with the fiscal limitations set by the European Union.[42] In addition, the prohibition against raising contributions which is created by high existing contribution rates creates a financial interdependence between the first and second tiers, making it possible to finance private benefits only by depriving the public pension system of needed revenues and vice versa. Both scenarios pose risks which threaten workers' future retirement security, though in different ways.[43] Growing understanding of these burdens and risks is reflected in decisions by several CEE governments not to undertake radical pension restructuring.

In terms of investment patterns, the concentration of private savings in public, as opposed to private, securities may well be the most prudent strategy in CEE countries, given the small size and volatility of most private financial markets; but it also means that workers will have limited access to the higher yields which private investments can offer, be they more risky. Without higher earnings, the large administrative fees being charged by private management firms can be expected to erode savings and reduce the adequacy of future benefit payments. The pattern of mid-course policy corrections observed in several CEE countries also seems poorly suited to radical reforms, which require an extended implementation period. Though the results of shifting political priorities over this period are hard to predict – e.g., the Fidesz government's repeal of an increase in second tier revenues – they are likely to differ from those sought when radical reform was adopted.

Some observers have argued that, despite these difficulties, privatization is still the most viable approach to pension restructuring in CEE, since only radical change can overcome resistance from entrenched interests such as pensioner associations and trade unions. However, actual experience fails to confirm this notion. As described in section II, pension privileges have been curtailed in the Czech Republic, Lithuania, and Slovenia without privatization, while Poland continues to struggle with this issue in the wake of enacting its privatization law. The same three countries have also succeeded in raising their national retirement ages, and Slovenia has enacted major reform legislation which will cause future pensioners to receive a full 25 per cent less than current retirees. Still other countries, e.g. the Slovak Republic, are considering major privatization proposals without provisions to increase the retirement age or to deal with pension privileges. This early experience presents a mixed picture which fails to support the notion that privatization is the single viable route to pension restructuring.

Second, the focus of reform has been relatively narrow to date. While the restructuring of retirement benefits is a major concern across the region, few changes have occurred in disability pensions since the early years of the transition, when standards were loosened as a means of dealing with increased unemployment. As a result,

42 The Maastricht Treaty (protocols to Article 109) calls for annual budget deficits (including social security) of normally not higher than three per cent of GDP and accumulated debt of less than 60 per cent of GDP. Whether transitional financing debt will be treated in the same manner as other government debt is a matter which the EU has been asked to consider.

43 As has been described, the diversion of contributions to the second tier is increasing the deficit in the public pension system in Poland, whereas in Hungary the government's effort to reduce the drain of revenues from the public pension scheme brought on by higher-than-expected private membership is weakening the private tier, posing the threat that public guarantees of private benefit levels will be triggered.

there are significant numbers of disabled pensioners with some residual work capacity but few opportunities or incentives to find employment. Similarly, only limited consideration has been given to women workers in CEE economies, many of whom are affected disproportionately by increases in the retirement age, the elimination of redistributional elements in benefit formulas and, in particular, by the new notional defined contribution formulas which carry a heavier penalty for periods out of the work force early in a career. A third issue is growing exclusion from social protection due to expansion of informal work. Most CEE scheme officials recognize the need to find new ways to identify excluded workers and extend protection to them, but few experiments are underway. Action on all these issues can be encouraged through research which documents the situation and needs of the target groups – the disabled, women workers, and workers in the informal sector – and which identifies best practices within the region, in Western Europe, and elsewhere to serve as models for reform. There is a pressing need for such studies to serve as a catalyst for a wider reforms.

Finally, the fact that pension restructuring is proceeding without social consensus in many countries is a cause for serious concern. Few would argue that reforms can succeed in the long run without acceptance by key stakeholders, that this acceptance can be gained without giving them a role in shaping the content of the reform, or that they can participate effectively without a solid understanding of the roles they are expected to play and of the issues being debated. Yet social dialogue continues to stand out as a weak or missing element in the planning of pension reforms in many CEE countries, and many worker and employer organizations continue to search for ways to influence pension policy with only limited success. Training is among the measures needed to address this problem. It should be geared to support the social partners in formulating of objectives which reflect both long-term and immediate concerns, as well as in developing concrete strategies for pursuing these objectives. It should also provide opportunities to learn from successful counterparts in the region and elsewhere, to analyze the technical aspects of pension financing and the pros and cons of various reform strategies, and to obtain empirical information on the early impacts of reforms implemented in other CEE countries. Such training could strengthen social dialogue on pension reform very signficantly across the region and, through it, help ensure that the pension policies adopted by governments can be implemented successfully and sustained.

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APPENDIX A: DEPENDENCY RATIOS

Age groups: *youth: below 16; elderly: above 64; related to group 16-64*

Major area, region or country	Youth dependency ratio (per cent)					Elderly dependency ratio (per cent)					Total dependency ratio (per cent)				
	1980	2000	2010	2030	2050	1980	2000	2010	2030	2050	1980	2000	2010	2030	2050
Europe	**33.9**	**25.8**	**22.2**	**23.1**	**24.8**	**18.9**	**21.7**	**23.6**	**36.6**	**47.5**	**52.7**	**47.5**	**45.8**	**59.7**	**72.3**
Eastern Europe	*33.9*	*26.4*	*21.7*	*21.8*	*23.8*	*16.1*	*18.8*	*19.4*	*31.0*	*44.1*	*50.0*	*45.2*	*41.1*	*52.8*	*67.9*
Northern Europe	*33.2*	*28.6*	*25.0*	*27.4*	*27.4*	*22.7*	*23.9*	*25.5*	*38.2*	*42.7*	*55.8*	*52.5*	*50.5*	*65.5*	*70.1*
Southern Europe	*37.9*	*23.1*	*21.1*	*20.5*	*24.0*	*18.0*	*24.4*	*27.4*	*41.6*	*59.7*	*55.9*	*47.5*	*48.4*	*62.1*	*83.7*
Western Europe	*31.0*	*25.3*	*22.6*	*24.9*	*25.5*	*22.4*	*23.6*	*26.9*	*41.6*	*47.5*	*53.4*	*49.0*	*49.5*	*66.4*	*73.0*
Albania	60.8	45.7	36.0	31.7	30.3	8.9	9.5	11.4	20.2	29.8	69.7	55.2	47.4	51.9	60.1
Belarus	34.5	27.6	22.3	22.5	23.5	16.2	20.1	19.7	30.6	41.8	50.7	47.7	42.0	53.1	65.3
Bosnia and Herzegovina	40.9	26.4	21.9	22.4	23.7	9.1	13.9	16.9	33.9	45.2	50.0	40.3	38.9	56.3	68.9
Bulgaria	33.5	23.9	19.2	18.3	21.7	18.0	23.4	24.1	33.7	52.0	51.5	47.4	43.4	52.0	73.7
Croatia	31.4	25.1	23.3	23.6	24.5	17.4	21.7	24.4	35.2	44.3	48.7	46.8	47.7	58.8	68.8
Czech Republic	37.2	23.7	18.7	18.1	21.9	21.1	19.5	21.9	37.7	60.6	58.3	43.3	40.7	55.8	82.5
Estonia	33.0	25.4	19.0	19.2	22.6	19.0	20.1	21.6	33.8	48.8	52.0	45.5	40.7	53.0	71.4
Hungary	33.9	24.9	20.8	20.5	23.0	20.8	21.5	23.0	31.8	48.2	54.7	46.4	43.8	52.3	71.2
Latvia	30.7	26.0	19.6	21.1	23.6	19.6	21.0	23.4	33.0	44.9	50.3	47.0	43.0	54.0	68.5
Lithuania	36.2	28.5	21.6	22.0	23.3	17.4	19.8	21.8	32.6	45.3	53.6	48.3	43.5	54.6	68.6
Poland	37.0	28.3	23.1	23.4	26.7	15.4	17.5	17.7	31.8	44.8	52.4	45.8	40.8	55.2	71.5
Republic of Moldova	40.8	34.8	26.8	27.1	27.5	11.8	14.7	14.6	24.3	33.7	52.6	49.5	41.4	51.4	61.2
Romania	42.3	25.7	19.0	17.3	21.5	16.3	19.3	20.3	28.8	53.9	58.6	45.0	39.3	46.2	75.4
Russian Federation	31.8	26.2	22.1	22.4	23.6	15.0	18.1	18.1	30.4	41.2	46.8	44.2	40.2	52.8	64.8
Slovakia	41.2	28.6	22.5	21.8	23.3	16.4	16.5	17.0	29.6	46.0	57.6	45.0	39.5	51.4	69.3
Slovenia	35.8	22.7	19.2	19.1	22.8	17.4	19.7	23.0	39.3	57.5	53.2	42.4	42.2	58.4	80.4
FYR Macedonia	44.5	34.3	32.1	27.8	27.0	10.7	15.2	17.6	25.9	34.7	55.1	49.4	49.7	53.7	61.7
Ukraine	32.1	26.1	21.4	21.4	23.1	17.9	20.8	22.8	32.2	45.3	50.0	46.9	44.2	53.6	68.4
Yugoslavia	36.4	30.0	27.4	26.6	27.2	14.8	19.9	21.2	29.2	37.9	51.3	49.9	48.7	55.9	65.0

Source: ILO calculations based on World Population Prospect, 1998 Revision, UN, New York 1999.

APPENDIX B: PROPORTION OF ELDERLY IN THE TOTAL POPULATION

Major area, region or country	Population over 60 (per cent of total population)					Population over 65 (per cent of total population)					Population over 80 (per cent of total population)				
	1980	2000	2010	2030	2050	1980	2000	2010	2030	2050	1980	2000	2010	2030	2050
Europe	**16.0**	**20.3**	**22.0**	**29.8**	**34.7**	**12.3**	**14.7**	**16.2**	**22.9**	**27.6**	**2.0**	**2.9**	**4.1**	**5.7**	**9.1**
Eastern Europe	*14.1*	*18.7*	*19.2*	*26.4*	*34.4*	*10.8*	*13.0*	*13.7*	*20.3*	*26.3*	*1.5*	*2.0*	*3.1*	*4.1*	*6.9*
Northern Europe	*19.5*	*20.6*	*23.4*	*29.8*	*31.5*	*14.5*	*15.6*	*16.9*	*23.1*	*25.1*	*2.7*	*4.0*	*4.7*	*6.6*	*9.2*
Southern Europe	*15.3*	*22.0*	*24.5*	*33.6*	*38.9*	*11.5*	*16.5*	*18.4*	*25.7*	*32.5*	*1.8*	*3.4*	*5.0*	*7.0*	*11.6*
Western Europe	*18.2*	*21.5*	*24.0*	*32.5*	*33.9*	*14.6*	*15.9*	*18.0*	*25.0*	*27.4*	*2.8*	*3.6*	*4.8*	*6.8*	*10.7*
Albania	7.7	9.2	10.8	18.8	24.9	5.2	6.1	7.8	13.3	18.6	0.8	0.9	1.2	2.2	5.1
Belarus	13.7	19.2	18.9	26.0	33.5	10.7	13.6	13.9	20.0	25.3	1.9	2.0	3.2	3.9	6.9
Bosnia and Herzegovina	8.0	14.9	17.1	29.0	34.6	6.1	9.9	12.2	21.7	26.8	0.7	1.1	2.2	3.8	8.2
Bulgaria	15.7	21.3	23.6	29.2	38.4	11.9	15.9	16.8	22.2	29.9	1.6	2.2	3.6	5.3	7.6
Croatia	14.8	20.7	22.6	28.6	33.3	11.7	14.8	16.5	22.2	26.2	1.5	1.9	3.4	5.0	7.5
Czech Republic	16.8	18.1	22.9	30.9	40.9	13.4	13.6	15.6	24.2	33.2	1.9	2.2	3.6	6.8	9.5
Estonia	16.0	19.6	21.2	28.7	37.9	12.5	13.8	15.4	22.1	28.5	2.1	2.2	3.3	4.8	7.6
Hungary	17.2	19.8	22.1	27.5	35.4	13.4	14.7	16.0	20.9	28.2	2.1	2.5	3.7	5.1	7.2
Latvia	16.5	20.3	21.8	28.1	35.7	13.0	14.3	16.4	21.4	26.6	2.3	2.3	3.6	4.7	7.5
Lithuania	14.3	18.5	20.3	27.7	35.1	11.3	13.3	15.2	21.1	26.9	2.0	2.3	3.5	4.9	8.3
Poland	13.2	16.4	18.3	26.0	33.4	10.1	12.0	12.6	20.5	26.1	1.5	1.9	3.0	4.5	6.8
Republic of Moldova	10.8	14.2	14.6	20.9	28.5	7.7	9.8	10.3	16.1	20.9	1.0	1.3	2.1	2.8	5.0
Romania	13.3	18.8	20.0	28.1	40.0	10.3	13.3	14.6	19.7	30.7	1.3	1.7	2.9	4.2	8.0
Russian Federation	13.5	18.5	18.2	25.8	33.4	10.2	12.5	12.9	19.9	25.0	1.4	1.9	3.0	3.7	6.6
Slovakia	13.4	15.4	17.5	25.6	34.7	10.4	11.4	12.2	19.5	27.2	1.5	1.8	2.8	4.1	7.0
Slovenia	14.2	19.1	22.2	32.3	39.4	11.4	13.8	16.2	24.8	31.9	1.6	2.2	3.6	5.6	9.9
FYR Macedonia	9.2	14.6	16.4	22.6	27.7	6.9	10.1	11.7	16.9	21.5	0.8	1.2	2.1	3.4	5.8
Ukraine	15.5	21.0	21.2	27.2	35.1	11.9	14.1	15.8	20.9	26.9	1.7	2.3	3.6	4.5	7.3
Yugoslavia	12.5	18.6	19.8	24.7	29.6	9.8	13.3	14.3	18.7	23.0	1.3	1.4	2.8	4.0	6.1

Source: ILO calculations based on World Population Prospect, 1998 Revision, UN, New York 1999.