Pension schemes as a challenge for new EU Member States from Central and Southern Europe

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Countries of Central and Southern Europe are facing a crucial challenge of ensuring social and financial stability of pension schemes in the future. Changing labour market and demographic changes are going to determine solutions applied in these schemes in the future. The 2020 crisis caused by the global pandemic is going to be the next challenge for pension schemes, due to forecast decrease in employment on one hand and worse situation of public finance on other hand. The experience of the 2008 crisis shows that in short-term crises long-term solutions concerning pension schemes are not treated as a priority.

Comparing consumption and income from work makes it possible to identify lower and upper limit of working age, i.e. the age when income from work is not sufficient to finance consumption. For the sake of those working today, or the future pensioners, the upper limit of working age should be raised, as in CSE countries it is even by 10 years lower than in Sweden, where working age is the highest (Table 1).

As can be observed, average income of people aged 55 or younger is not sufficient to finance their consumption in 5 countries of CSE (Romania, Lithuania, Poland, Slovakia) compared to the age of 63 in Sweden. What is more, in the countries with the lowest upper limit of working age, larger differences between the working age of men and women are visible (especially in Romania, Poland, Czechia and Bulgaria).

Projections show that in almost all countries the age in which people stop working will go up. In the European Union by 2070 the age will reach almost 66 years both for men and women. In the CSE countries the biggest growth is expected in Slovakia (retirement age is raised according to changing life expectancy), in Latvia and Hungary (retirement age is raised to 67). In the countries with the lowest employment rates (Croatia, Romania, Slovenia, Poland) the expected rise of the upper limit of working age is smaller, and in Poland also, because of lower retirement age of females, no rise in the upper limit of women's working age is expected. However, it is not possible to maintain the same retirement age in the long term.

In the long-term perspective (of many decades) not much can be done to raise pension benefits from social pension schemes. The size of the benefits will be determined by the rate of employment in relation to the number of pensioners and the burden of financing pensioners' consumption costs by those who work. Here the age in which people start to receive pension will be significant. The older the age, the higher the pensions. Promises made by politicians, not supported by adequate receipts of pension schemes in the long term, will probably not be kept. Potential growth of birth rate would also not be a solution that could improve the finance of pension schemes in the mid-term. Even if birth rate grew significantly, it would affect the pension system financing only in 3–4 decades. Additionally, it should be borne in mind that so far, no OECD country managed to raise significantly its birth rate.

Politicians can boost pension spending *ad hoc* (so the pensions would also grow, but only at the cost of bigger burden for the working generation), with adverse effect on the growth of well-being and smaller spending on other social issues such as health or education. It is not politicians who finance the pensions, but the working generation which provides some of its income from work in the form of public or private transfers to finance consumption of inactive generations.

TABLE 1. Upper limits of working age in CSE countries and Sweden in 2010.

Country	Women	Men	Total	Age difference between men and women (in years)
Romania	45	57	53	12
Bulgaria	51	57	55	6
Lithuania	54	57	55	3
Poland	51	58	55	7
Czechia	52	59	56	7
Slovakia	55	57	57	2
Hungary	56	58	57	2
Latvia	56	58	57	2
Slovenia	55	58	57	3
Estonia	58	59	58	1
Sweden	62	64	63	2

Source: own calculations of SGH Warsaw School of Economics based on [Istenič et al. 2017; European National Transfer Accounts].

LABOUR MARKETS, PENSION SCHEMES AND COVID-19

Most countries, including those situated in Central and Southern Europe, introduced restrictions aimed at preventing the spread of COVID-19. These measures instantly caused shock for their economies, especially labour markets. There is a risk of decrease in employment and job loss, and consequently reduction of future pensions and higher risk of poverty after the end of professional activity. At the same time, lower employment will translate into smaller receipts from contributions and bigger deficits in basic pension schemes. Results of the SHARE survey also indicate that people aged 50+ in Central Europe (Poland, Czechia, Hungary) are less satisfied with their jobs, as a result of which in a situation of additional risk on the labour market they will opt for early retirement sooner than they planned before the COVID-19 pandemic outbreak.

In the new Member States welfare state solutions may be classified in two groups. Czechia, Hungary, Lithuania, Poland, Slovakia are in many ways similar to so-called "old Europe", while in Bulgaria, Estonia, Latvia, Romania and Slovenia transfers addressed to older people are below average. This also determines reactions to the COVID-19 pandemic in respect of social policy and labour market. The most common instruments are subsidies to salaries, easier access to social benefits or introducing additional paid leave. Bulgaria, Hungary and Slovenia ensured additional access to benefits in social schemes, and five countries introduced also a possibility of suspending or reducing social insurance contributions, which also affects the current situation of pension schemes. The effect of these instruments will be in the short term increased deficit in the basic pension schemes (smaller receipts, bigger spending), and in the long term – lower pensions for those who have not paid the contributions or opted for early retirement, which can deepen differences in the size of received benefits in the old age across societies.

The most effective method of ensuring adequate income in the old age is to plan longer professional activity, and thereby longer period of receiving income from employment or business activity, with shorter period when consumption is financed by transforming pension entitlements (in various forms) into pension transfers. This will make the pension benefits higher.

As a matter of fact, the most important issues concerning financing consumption in the old age remain the same. The situation has been changed by inability to finance this consumption easily due to demographic dividend. A challenge that all the developed societies are facing (currently to a various extent, but ultimately the same), is to adjust institutional structures and individual behaviours to the conditions of the 21st century, significantly different than those we were used to in the 20th century.

To sum up, challenges for the developed countries, including Central and Southern Europe, concerning economic security for citizens in the old age are:

- satisfying, by pension schemes, the interests of not only the pensioners' generation but also the working generation;
- promoting professional activity of people across their lifetime and raising effective retirement age, especially for women;
- reducing political interference with the long-term allocation of income, because politics is about "here and now", while allocation of income for the old age covers many decades, so it cannot be subject to discretionary management;
- ensuring stable principles of public pension systems (both actual and in their social perception);
- public education and providing transparent information about income allocation; the information must be not only complete, but also comprehensive;
- building an easily accessible system enabling allocation of income in a simple and comprehensible manner, and resistant to manipulation (also in respect of information);
- establishing institutions enabling common and cheap access to competent education services, offered to the society during entire life;
- developing and applying principles of registering long-term liabilities of social schemes in a way adequate to the situation of the 21st century, so as to avoid superficial actions forced by currently binding rules; they will cause not only confusion, but also worse understanding of the way pension schemes work and less confidence in them.

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