Network for Studies on Pensions, Aging and Retirement

Political (In)Stability of Social Security Reform

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Summary

- With the aging population countries underwent a reform from PAYG DB systems to funded DC systems between mid 1990s and early 2000s
- In the recent financial crisis Central and Eastern European countries temporarily shifted contributions from the funded pillar to the pay-as-you-go pillar
  - Some even nationalised private pension savings and took over the liabilities

- How is it possible that a policy that received public support just 15 years earlier, can be reverted without social unrest?

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Main question

- Suppose that for whatever reason a pension system reform is implemented that does not have sufficient social support – how long does it actually take before it becomes politically stable?
  - Is this the question answered in this paper?
  - Is this question applicable to the (Eastern European) policy debate?

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Analysis

- Initial situation
  - Polish economy, steady state prior to 1999 pension reform with PAYG-DB system
- Reform
  - Switch to PAYG-DC + funded DC
- Vote every year (without expecting another opportunity)
  - Policy 0: No change
  - Policy 1: Shift contribution from funded pillar to PAYG
  - Policy 2: Shift pension assets at retirement to PAYG with PAYG indexation
  - Policy 3: Implement 1 & 2

Main comment 1: Reform triggers

- You start from a steady state, implement a reform and calculate deterministic paths where demography is the only fluctuating exogenous variable
  - Why implement initial reform (was there a majority?)

- Nationalisation of pension assets and the switch back to PAYG seems to be triggered by the financial crisis
- More generally (own work in progress), most pension reforms seem to be triggered by business cycle shocks, not demographic shocks

Main comment 2: Political economy

- Voting on pension systems
  - D'Amato & Galasso (2010), Ciurilia & Romp (2015):
    Strategic effect (young support pension system that make them poorer because future young will support them) can explain persistent response of policymakers

Minor comments

calibration, presentation

- Deterministic analysis ignores insurance value
  - See e.g. Börsch-Supan et al. (2001) for Germany, Draper et al. (2014) for the Netherlands
- Homogeneity ignores redistribution
  - See e.g. (Tabellini, 2000)
- Analysis applies to closed economy
  - Poland, (as all European countries) is a small open economy, with open borders, savings do not affect real interest rate.
- Real interest rate of 7.5% is high for initial steady state
  - Makes the funded system very attractive
  - Even 4% in new steady state is high

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