

Coverage of pension systems in Central and Eastern Europe

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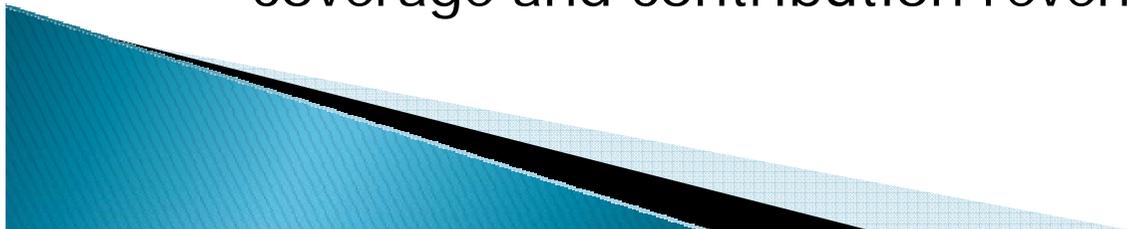
World Bank-Hitotsubashi-MOF Workshop on
Closing the Coverage Gap: The Role of Social Pensions

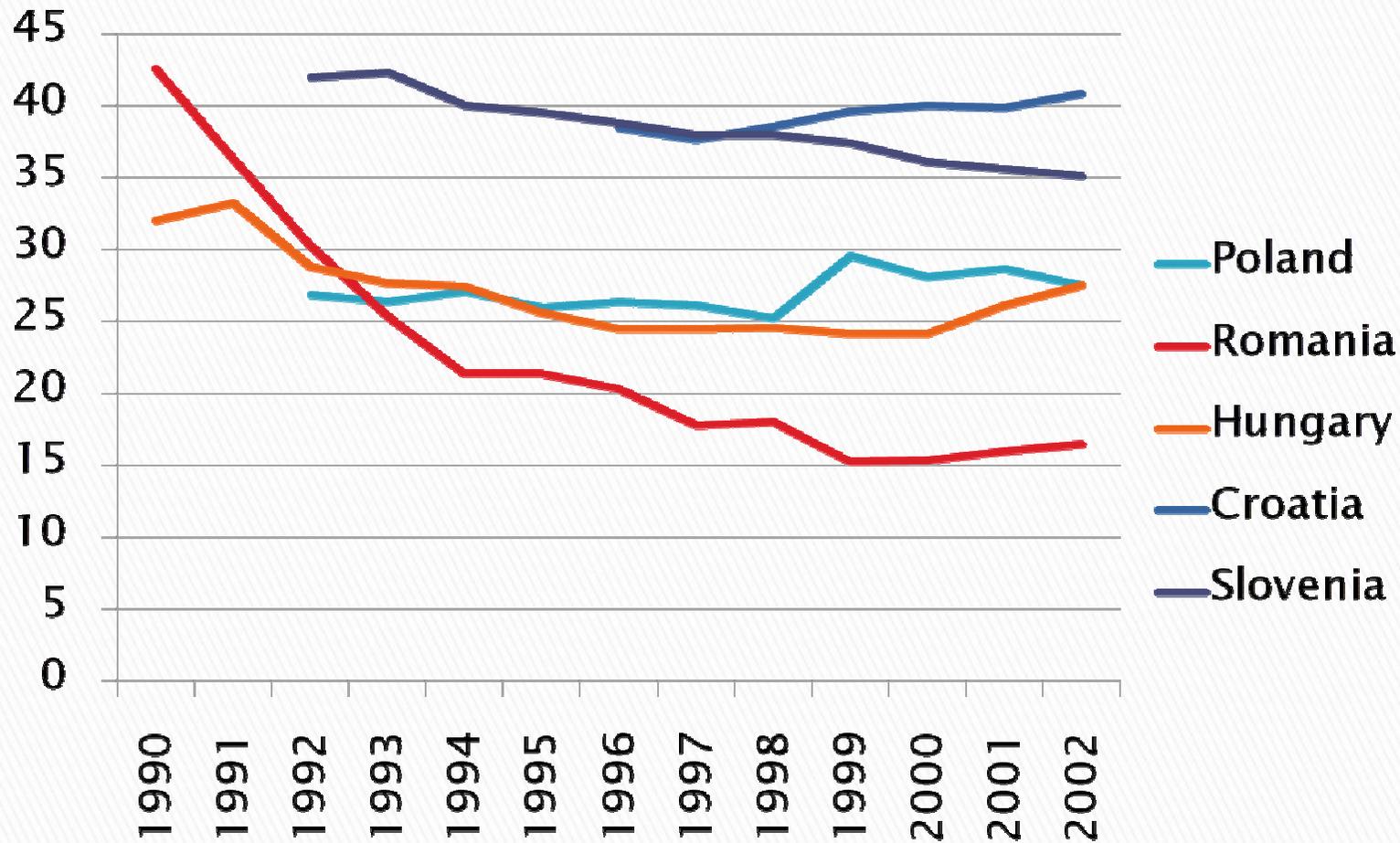
MITA Kaigisho, Tokyo, February 22, 2008



Initial observations

- ▶ Coverage of social security systems has been historically high in the communist countries
 - One of the system principles: right of every citizen to work
- ▶ As a result, the coverage was higher than for economies with similar GDP per capita
- ▶ Introduction of the market-based economy was combined with 'transition shock'
 - leading in some countries to extended pressure for early retirement
 - contribution rates were kept high to meet rising costs of pension expenditure
 - coverage and contribution revenue started to decline





Covered wage bill in selected CEE countries

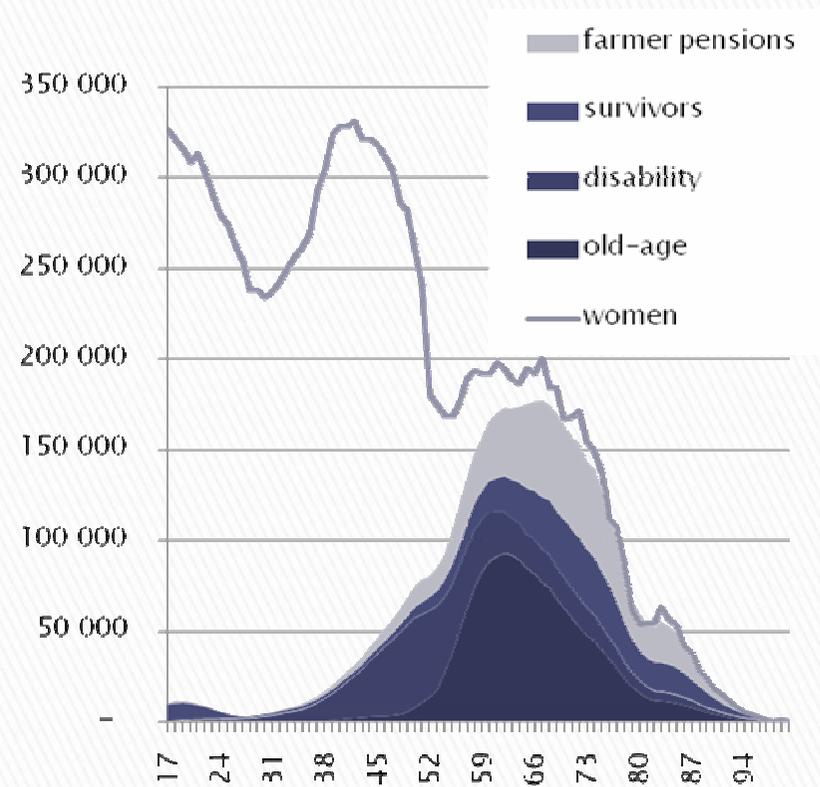
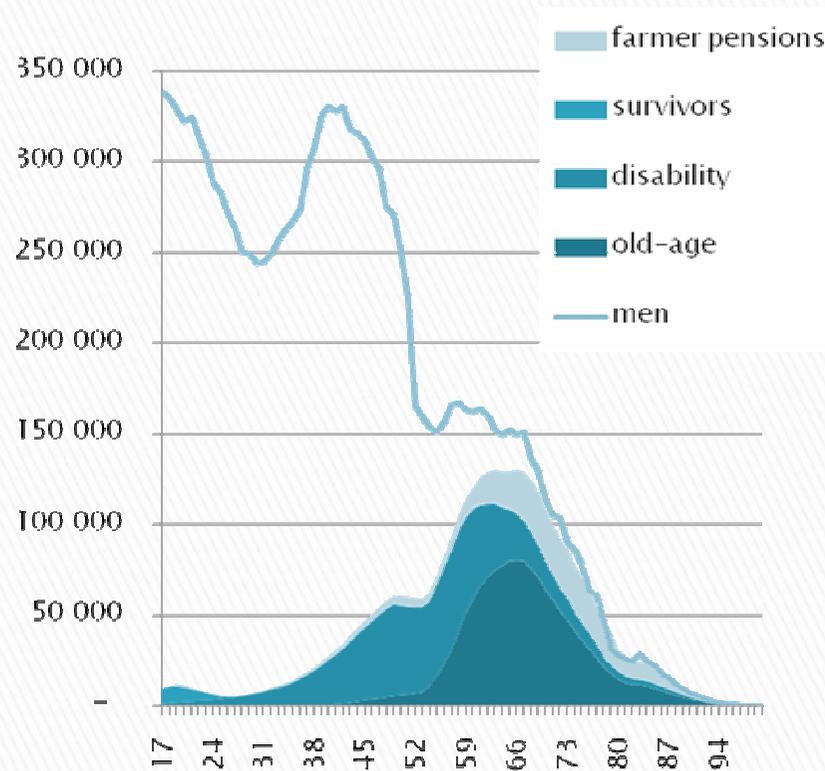
- General tendency for reduction of covered wage bill
- Reduction highest in Romania, where coverage is also lowest
- Steady reduction in PL and SI

Differences in coverage level in CEE countries

Data for 2001	Insured persons (contributors)	Persons in employment
Poland	14 321	13 863
Romania	4 561	9 556
Hungary	3 845	3 871
Croatia	1 422	1 527
Slovenia	814	914

- ▶ Poland, Hungary, Croatia and Slovenia tend to have relatively large share of persons covered compared to the persons in employment
 - Specific arrangement to cover farmers in PL and SI
 - But low employment rates: thus, large share of working-age population not covered
- ▶ Romania – lower coverage
 - Farmers and self-employed covered on voluntary basis

Every older person receiving some kind of social security benefit... (example of Poland)



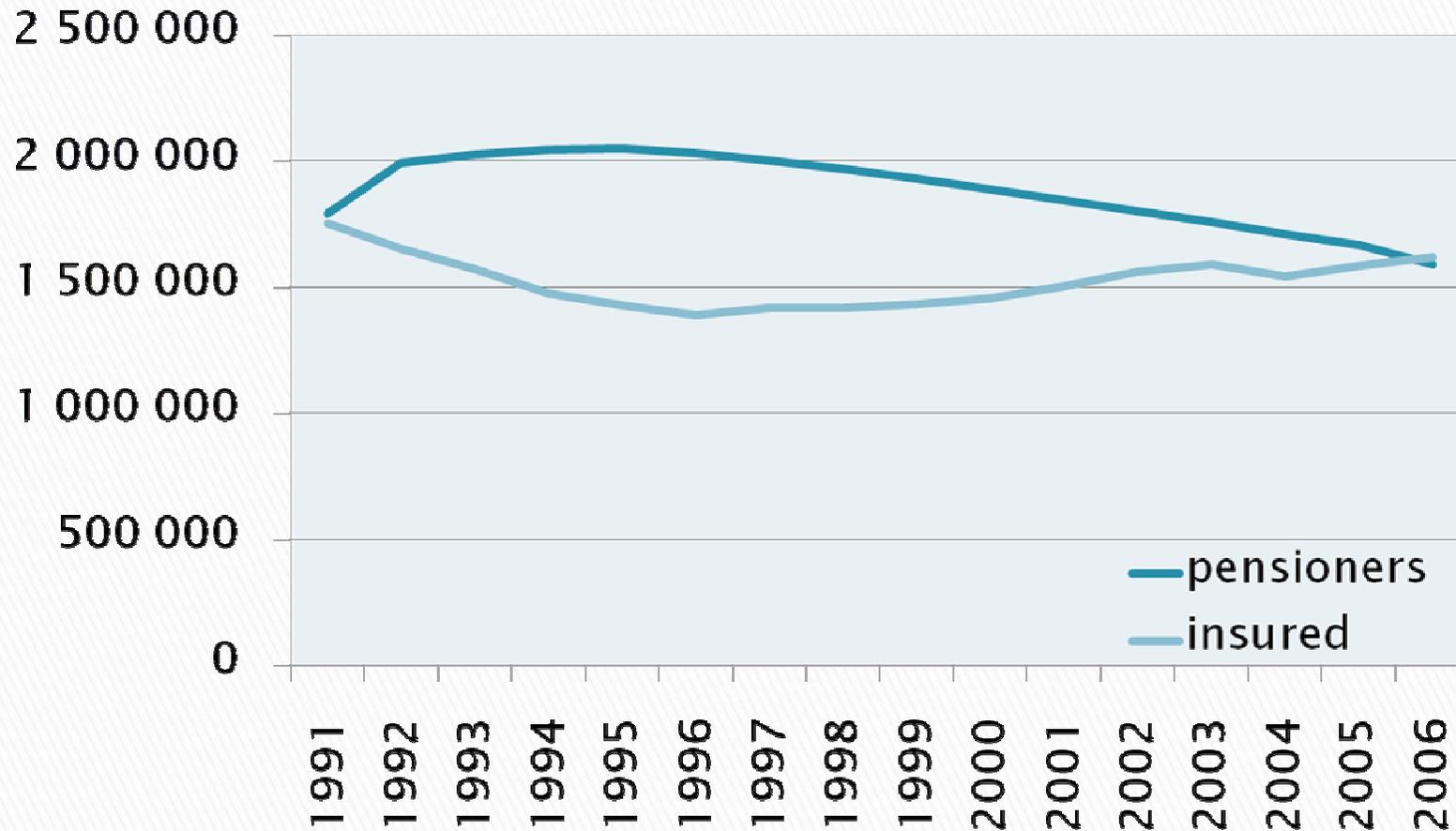
Men – cohorts
receiving pensions (1998)

Women – cohorts
receiving pensions (1998)

Farmer's pensions in Poland

- ▶ Separate scheme for individual farmers from end of 1970s
- ▶ Separate administration of the system – KRUS from early 1990s.
- ▶ From the beginning
 - Heavy role of subsidies from the state budget
 - Initially 70 per cent of expenditure, but then increasing to more than 90% of expenditure, due to inflation reason
 - Flat-rate contributions and benefits
 - Contributions more than 8 times lower than for self-employed outside agriculture
 - Benefits at the level around 120%-140% of minimum pension

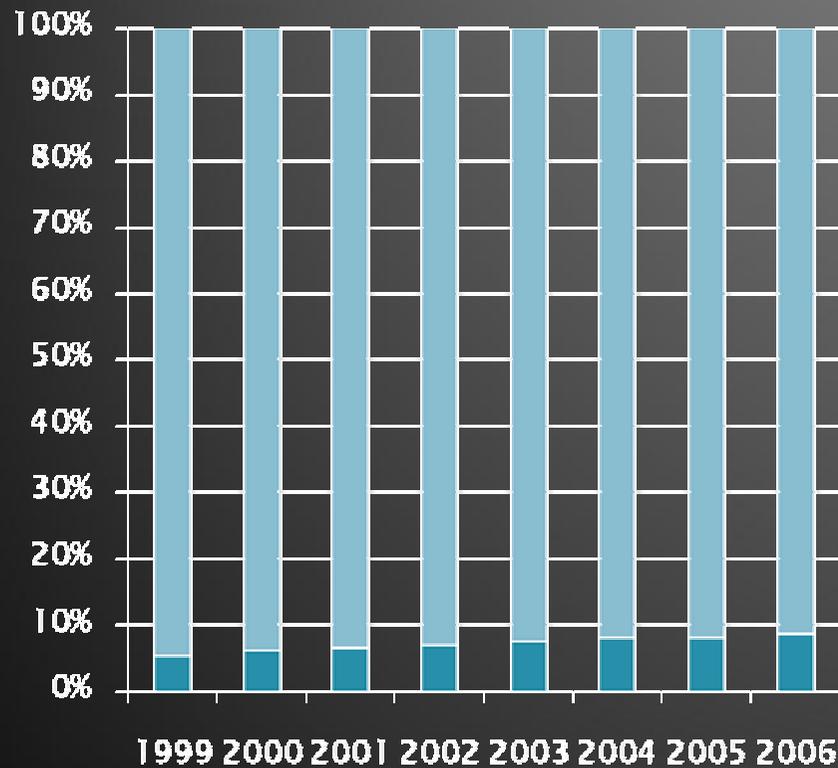




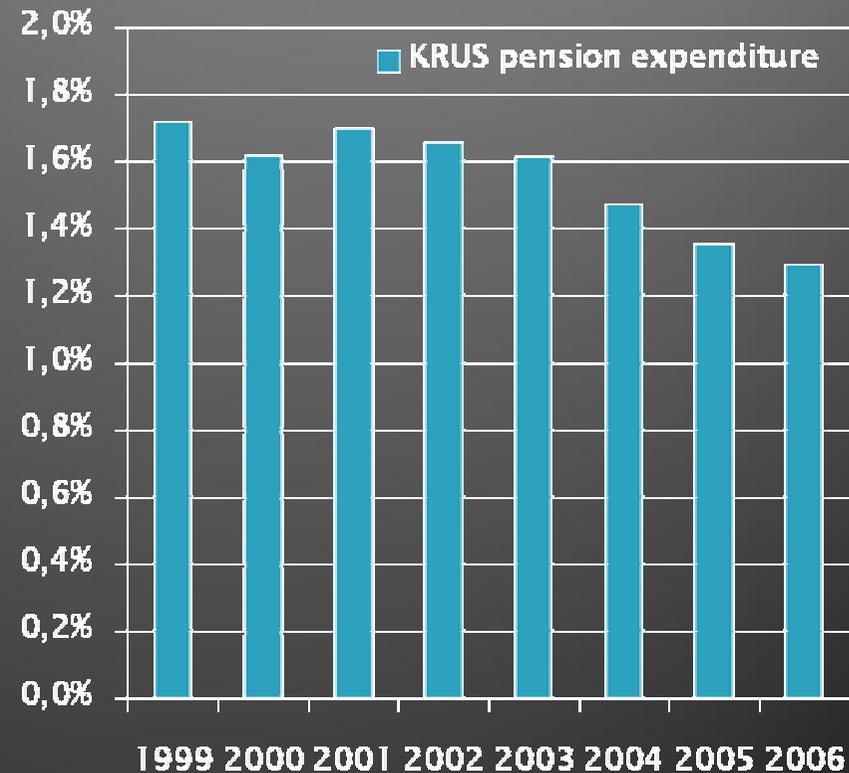
Pensioners and insured in KRUS

From the beginning – more pensioners than insured people
 Increase in the number of contributors in recent years, despite falling number of people working in agriculture – evasion from the general scheme?

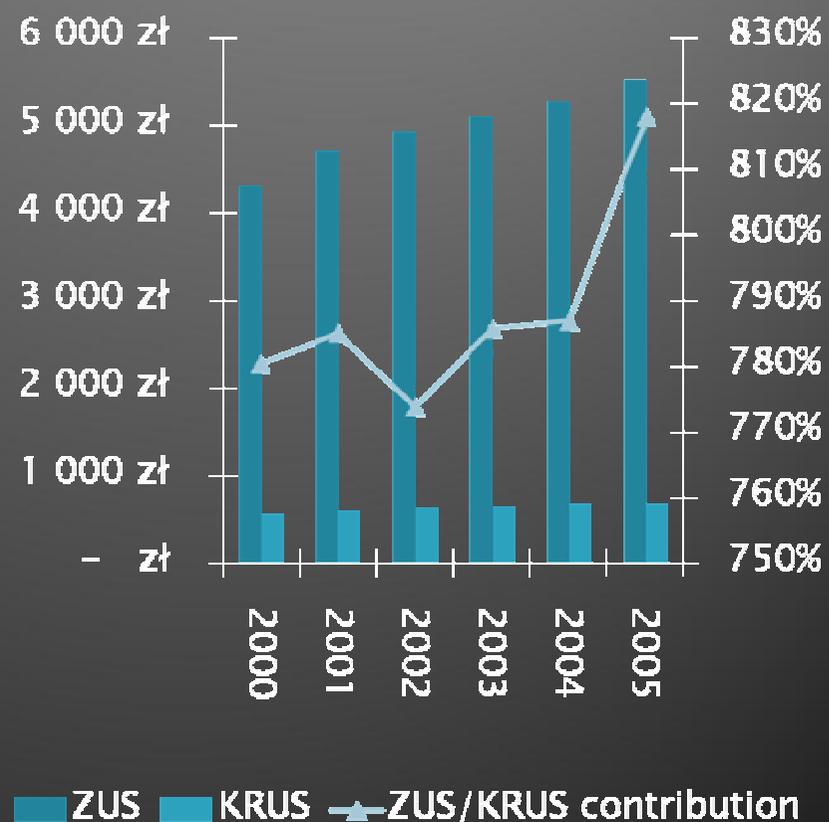
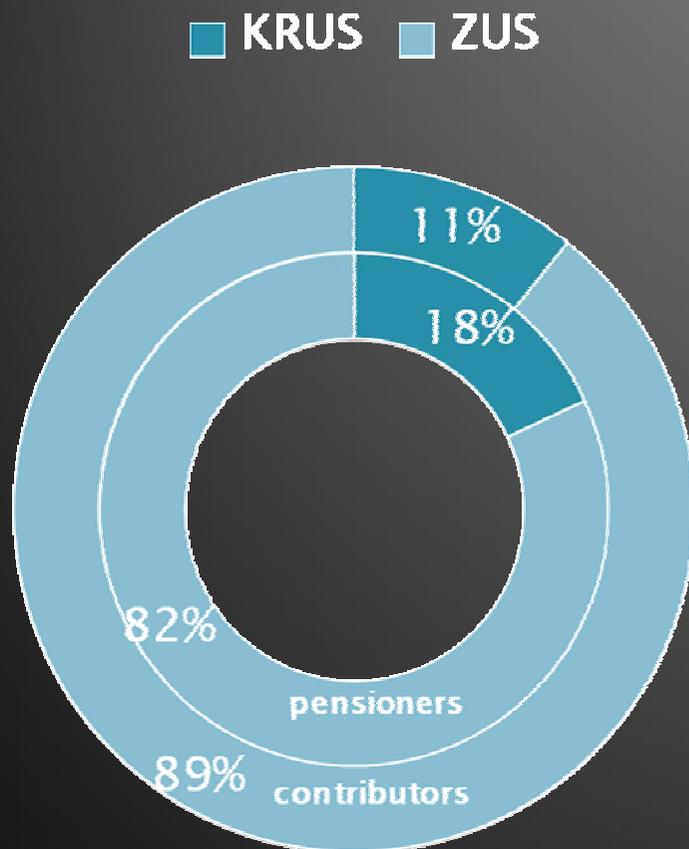
Expenditure and sources of financing



■ State budget subsidy
■ Contribution revenue



Role of farmers' social insurance



Pros and cons of farmer's scheme

- ▶ Ensuring coverage for rural population
- ▶ Providing significant part of cash income for low-income farmers
- ▶ Administration adjusted for the needs of clients
 - Simplified reporting
 - Support in paper work
- ▶ Farmers do not pay taxes
- ▶ Subsidising low-income and high-income farmers in the same way
 - Polarised structure – overrepresentation of framers in 1st and 10th deciles
 - Tax-payers from outside agriculture subsidise high-income farmers
- ▶ No changes after EU accession, despite significant increase of farmers income due to CAP
- ▶ Attractive for evasion from general ZUS scheme

PROS

CONS

Conclusions

- ▶ In CEE countries economic transition led to reduction of covered wage bill
- ▶ There is a tendency to be covered, but reduction in the size of covered wage bill can indicate that the reported wage income is reduced
- ▶ In the future, the issue of non-coverage or coverage with low pension promise may become more visible
- ▶ Coverage is higher in the countries that have specific regime for farmers and/or self-employed
 - But taking the case of Poland, the price of such system is high with subsidies at around 1% of GDP.

