

## PENSION DEBT: THE BURDEN OF THE YOUNG

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### **Abstract**

The study compares pension systems in five post-communist countries. The Czech pension system comes out as the least advantageous for young people. Men born in 2008 face the prospects of contributing three times as much as they are going to get back given the current government pension policy. Women come off a slightly better, they are going to pay only twice the amount of their pensions. Similar discrepancies are also in Estonia and Hungary. Younger people are doing better in this respect in Poland and Slovakia, however, these two countries accumulate enormous hidden deficits; their hidden nature is given by the commitment to pay future pensions which is not covered by the expected state budget revenues and which therefore will have to be paid by the youngest generation anyway. While hidden deficits of the Czech and Estonian pension systems amount to around 55 percent of GDP, in Hungary and Slovakia this is around 100 percent of GDP and in Poland this exceeds 200 percent of GDP. Because of unfavorable demographic predictions, future young generations will have to face either the high discrepancies or deepening hidden public debts. The study also examines the impacts of this year's government's proposal of the so-called Small pension reform and shows that this proposal would lead to a reduction of the Czech pension system's hidden deficit but only at the cost of further disadvantaging younger generations. Men born in 2008 would have to contribute four times as much as they would get back. We issue a warning that this could raise doubts about the legitimacy of the pension system itself. The study concludes by proposing a partial reform of financing of the public pension pillar, which combines covering the pension expenses from the tax system and mandatory contributions. It can be done by VAT rate harmonization to 21.3 percent and a reduction of the mandatory contributions by 5.5 percent. According to our estimates, this reform would reduce the imbalance between contributions and future pensions down to approximately one half, while not increasing the pension system's hidden deficit.

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[Download](#) the complete study (in Czech only).

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