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PENSION SYSTEMS IN EUROPE: EVERYONE REFORMS

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Abstract

The study explains what motivated the EU member states to reform their pension systems and on the basis of their results recommends that the Czech Republic should consider their reforms carefully. The most significant reforms took place in 1994 - 2009 in Poland, Italy, Sweden and Germany, where the projected expenses of pension systems were reduced by 5-6 percent of GDP in 2050. Over the same period the projected expenses of the Czech pension system were reduced by 1.8 percent. From the reform point of view, therefore, the Czech Republic is on the European average. The study further shows that these reforms were motivated primarily by fears of long-term increase of pension system expenses. Governments do not react to the actual amount of pension system expenses, but they seem to be very sensitive to difference between the current and estimated expenses in 2050. In the past 15 years the Czech pension system expenses have remained virtually unchanged and oscillated somewhere around 8 percent of GDP; current estimates of pension expenses in 2050 are 10.2 percent of GDP. As an earlier IDEA study showed, the Czech pension system has a relatively low hidden deficit. In the European context it may seem that the Czech pension system is in a relatively good shape, but an increase of 2.6 percent of GDP in future expenses is not negligible, as it would nearly double the budget deficit. On an international scale the Czech Republic has one significant advantage: it does not have to reform under great pressure. Hence, it should focus primarily on the quality of planned reforms. The Czech Pension system can be evaluated as a well maintained pay-as-you-go system with a sustainable cost level. However, a further decrease of expenses proves to be that much more problematic, because all measures that can be done within this system have already been implemented.

Download the complete study (in Czech only).