

Lithuanian Pension Reform: Some Lessons to be learned

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Pensijų sistemos ateitis: demografinės
tendencijos ir finansinis tvarumas

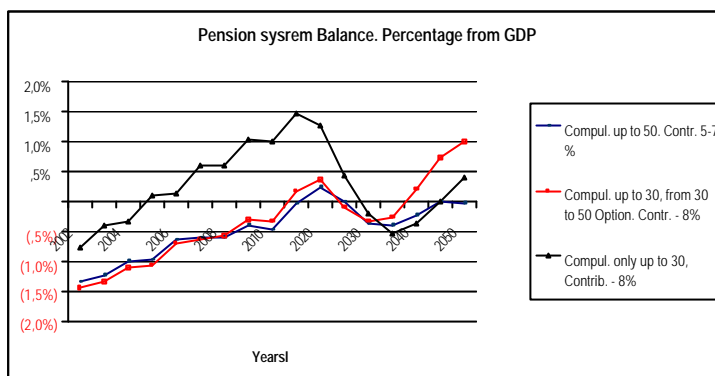
History: Discussions regarding the pension reform concept

- In March 2000 Government of Republic of Lithuania approves Concept of Pension Reform that is based on 3 pillars, compulsory participation and decrease of PAG part. No particular tariffs were disclosed
- In October 2000 specially established working group delivers to Government so called "Pension Reform White Book". There were 13 different scenarios discussed including:
 - 2 – without reform, (*pension aged kept as it is and increased up to 65 years.*)
 - 5 – compulsory participation for all working population (or up to 50 years) with contribution of 5-8 %
 - 4 – compulsory up to 30years., 30-50 optional, contribution 5-8 %
 - 2 – only compulsory up to 30 years, contribution 5-7 %

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Pension Reform Impact Forecast



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Main Assumptions



- CAGR of GDP 3-4,2 %
- CAGR of salary 6-3 %
- Average duration of active personal working contracts 34,85 years
- Fertility 1,4-2,06
- Average life expectancy
 - Male and Female +3,8 years.
 - Older than 65 years: Male +3,1y., Female + 3,3y.

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History: Real Steps



- In April 2001 was prepared first draft of Law on Pension Reform: compulsory joining up to 40 years, above 50 years - not allowed, contribution - 5%, beginning - 2003
- In July 2001 new stable majority Government was formed
- In November 2001 new draft version of the Law was released: compulsory joining up to 30 years, above 50 years - not allowed, contribution - 5%, beginning - 2004
- In April 2002 Parliament returns draft version to Government asking to impose following amendments :
 - optional participation
 - "own pocket" contribution from 1% up to 2,5%
 - state subsidies for those not covered by PAG are available draudimu

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History: Real Steps (cont.)



- In October 2002 Government introduces new draft version of Law on Pension Reform :
 - Participation optional for all despite of age
 - Gradual increase of contribution from 2,5% (2004) up to 5,5% (2007) Beginning (Payment of first contributions) – 2004
 - Law effective from 01 of January 2003
- On 30 of July 2003 Parliament passes Final version of Law on Pension Reform and related amendments (totally - 11) to other legal documents.
- In September 2003 first pension accumulation agreements were entered

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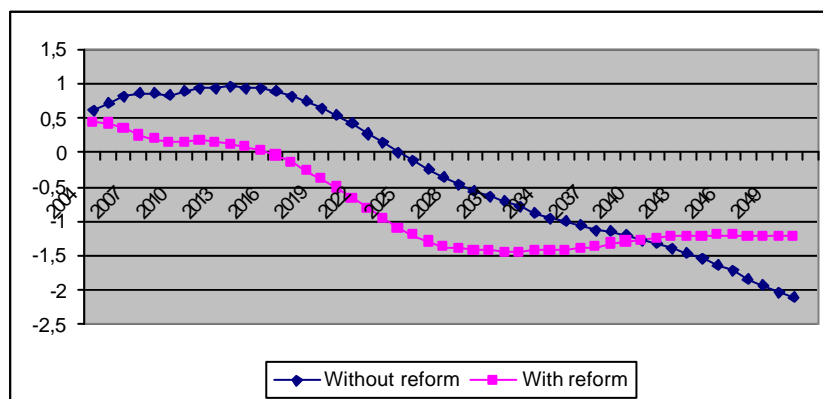
Amended Assumptions for year 2003 version of the Law



- CAGR of GDP 6,4-0,4 %
- Fertility 1,3-1,6
- Penetration - around 50 % in 2004 and up to 100 % in 2030

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Reform Modeling: Social Security Budget Performance



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Achievements: Participants



- Performance of participants number
 - 31 12 2003 – 440
 - 31 12 2004 – 556
 - 31 12 2005 – 685
 - 31 12 2006 – 784
 - 31 12 2007 – 880
 - 31 12 2008 - 957
- Distribution by gender
 - 51 % - Male, 49 % - Female
- Distribution by age
 - Up to 30 years - 30 %, 30-50 years - 61 %, above 50 years - 9 %

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Achievements: Total net Assets in thousands of millions of LTL



- 31 12 2004 – 127,4
 - 31 12 2005 – 406,1
 - 31 12 2006 – 904,9
 - 31 12 2007 – 1688,2
 - 31 12 2008 - 2223,8
-
- (Exchange rate since February 2002: 1 EUR – 3,4528 LTL)

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Achievements: Service providers



- Swedbank (former Hansa, Swedish Banking Group)- 4 funds
- Finasta (Local Financial Services Group) – 4 funds and 4 acquired from PZU Lietuva
- MP Pension Funds Baltic (Icelandic Financial Group)- 3 funds
- DnB Nord (Scandinavian – German Banking group) – 3 funds
- Parex (Regional Financial group with HQ in Latvia)- 2 funds
- Danske Capital (Danish Banking Group)- 3 funds
- SEB (Swedish Banking Group)- 3 funds
- Aviva (UK Insurance Group)- 3 funds
- Ergo (German Insurance Group)- 2 funds

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Achievements: Service providers (cont.)



- Market is heavily dominated by the subsidiaries of Scandinavian Banking groups – it covers more 75 percent of total market
- Small market players losing market share due to the shortage of efficient non banking distribution channels

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Reform assessment: Milestones for further development



- State Control Office Audit Report- 11 of November 2005
- World Bank Pension group experts report:
 - Completed in January 2006m. On the basis of 2004 – 2005 data Released on 26 February 2007
 - Available at www.pensijusistema.lt

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World Bank Conclusions



- System is functional enough in order to provide preliminary conclusions and give consequences forecast :
 - I part - pension system survey and forecast till 2075m.
 - II part – private accumulation component survey and proposals

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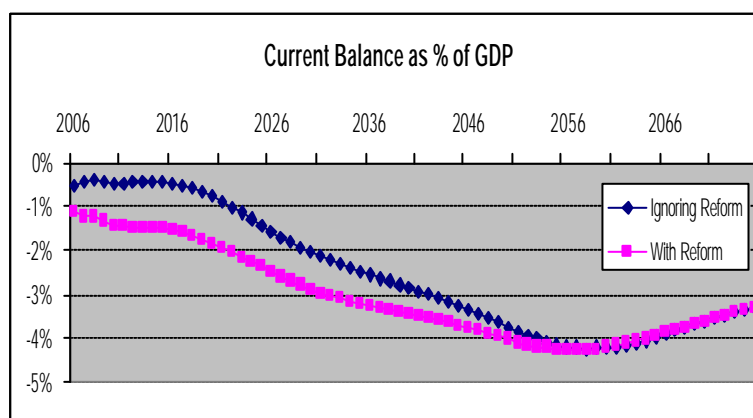
World Bank Report part I. Forecast of Pension System



- PROST model, WB demographic forecast and assumptions
- Conclusion – 2004m. pension reform will decrease state spending, from 2050m., will ease “demographic waves”, diversify financing of pension system, but
- Will not solve problems of whole pension system budget deficit

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World Bank I part – system balance forecast



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World Bank I part - timing



- Timing was right due to the main demographical trends
- System will mature around 2050, when 80% of insured will be entitled to receive pensions from two

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World Bank II part – model



- Efficiency of model was proved by results as more than 70 of working population joined the system
- System is very efficient in terms of institutional structure
- But system is quite costly from the participant point of view due the total assets accumulated yet

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Conclusion



- The main problem is financing of II pillar contributions
- Fiscal policies sustainability importance
- Position of European Commission should be clarified

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