

THE INVERTING PYRAMID

*Pension Systems Facing Demographic Challenges
in Europe and Central Asia*

Anita M. Schwarz
Omar S. Arias
Asta Zviniene
Heinz P. Rudolph
Sebastian Eckardt
Johannes Koettl
Herwig Immervoll
Miglena Abels



THE WORLD BANK
Washington, D.C.

Contents

Foreword	xvii
Acknowledgments	xxi
Executive Summary	1
1. The Inverting Pyramid	5
Five Country Clusters	8
Organization of the Report	11
2. The Evolution of Public Pension Programs	13
Introduction	13
Beginnings of Pension Systems in Western Europe	15
From Limited “Insurance” to Generous “Savings” Schemes	17
Outcomes of Pension Program Introduction in Western Europe	27
Choices Made by Other Countries of the Region	31
The Inverting Pyramid: Structural Break in the PAYG Financing Model	41
Policy Conclusions	53
Notes	56
References	57

3. Have the Pension Reforms to Date Been Enough?	61
Introduction	61
The Need for Parametric Reforms	63
Parametric Reform Options	66
Effects of the Reforms on Fiscal Sustainability and Policy Space for More Reforms	79
Impact of Benefit Adequacy on Social Sustainability of Pension Reforms	92
Influence of Economic and Political Cycles on Pension Reforms	104
Policy Conclusions	108
Annex 3A The Polish Experience with Curbing Early Retirement	109
Notes	112
References	112
4. The Role of Savings in the Provision of Retirement Income	115
Introduction	115
Modalities of Retirement Savings	118
The Experience with Funded Pension Schemes	133
Lessons from Experiences with Funded Pension Schemes	140
Notes	152
References	154
5. Financing Pensions in Europe and Central Asia	157
Introduction	157
The Current Financing of Pension Systems in Europe and Central Asia	158
Finding Alternative Sources of Pension Financing	170
Policy Options	183
Notes	185
References	187
6. Working More, Longer, and More Productively	191
Introduction	191
Labor Force Challenges: Low Participation, High Unemployment, and Informality	193
Myths and Misperceptions about Older Workers	206
Policy Measures to Remove Impediments and Encourage Employment of Older Workers	211
How Much Can Reforms Help?	226

Conclusions	236
Annex 6A Myths, Misperceptions, and Facts about Older Workers	238
Annex 6B Modeling Direct and Feedback Effects of Reforms on Pension and Labor Market Outcomes	245
Notes	246
References	248
7. Lessons from Two Decades of Pension Reform and Policy Solutions for the Future	253
Introduction	253
What Have We Learned from Reforms of the First Pillar?	253
What Have We Learned from Experience with Second-Pillar Systems?	258
Demographic Challenges Facing Countries of the Region	261
Expanding the Labor Force	263
Rethinking the Pension System and Prioritizing Spending	268
References	276