

Pension Reform in the Baltics

Issues and Prospects

Jerald Schiff, Niko Hobdari, Axel Schimmelpfennig, and Roman Zyttek

INTERNATIONAL MONETARY FUND

Washington DC

2000

Contents

Preface	v
I Overview	1
II Reform of the Pay-As-You-Go Pension Systems	3
PAYG in Early Transition Years	3
Reforming the PAYG System	4
Experience with Reforms to Date	18
III Introduction of a Three-Pillar Pension System	19
Introduction of a Three-Pillar System: Pros and Cons	19
Options for Fully Funded Pillars in the Baltic Countries	23
IV Macroeconomic Issues and Program Design	28
Pension System Reform and the Savings-Investment Balance	28
Implications of Pension Reform for Macroeconomic Policy Design	30
V Conclusions	32
References	34
Appendix. Estonia: Pension Reform	35
Boxes	
2.1. The Pension Systems at Independence	4
2.2. Latvia: The 1999 Pension Amendments	17
3.1. The World Bank Pension Model	21
3.2. Intergenerational Transfers: Who Pays for the Pensions?	21
3.3. Have Fully Funded Pension System Reforms Lived Up to Expectations?	22
3.4. Alternative Solutions to the Social Security Crisis	23
Tables	
2.1. The Baltic States: Household Wealth Held in Bank Deposits	5
2.2. The Baltic States: Impact of Economic Crisis on the Number of Pensioners	6
2.3. Estonia: Financial Performance of the Social Insurance Fund	7
2.4. Latvia: Financial Performance of the Social Fund	8
2.5. Lithuania: Financial Performance of the SoDra	9
2.6. Estonia: Pension Indicators	10
2.7. Latvia: Pension Indicators	11
2.8. Lithuania: Pension Indicators	12