

ANNEX 6

STATE OF PENSION REFORM IN SELECTED CENTRAL AND EASTERN COUNTRIES

TABLE 1: MAJOR REFORMS of PENSION SYSTEMS Up-to-date through June 1999				
Country	Status Prior to Reform	Date of Pension Reform Laws	Major Reforms Adopted	Reforms Under Consideration
Bulgaria	State pension system combined with State budget based on the <i>Pensions Act No. 91</i> of 1957 and amendments.	Effective 8/91	Voluntary private pensions: New insurance law permits employers to offer group pension plans through insurance companies.	A Pension Reform Working Group established in support of the Minister of Labor and Social Policy under the Center for Economic Development developed legislation on the 3 rd pillar and is working on proposals for a revised 1 st pillar of public pensions and a new mandatory 2 nd pillar of private pensions that will be part of a new Social Code when enacted.
		<i>Pension Reform Act</i> of 1992	State pension system: <i>Pension Reform Act</i> reduced normal retirement ages for males from age 64 to age 60, and for females from age 58 to age 55.	
		<i>Social Security Fund Act No. 104</i> Adopted 11//95 Effective 1/96	State pension system: New <i>Social Security Fund Act No.104</i> separated social security from the State budget, established the Social Insurance Fund, raised the mandatory retirement age, and revised the pension formula to account for lifetime contribution rates. Also established a new autonomous National Social Security Institute governed by tripartite Supervisory Board.	
		<i>Law on Supplementary Voluntary Pension Insurance</i> Adopted 7/99	A new law licensing and regulating 3 rd pillar private pension insurance companies was passed by Parliament on July 7, 1999 and published in the State gazette on July 20, 1999.	

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Estonia	State pension system as part of the USSR and combined with the State budget of the USSR. After independence of Estonia in 1991, based on the <i>State Pension Law</i> effective 4/91.	1/92	<i>State Pension Law</i> of 1991 was suspended and replaced with flat-rate benefits.	Further development of regulations is needed during 1999 to prepare for implementation of new pension system by 1/2000.
		<i>State Maintenance Act</i> Adopted 3/93 Effective 4/93 Amended 4/94 and 7/94	State pension system: <i>State Maintenance Act</i> revised the eligibility conditions and benefits for social security pensions. Retirement age scheduled to increase gradually until 2003. In 1993, the pension formula was set in relation to the minimum wage and the retiree's length of service, but not to former earnings. Then in 1994, the amendment established that Parliament would set the amount for a basic pension each year.	
		<i>Act on Social Security</i> Adopted 2/95	Established the general principles of social security, established the social security organization and financing.	
		1997	A project, known as The Conceptual Basis of Old Age Security Reform, was approved by Parliament.	
		<i>Pension Insurance Law</i> Adopted 3/98 To be implemented as of 1/2000	New <i>Pension Insurance</i> law establishes a three pillar pension system effective from January 2000. 1 st and 2 nd pillars are mandatory. 3 rd pillar is voluntary. Pension fund licenses being granted as of 3/99.	
Hungary	State pension system separated from State budget in 1/89.	Adopted 12/93 Effective 1/94	Voluntary Mutual Benefits Funds (VMBFs) (3 rd pillar): New type of defined contribution pension funds permitted. May also be used for health and other benefits. Established by financial institutions and multi-employer groups. Competition among financial institutions. Tax incentives for participation. By January 1999, 311 VMBFs had been established covering more than 829,000 participants. 256 of these VMBFs are for pensions and the remainder are health or mutual benefit funds.	

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Hungary (cont'd)	Some voluntary group pension plans with insurance companies existed prior to 1991, then adverse tax measures were introduced.	Adopted 7/96	State pension system: Increased retirement ages; stricter eligibility for early retirement.	Further reforms to the State pension system are necessary to make it financially viable by about 2034.
		<i>Act LXXX On Persons Entitled to Social Security Benefits and Private Pensions as Well as Coverage of these Services</i> Adopted 7/97 Effective 1/98	Specifies coverage of social security system (1 st pillar) and new mandatory private pension system (2 nd pillar).	
		<i>Act LXXXI On Social Insurance Pensions</i> Adopted 7/97 Effective 1/98	Transition provisions for social security pensions (1 st pillar). Ensures pensions accrued to 12/97 are not affected; specifies transition arrangements for retirement pensions through 2007 including gradually increasing retirement ages; sets eligibility conditions and formula from 2008.	
		<i>Act LXXXII On Private Pensions and Pension Funds</i> Adopted 7/97 Effective 9/97 for the establishment of pension funds. Effective 1/98 for contributions. Mandatory for new entrants to labor force from 7/98.	Mandatory private pension funds (2 nd pillar): New defined contribution pension funds authorized from 9/97. Total contributions are split between the State Pension System and the Mandatory Pension Fund chosen by the employee. Voluntary contributions are permitted up to total of 10% (mandatory and voluntary combined). Employer can make these voluntary contributions providing it does so for all employees. Individual chooses the pension fund, not employer. Financial institutions, trade unions, employers' associations, large employers and local governments permitted to set up approved mandatory pension funds. No minimum capital requirements to set up pension fund.	

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Hungary (cont'd)		<i>Act LXXXII On Private Pensions and Pension Funds</i> (cont'd)	<p>New system is mandatory only for new entrants to the workforce who are under age 43 from 7/98. Current employees can choose the reformed State pay-as-you-go pension system or the new mandatory funded pension system until 8/99. Employees who choose the new pension system can still return to the reformed State pension system until 12/2000. Those choosing the new mandatory funded pension system will receive a reduced pension from the State social security system (1st pillar).</p> <p>Current pensioners continue to receive their pensions under the old rules.</p> <p>As of June 1998, 35 mandatory pension funds covering over 1 million participants had been established.</p>	
Latvia	State pension system as part of the USSR and combined with State budget of USSR. After independence in 1991 based on <i>On State Pensions</i> of 11/90 and <i>On Social Tax</i> of Latvia.	11/93	State pension system: Pension formula changed to flat-rate formula with increase for years in excess of minimum. Many categories of retirees were eligible for early retirement.	Mandatory pension funds (2 nd pillar): Law drafted in late 1997 to establish a 2 nd pillar pension system, but not yet adopted. Expected to have a small number of private pension funds and one State fund. Employee chooses pension fund. Centralized record-keeping and collections planned.
		1994	Tripartite Social Insurance Council established; 3 members each from government, employers' associations, and unions.	
		<i>Law on Social Security</i> and six other laws Adopted 1995 Effective dates from 1995 through 1/97	Several new laws covering State pensions, maternity & sickness, unemployment, work injury, and social assistance. Introduction of concept of eventual 3-pillar pension system. From 1/95, the Social Insurance budget was separated from the State budget and is now administered by the State Social Insurance Fund.	

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Latvia (cont'd)		Adopted 11/95 Effective 1/97	State pension system (1 st pillar): Introduction of "notional defined contribution" formula for calculating retirement pensions. The pension is calculated for individual accounts as if it were a defined contribution system (contributions plus interest), but the pension system is operated on a pay-as-you-go basis.	
		Adopted 1996	Private pension funds: Law creating regulatory framework for licensing and supervising private pension funds.	
		<i>Law on State Pensions</i> Effective 1996	State pension system: Raised retirement ages.	
		Adopted 11/96	State pension system: Legislation consolidating and rationalizing coverage and contribution rates. Raises contribution rates from 1/98. Prepares for transfer of the administration of contributions to the State Revenue Service.	
		Adopted 1996	State pension system: New disability formula introduced.	
		<i>Law on Private Pension Funds</i> Adopted 6/97 Effective 7/98	Voluntary private pension funds (3 rd pillar): Pension funds must be separate companies and must appoint an asset manager and a custodian. Open pension funds may be established by banks or insurance companies. Closed pension funds may be established by one or more employers. The Insurance Supervision Inspectorate was permitted to issue licenses to voluntary private pension funds as of 7/98. As of 6/99, two licenses to voluntary private pension funds had been issued. Also two "collective pension plans" had been licensed; these are employer pension plans, essentially agreements between an employer and a pension fund.	

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Lithuania	State pension system as part of the USSR and combined with State budget of USSR. After independence in 1991 based on the Soviet <i>Pension Law</i> of 1956 and on the Lithuanian <i>Law on Pension Improvement</i> of 11/90.	<i>Law on State Social Insurance</i> Adopted 5/91 and <i>Regulations of Social Insurance Institutions</i> of 7/91	State Social Insurance Budget separated from State Budget. State Social Insurance Fund Board established as a non-profit state institution under the Ministry of Social Security and Labor. A State Social Insurance Council is established consisting of representatives from various Ministries, employers' associations and associations of insured persons.	
		<i>Law on State Social Insurance</i> Adopted 5/91	State pension system: New law covering pensions; sickness, maternity, child care benefits; funeral grants; unemployment benefits and medical care.	
		<i>Law on State Social Insurance Pensions</i> Adopted 7/94 Effective 1/95	State pension system (1 st pillar): New formula for pensions (now flat-rate and earnings-related pension) and other revisions.	
		<i>Law on State Social Insurance Pensions</i> Amendment of 12/94	Increased normal retirement ages.	
		<i>Law on Voluntary Pension Insurance</i> Effective 10/96	Voluntary pension insurance (3 rd pillar): Employers permitted new tax deduction for contributions up to maximum.	
		<i>Law on State Social Insurance Pensions</i> Amendment of 4/97 Effective from 7/97	State pension system: Survivors' pensions revised.	
		Adopted 6/99 Effective 1/2000	Voluntary Pension Funds (3 rd pillar): New law permits voluntary private pension funds to be established; previously only insured pension plans were available. Expected to be used for employer-based pension funds.	

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Poland	State pension system based on 1991 law. Voluntary insured pension plans available on group or individual basis, but not widespread.	1994-95	State pension system (1 st pillar): Averaging period for pensions increased by one year, each year.	
		1996	State pension system: New disability certification procedures. Only Social Insurance certified doctors can determine disability.	
		Adopted 96 Effective 1/98	State pension system: Wage indexation (first introduced in 1991) changed to price indexation.	
		Established 10/96	Office of the Government Plenipotentiary for Social Security Reform established.	
		<i>Law on Applying Proceeds of Privatization...for... Reforming the Social Insurance System</i> Adopted 6/97	New law on use of privatization assets in pension reform.	
		<i>Law on Organization and Operation of Pension Funds</i> Adopted 8/97 Signed 9/97 Intended to be effective 1/99 (some articles effective from 5/98 or 8/98)	Mandatory private pension funds (2 nd pillar): New law provides for the creation and operation of pension funds as mandatory 2nd pillar. Individual chooses mandatory pension fund. All employees under age 30 in 1999 are required to participate in the reduced 1 st pillar and the new 2 nd pillar pension system. Those between ages 30-50 have a choice of the reformed State pension system only, or participating in a reduced 1 st pillar and new 2 nd pillar. Those over 50 must stay in the old system.	
		Implementation delayed to 4/99	All contributions are paid to the State pension system (ZUS) and then a share of the contributions is forwarded to the pension fund chosen by the individual.	

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Poland (cont'd)		<i>Law on Organization and Operation of Pension Funds</i> (cont'd)	<p>The first six pension funds received their initial licenses in October 1998. By March 1999, 19 pension funds had full approval, their initial license, or had applied for a license.</p> <p>Marketing to potential participants was permitted to begin on February 16, 1999, but the mandatory pension fund system officially started on April 1, 1999. ZUS has been collecting the contributions, but due to delays in the administrative processes, it is not expected to transfer the assets to the pension funds until the end of May 1999 or later. Interest will be backdated to April 1, 1999.</p> <p>Pension funds will compete for participants.</p> <p>About 100,000 persons are expected to be licensed as agents of the pensions funds to register participants</p>	Other types of voluntary 3rd pillar pensions are already available, but more publicity and more products are expected to make their use more widespread
		<i>Law on Employee Pension Programs</i> Adopted 8/97 Effective 1/99	Voluntary pension plans (3 rd pillar): New law allows employers to conclude a collective agreement with employees to establish an occupational pension scheme.	
		<i>Social Insurance Act</i> Adopted 10/98 Effective 1/99	<p>State pension system (1st pillar): Law reforming the social security pension system covers:</p> <ul style="list-style-type: none"> • general provisions for social security coverage, • contributions for pensions, sickness and maternity allowances, and workers' compensation (but not eligibility conditions or benefit calculations; see next law), • organization and operation of the Social Insurance Fund (FUZ), • organization and operation of the Social Insurance Institute (ZUS), and • operation of the Demographic Reserve Fund (FRD). 	

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Poland (cont'd)		<i>Act on Retirement Pensions and Other Pensions from the Social Insurance Fund</i> Adopted 12/98 Effective 1/99	<p>.State pension system: Detailed provisions for 1st pillar pensions including eligibility conditions and calculation of retirement, survivors and disability pensions, plus pensions for the military, police, prison guards, firefighters, etc., and for workers' compensation.</p> <p>Pensions now based on a notional defined contribution formula. Individual accounts and a record of contributions and credited interest are maintained, but the pension system is still financed on a pay-as-you-go basis.</p>	

Source: Comparative Tables On Pension Reform in 16 countries, by Daniel Wartonick, Worna M. Dailay, Kalina Kotzeva, July 1999: [Part 1](#), [Part 2](#), [Part 3](#)
<http://www.pension.bg/en/raboten1.htm>