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ICSW

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This last issue of 2017 presents highlights from the recent Board meeting of the ICSW, which took place in Madrid, Spain. The meeting provided an important opportunity to discuss the implementation of the ICSW 2016-2020 Global Programme, draw conclusions and propose policy adjustments.

In this issue we also present an article by Prof. Krzysztof Hagemejer from Poland, Distinguished Fellow of the ICSW. His article is devoted to the declared goals and actual results of pension reforms in Europe and issues of financial sustainability.

As usual, information about new books of interest to our readers is also included.

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The Annual Meeting of the ICSW Board

The annual meeting of the ICSW Board was convened on 22- 23 October 2017 in Madrid, Spain. The regional presidents of the ICSW are *ex officio* members of the Board, along with the President, the Vice-President and the Treasurer. Such annual meetings represent an opportunity for this decision-making body of ICSW to review existing programmes and to identify the areas of the proposed future activities. The meeting was chaired and conducted by **Eva Homberg-Herrström**, the President of ICSW.

The meeting started with a moment of silence in memory of Miloslav Hetteš, the former President of ICSW-Europe (Slovakia), who passed away in January 2017. He was fondly remembered by the attendees.

The Board warmly welcomed the new Treasurer of the ICSW, Mr. Emmanuel Ndlangamandla from Swaziland (Executive Director of CANGO—Coordinating Assembly of NGOs), who assumed his new global duties with ICSW recently.

In the substantive discussion of the proposed Agenda the participants focused on the most pressing issues that the Organization is facing, trying to identify the existing options and policy solutions. Both the annual report for the preceding calendar year and the compilation of the 2016 financial records, submitted to the participants in advance, were approved (the Annual report is available on the website (icsw.org)).

Using the SWOT template (analysis of **S**trength, **W**eaknesses, **O**pportunities and **T**hreats), the participants were able to uncover new opportunities and suggest innovative ways to improve the strategy and functioning of the organization, addressing the challenges in each of the above directions, "looking at ourselves" through a strategic lens. They also dealt with core issues stemming from the implementation of the ICSW Global Programme 2016-2020. The need to focus consistently on the social, economic and environmental dimensions of all ICSW activities around the world was underscored as an important priority.

The participants of the meeting were also in favour of forward-looking approaches to emerging issued on the global social development agenda, as well as analyzing lessons learned from the existing regional practices. It was felt that the transfer of promising new policy approaches used by a particular ICSW region to other ICSW regions would be a sign of mutual learning and cross-fertilization, and should be actively encouraged.

The Board also discussed the preparations for the Joint World Conference on social work, education and social development,

scheduled to take place on 3-7 July 2018 in Dublin, Ireland. It was stressed that the above event provides an excellent opportunity to convene during that conference an international symposium to commemorate the 90th anniversary of the ICSW (created in 1928 in Paris). The rich history of our organization, its activities reaching across geopolitical borders and aimed at improving the human condition and well-being in the face of socio-economic uncertainties and risks, provides an appropriate occasion for providing highlights of the priority themes throughout the years, presenting some results of our transnational activism, and focusing on existing opportunities and challenges in the world of today.

Pension Reforms in Europe: Declared Goals, Actual Results and the Way Out

By Krzysztof Hagemejer

Dr Krzysztof Hagemejer, Distinguished Fellow of ICSW, is professor at Bonn-Rhein-Sieg University of Applied Sciences, Germany. He also lectures at Collegium Civitas, Warsaw and Maastricht Graduate School of Governance.

K. Hagemejr was a key member of the ILO team instrumental in preparing new international labour standard, Recommendation no 202 concerning National Floors of Social Protection.

Introduction

This short paper is based on the author's research presented over the years in a number of studies (Hagemejer 2005, 2009, 2012, 2016, Hagemejer and Woodall 2014). In its three parts, it looks at the origins of the wave of pension reforms undertaken in many countries in the second half of 1990s and in the beginning of this century, at the expected outcomes, particularly from the point of view of pension adequacy, and, then at desired and possible further changes in the reformed pension systems.

I. Why the move to defined contribution and privatization?

Old-age pension reform agenda in Europe over last decades, which has been recommended by international financial institutions but also promoted by a number of domestic experts, can be summarised into the three main objectives:

- Limit the growth of publicly financed pension expenditure in the long-run,
- Increase the role of pre-funding in the financing of old-age pensions,
- Increase the role of the private sector in the provision of old-age pensions.

These objectives, through the lowering of the size and scope of public pension guarantees, have also been treated as a way to cope with the so-called "old-age crisis", but they should be also seen as part of a wider agenda aimed at a smaller state and reduced public spending, at a narrower scope for public intervention and redistribution and a bigger role for the private sector and markets.

The above objectives may not be compatible with social policy strategies that put adequacy and sustainability of pensions on an equal footing when formulating policy objectives. The notion of "adequacy" has been absent for quite a long time from pension recommendations and reforms strategies pushed through in many European countries, and that has made it distinct from traditional European welfare state policies and from all approaches based on adopting certain standards for benefit adequacy, such as the one followed by the ILO (based, in the case of pensions, on benefit level standards

set by Conventions 102 and 128), like the one accepted by countries which ratified the European Social Charter, or the European Code of Social Security, or the standards followed until recently in the European Union's open method of coordination.

In order to achieve the objectives, reformers usually recommend the introduction of mandatory, privately managed pension arrangements of a significant size (the so-called "second pillar"). That is supposed to help in achieving all three objectives. Additionally, whatever is left of the existing "pre-reform" pension schemes financed on a PAYG basis (the so-called "first pillar") had to be trimmed down by "parametric" reforms consisting of reduced replacement rates, tightened eligibility conditions, higher retirement ages and reduced indexation provisions. Voluntary pension provision for those with higher incomes was additionally recommended to form the so-called "third pillar".

Why was it so successful in Central and Eastern Europe (although a number of other European countries also went for quite radical reforms)? All of the countries in transition from centrally planned to market economies provided a perfect testing field for the above reform agenda. In those countries, public social security pensions were practically the only source of old age income, with no room for supplementary provisions for those with higher incomes. The pension systems were usually very redistributive, providing low replacement rates for those with high earnings. There was, thus, strong support from middle and high-income earners for a change towards more earnings/contribution-related pensions. Additionally, many of those countries were going though large-scale liberalization and privatization of their economies and, thus, at least partial privatization of their pension schemes seemed - for many architects of the transitions - a logical element of the economic reforms. Governance failures affecting public social security schemes (and of many public institutions in general) in some of those countries strengthened support for privatization. Too late, those countries started also to experience the negative consequences of the lax ("liberal") regulation of their private sectors and financial and capital markets, and the low standards of business ethics and corporate governance in the emerging private sectors.

The natural ally of the World Bank pension reform agenda has been the financial sector – banks, insurance companies and other potential candidates who profit from the privately managed, fully funded pension systems (and particularly from the mandatory ones). The financial services sector was the most underdeveloped part of the transition economies at the beginning of the 1990s but the most rapidly growing one since then. Also, in most of the transition countries in question, the share within this sector owned by big international banks and insurance companies was growing even more quickly (and still is). It is, thus, not accidental that everywhere representatives of that sector have been the most active group lobbying in favour of the pension reform, which has resulted in a significant share of advanced funding and in the privatization of pension provision. Mandatory participation in the private pension funds – called for under the World Bank reform agenda - was certainly one of the most gourmand parts of it for the financial sector. During the reform debates in all of those countries one could see that numerous seminars and conferences were organized and sponsored by domestic and international financial companies to bring together the World Bank experts presenting its pension agenda. That sector was also lobbying actively in parliaments during discussions of the reform bills. The effectiveness of this lobbying seemed, however, to be positively correlated with the way in which the financial sectors performed

in the countries: Lobbying was much less effective in the Czech Republic, which went through a number of financial and capital market problems resulting from bad governance and the lack of transparency in the regulatory framework, and much more effective in Hungary and Poland, both hailed for their relatively much higher governance and transparency standards in their respective regulation of financial services and the capital markets.

The World Bank did not impose reforms in Poland and Hungary and in other countries of the region. The Bank just brought in the convenient intellectual blueprint. The external pressures were coming rather from a wider context of international financial and international capital markets. It was reflected in the fact that international rating agencies regarded pension reforms that followed the World Bank's blueprint as a sign of responsible financial governance. Many countries in the region had significant external debt; all of them desperately needed foreign investments, as huge external financing was necessary to reconstruct and restructure their economies, helping, also, to stabilize their exchange rates. This made the countries' prospects very dependent on how they were rated internationally.

But the actual reforms went along with the Bank's reform agenda only because there was active support from those quarters in society that would be the potential winners in the reform process. Two important groups actively pushing pension reforms in certain directions can be identified. The first group is the emerging upper middle-class, well educated, earning more than the average and with aspirations and good prospects for having their income increase in the future. They were the biggest losers in the pre-reform highly redistributive schemes and, not surprising, opted for a purely earnings-related pension system. Also, they had an interest in limiting their mandatory contributions so as to give themselves as much scope as possible for individual choice on how much – and under which institutional arrangement - they would save for retirement. That group is not necessarily in favour of a mandatory fully funded pillar, but the illusion of competition and individual choice, which accompanied privately managed pension funds even within a mandatory savings system, made it attractive enough to gain middle-class support. This group was not well organized, although various liberal parties played a role in all the countries concerned in promoting radical pension reforms. Still, it was – and still is - quite well represented by the media, which – across the whole region – were exceptionally busy in undermining confidence in public social security systems, announcing their "bankruptcy" and advertising individual savings as a solution to the problem of ageing and old-age income security.

II. Implications: undermined adequacy and social sustainability in search of financial sustainability – is it what the societies want?

Analysing the recent results of projections of future trends in pension expenditure in all European Union member countries, one can see that there is no unavoidable "pension crisis" as a result of ageing populations. On the contrary, most of the countries adopted reforms that fully or at least to a large extent counterbalance the cost effects of expected demographic changes. Some countries seem to be more successful in that than other countries; in some other countries there are obviously still things to be done and reforms pending. In some countries, one can even see that the anticipated ratios of pension expenditure to GDP are expected to go down and thus the reforms undertaken may have overshot (see, for example, the projections of the Directorate-General for Economic and Financial Affairs of the European Commission (2015)).

The question is, if those projections materialize, will the expected effect of the reforms and expected changes take place? In many countries undertaking radical reforms, replacement rates will be reduced significantly, with the greater risk of poverty at retirement for future cohorts of retirees (see Pension Adequacy reports prepared by the EU Social Protection committee; the most recent report for the European Union 2015). When people realise that the pension systems are not delivering what they expect in terms of adequate and fair protection, the reforms may be reversed. To certain extent that has already happened partially in Poland, Hungary, Slovakia and a number of other countries – although those reform reversals were done for fiscal reasons and have not led to significant changes with respect to the future adequacy of benefits.
While the existing agreed international standards in social security (both ILO Conventions and European Code or Social Security) focus on the protection of those with lower earnings and shorter careers, most of the recent reforms of the contributory pension schemes act in the first place to reduce replacement rates precisely for those with lower earnings and shorter, interrupted careers. That group of people (women prevail in this group) may not get from the contributory parts of pension systems protection that is widely recognized as adequate. While reforms eliminated to large extent redistribution from many contributory pension schemes, that has not been sufficiently compensated by strengthening non-contributory provisions such as basic income or minimum pension guarantees and other similar mechanisms.

Some of those reforms should therefore be revisited to see to what extent they went too far, removing the completely redistributive elements and thus the protection provided for the weaker members of such schemes from the contributory parts of public pension systems. One also has to see how to strengthen the non-contributory guarantees of various kinds, such as basic state pensions, which may be universal or means-tested, and all the various kinds of subsidies to contributions that can at least partially compensate careers that are shorter and broken up as the result of extended periods of child care and care provided to sick or old members of the family or as the result of extended unemployment spells. Such reviews should be undertaken as required by Recommendation No 202. In adopting that Recommendation all countries committed themselves to guarantee to all older persons in their countries basic income security at a level allowing them a life in dignity.

III. The way out: Establishing the floor for old-age income security through non-contributory and universal citizen's pensions

Over past two decades one can see an important expansion in and the growing role – not only in developing countries - of non-contributory pensions of all kinds – universal, means-tested or pension-tested.

Universal old-age pensions – or citizen's pensions – are the most effective in terms of providing coverage and thus protecting effectively those who are not sufficiently covered by contributory schemes. However, even income-tested schemes may also cover the majority of older persons if the income threshold is set at a relatively high level (see the cases of Denmark and Norway, but also South Africa). South African old-age pensions provide a case worth looking at. With their relatively high pension level, relatively high-income threshold and widespread coverage, combined with other so-called social grants (disability grant and child grant), that pension scheme is famous for having a very important impact on reducing poverty levels, as well as other positive social impacts. There are plans in South Africa to remove income-tests and make the old-age pension universal. It is particularly important as in South Africa – despite debates ongoing over last two

decades - there is still no mandatory contributory social security pension scheme; there are only occupational saving schemes – most of them not paying pension but only a lump-sum at retirement.

Non-contributory pensions are certainly a necessary element in any national pension system. In countries with large informal economies, wide coverage and the provision of effective basic income security to older persons can only be achieved through non-contributory social pensions. But equally, in countries where a relatively large portion of the population is covered by contributory pension schemes, there will be always those who have not been able to contribute long enough to secure an adequate pension at retirement. Particularly in countries were the main contributory schemes are of the defined contribution character (or are defined benefit but purely earnings-related and the whole career earnings are used as a reference in calculating pensions), non-contributory pension as a basic or "zero" tier are indispensable for achieving the multiple objectives of pension schemes described by Barr and Diamond (2008) in their fundamental book.

Not many remember that the 1994 World Bank publication entitled "Averting the Old-Age Crisis", which introduced the multi-pillar approach, saw non-contributory pensions as the preferable solution for the first, public tier of the pension system (World Bank 1994, pp. 239-240). Later, however, the focus of the debate and the resulting reforms moved entirely to the development of mandatory earnings-related and preferably defined contribution schemes, for both the first and the second tiers. Only after more and more evidence from the reformed pension systems in Latin America and Central and Eastern Europe became visible, such purely earnings- and contribution-related schemes were seen as not able to ensure the poverty prevention objective of the pension systems. Furthermore, the allegedly strong incentives to contribute to defined-contribution schemes were not actually reducing the pension coverage gaps. Attention then moved back to non-contributory pensions – resulting fifteen years later, inter alia, in the important World Bank publication on "Closing the Coverage Gap" focusing solely on the role of non-contributory transfers.

The on-going debates (see for example Kidd 2015) relate to the question whether such non-contributory pensions should be universal ("citizen's pension"), income- or means-tested or at least pension-tested. Very often, owing to fiscal concerns, policy makers opt for income- or at least pension-testing, forgetting that although such options can help reduce benefit expenditure size, there are other significant costs that may be greater than the savings resulting from lower benefit expenditure: the additional fiscal costs of administration and the social work associated with effective means-testing and the economic and social costs associated with introducing income conditions on eligibility increase disincentives and stigma.

Let us then recall what the "Averting Old-Age Crisis" publication said on this topic in 1994:

"The universal flat benefit is given to everyone of pensionable age, regardless of income, wealth or employment history…Administratively, this is the simplest structure, with the lowest transaction costs, an important advantage in developing countries with limited institutional capacities and incomplete record-keeping systems. It avoids disincentives to work and save inherent in means-tested plans. Its universal coverage helps ensure that the poverty reduction objectives are met, provides basic income for all old people…and might receive broad political support." (World Bank 1994, p. 240)

Universal, citizen's pensions covering everybody, combined with an earnings-related tier covering those who have regular incomes above subsistence levels and thus contributory capacity, show themselves very clearly to be the best combination for achieving both of the main objectives of a national pension system – the prevention of poverty in old age and consumption smoothing. If the basic pension is universal there are no disincentives to contribute to the contributory tier, as every contribution results in additional income at retirement (if the rate of return provided by the contributory schemes is adequate). The main challenge of non-contributory pensions benefits is not their sustainability in terms of benefit costs (there are enough policy parameters – like the age of entitlement and the amount of benefits - which make it possible to control benefit expenditure), but rather sustainability in terms of securing adequate budgetary funding. That requires implementing legal and budgeting mechanisms that would prevent discretion and political volatility in allocating the resources necessary to fund such pension schemes.

Referred readings

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World Bank (1994): Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth; Oxford University Press

New publications and links—the find of the month

Catching Up? Intergenerational Mobility and Children of Immigrants.
OECD, Paris, 2017
This OECD publication includes cross-country comparative work and provides new insights on the complex issue of the intergenerational transmission of disadvantage for native-born children of immigrants.

Political and Institutional Drivers of Social Security Policy in South Africa

Working Paper 2017-12

Political and Institutional Drivers of Social Security Policy in South Africa

Marianne S. Ulriksen and Sophie Plagerson

December 2017

Author: Marianne S. Ulriksen, Sophie Plagerson
UNRISD, Geneva, 2017

This paper provides an analysis of political and institutional drivers that shape social policy in South Africa with a specific focus on social security.

Dear readers,

In an effort to make Global Cooperation Letter a better read, we are testing an improved, more succinct format, effective January 2018. We are hoping that the new Global Cooperation Newsletter will be as appreciated by the readership as it has been over the years.

I am taking this opportunity to wish all our readers a wonderful holiday season and a very happy and peaceful New Year!

Sergei Zelenev, Executive Director and Editor of the Global Cooperation Newsletter

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