Policy Paper

March, 2017

Pension reform in Belarus in the shadow of Social Europe: vulnerability issues of people aged 50+ and points for improvement

Sierz Naurodski

Nordic Council
of Ministers

The policy paper presents a review of potential effects of parametric pension reform in Belarus starting in 2017 for the population aged 50 and more in terms of unemployment, alcohol consumption, and poverty. It concludes that, despite the fact that raising the retirement age is overdue in Belarus to address demographic challenges, it may have a negative impact on the quality of life of people close to retirement age as well as a poorer GDP effect within current conditions on the labor market in Belarus. The paper presents a set of public policy improvement directions in Belarus, which could help mitigating vulnerability of the group 50+ during the pension reform.

CASE Belarus
Pension reform in Belarus in the shadow of Social Europe: vulnerability issues of people aged 50+ and points for improvement

3

Introduction

Belarus aims to have its economy as social as that of the European Union (EU). Indeed, in recent years, there has been some progress made towards this goal, as Belarus' 2015 GDP per capita reached 70% of the average of the EU's 11 Central and Eastern European countries (CEE-11) (up from 48% in 1995), while its social welfare policies have led to a relatively equitable distribution of the growth dividend (see Dobrinsky et al., 2016). The EU sets high standards for social protections for its population. Currently, the European Commission (EC) is working towards improving and harmonizing the social rights of its citizens, and, accordingly, has introduced the concept of social harmonization. This concept was announced in 2015 by EC President Jean-Claude Juncker along with a proposal for a European Pillar of Social Rights aimed at ensuring better social convergence across Europe. Acknowledging the EU's vast experience and progress made in pursuit of its social pillars, the aim of this paper is to examine the impact of the newly introduced pension reform in Belarus in light of the EU's new social objectives, and we will consider the following questions: Will the lives of the elderly improve following this reform? Does Belarus become more European because of this reform? Is pension reform beneficial for the country and its economic and social development?

This policy brief is based on the results of a public debate on the issues most critical for the elderly population in Belarus.[1] It is also the result of cooperation between Belarusian and EU-based economists[2] that occurred during the course of research on the impact of upward social convergence on the employability of the elderly throughout the EU. As Belarus faces demographic challenges similar to that of the EU, and does not have experience in pension reform, it seems reasonable to apply the current policies and outlook of the EU as it relates to employment and social security protection for the elderly. This paper presents public policy

---

[1] The roundtable was organized by ACT (www.actngo.info) in Minsk on December 2016 with the participation of representatives from Belarusian non-governmental organizations, public authorities, as well as international organizations involved in elderly issues in Belarus.

[2] Within the project titled "SocialBoost - Effective measures of social harmonization as a boost for employability in times of demographic changes" sponsored by the Nordic Council of Ministers.

recommendations, with additional measures applicable for the social security system in Belarus, which may help mitigate the vulnerability of those of the group aged 50+ during the pension reform.

CASE Belarus
Pension reform in Belarus in the shadow of Social Europe: vulnerability issues of people aged 50+ and points for improvement

5

1. Why is pension reform needed in Belarus?

The retirement age has been increased in many EU countries as a result of an increasing life expectancy, low birthrates, and the aging of the "baby boomer" generation. This has called for social policies both on the national and EU levels specifically targeting elderly people. From January 2017, a gradual increase in the retirement age (parametric pension reform) will begin in Belarus. Over the next six years, the retirement age will be increased by six months per year. As a result of these changes, by 2022, the retirement age will be 63 for men and 58 for women (up from the current ages of 60 and 55, respectively). Together with the increase in retirement age, the Belarusian government has promised to raise pensions twice in 2017, by 5-6% per increase. Considering the National Bank of the Republic of Belarus' forecast of 9% inflation for next year, one can expect an increase in pensions in real terms by 1-3% in 2017.

This parametric pension reform is required to balance the Social Security Fund (SSF) within Belarus' current pay-as-you-go pension system. The reform is considered to be an effective instrument to address two major demographic challenges of the country: an aging population and a declining population. Furthermore, increasing the retirement age can be a source of public savings that will enable pension benefit increases, as was promised by the government.

In Belarus, the number of people at retirement age has been increasing each year. The proportion of the elderly among the total population of Belarus has been growing faster than any other age group. In general, over the last 55 years, the population of Belarus older than 50 years has doubled in absolute and relative terms: in 1960, pensioners comprised 13% of the population, whereas in 2015, this figure increased to 27.3%. This share is expected to increase twofold by 2050.[3] Population aging leads to a reduction in the number of working

---

[3] According to the Belarusian Statistical Committee forecast, including migration.

age contributors to the pension fund. The single pillar pay-as-you-go retirement plan in Belarus is thus faced with the problem of a pension fund deficit as a consequence of its aging population.

Pensions in Belarus are paid from the SSF. During January-June 2016, the SSF deficit was 0.2% of GDP. The SSF was in deficit for nearly all of 2015 and early 2016 (14 months in a row), with an average deficit of 0.5% GDP. Lisenkova and Bornukova (2015) showed that, without changes to the current pension ceiling, the SSF deficit would exceed 1.8% of GDP by 2020, and would increase to 9% of GDP by 2055. Bornukova, Lisenkova, and Luzgina (2015) suggest that for Belarus in the medium term, within the context of its macroeconomic instability, it is possible to reform only the parameters of the current pension plan (i.e. the retirement age).

There is, however, a concern that raising the retirement age only temporarily solves the problem, and that the issue of the pension fund balance is simply deferred for a few years. Haiduk, Giucci, and Chubrik (2008) calculated that an increase in the retirement age by five years will "move" the pension fund deficit for 20 years, while the alignment of the retirement age for men and women can postpone this issue for a further 10 years. The 2016 International Monetary Fund (IMF) simulations confirm the fact that raising the retirement age ensures the balance of the pension fund only up to 2022, or by the end of the current reform. After that, the SSF will gradually become unbalanced again, and the 2050 deficit will increase to around 4.5% of GDP (see IMF, 2016).

When analyzing the consequences of parametric reform in Belarus, one should pay particular attention to the pre-retirement population group (defined as those over 50 years, or 50+, as in this paper) for two reasons. First, those aged 50+ may be the main group to be financially and socially affected by an increase in the retirement age, and second, analysis of the situation of those aged 50+ is a useful instrument to predict the costs and benefits of changes in the pension system in the near future.

The population in Belarus aged 50+ reflects the country's aging problem: the 50-64 age group has been growing rapidly, by an average of

155,000 people per year (1.6% of total population). At the same time, there is a disparity between men and women approaching retirement age. The ratio of women and men aged 50 to 60 years is 1.15. The largest age group of those over 50 is the 70+ age group, which comprises about 10% of the total population. The smallest age group of those over 50+ is the 65-69 age group (4.3%). In absolute terms, at the beginning of 2016, the number of Belarusians aged 50-54 years was 715,800 (7.4% of the total population), while there were 732,600 people aged 55-60 years (7.6% of Belarusians).

A portion of the 50+ group has already retired, but continues to be employed. The number of employed pensioners in Belarus increases every year; during 2013-2015, it increased by a total of 46,400 people. In 2013, the percentage of employed pensioners out of the total number of pensioners was 23.8%, whereas in 2015, this percentage was 25.1%. Among working pensioners, one-third are men (212,800), and two-thirds are women (438,400). Both male and female pensioners are likely to be employed immediately after their retirement age: women aged 55-59 years (56% of all women aged 55-59 years) and men aged age of 60-64 years (44.5% of all men aged 60-64 years).

Raising the retirement age may not only reduce the costs of the SSF, but it can, according to economic theory, also fuel Belarusian economic growth by increasing the labor force supply. Bornukova, Lisenkova, and Luzgina (2015) propose that financial rehabilitation of the pension system in Belarus under different scenarios of increasing the retirement age will lead to a cumulative GDP effect. They calculate that raising the retirement age would give the cumulative effect of +2.6% of GDP by 2025 if the retirement age is increased to 60/60 (women/men), and +6.55% of GDP by 2035 if the retirement age is raised to 65/65 (women/men). By 2050, the cumulative effect would be equal to as much as +10% of GDP, as compared to the situation of not raising the retirement age.

However, the current situation of overemployment in Belarus might weaken the positive effects of retirement age extension for the labor market and GDP. The issue lies in the fact that labor hoarding is already present in

Belarus, and adversely affects economic growth. Akulich, Valetka, and Naurodski (2015) demonstrated that in previous years (2004-2014), significant financial resources introduced by the Belarusian government were channeled through the financial sector (mainly through state support programs and cheap borrowing of state-owned banks increasing financial depth) to maintain wages and preserve excess employment in the country. The calculations showed that the influence of financial depth on the growth of salaries was six times higher than on economic growth, and led to an increase in the unit labor cost in the economy. Consequently, a 1% growth of the unit labor cost led to a fall in GDP by 0.28%.[4] Keeping the latter in mind, as well as the fact that the labor income share in the Belarusian GDP and unit labor costs decreased insignificantly from 2015 to Q3 2016, there is a concern that raising the retirement age in Belarus in a situation of excessive employment may have a poorer effect on GDP growth in the existing socio-economic model.

[4] Model description and detailed results are presented in Акулич В., Валетко В., Навродский С., Равинский Ю., 2015. Рынки труда и капитала в Беларуси: равный статус для долгосрочного роста. CASE Belarus Working Paper, February, 2015.

2. How will the reform influence those at the pre-retirement age in Belarus?

We take into account and test three groups of risks that, in our opinion, may play an important role during a gradual increase in the retirement age:

a) individuals aged 50+ have a higher risk of becoming unemployed;

b) the group of those aged 50+ has higher alcohol consumption; and

c) older people have a higher risk of falling into poverty.

According to statistics, in Belarus, younger job candidates are favored over unemployed elderly candidates, and unemployed elderly candidates are rarely offered trained. For instance, during January-August 2016 in Minsk, only 41.8% of the registered unemployed of a pre-retirement age found a job, while only 4% were trained or re-trained.[5] In Belarus, there is a legislative guarantee for the continuation of an employment contract for bona fide employees close to retirement age (53 years for women and 58 years for men, until the end of 2016, if the collective agreement does not provide an earlier period), as well as the possibility of "reserved" employment (however, in Minsk in 2016, there were only 188 such cases[6]). Otherwise, elderly employees and job candidates are treated the same as those of younger age groups.

According to a survey of people aged 55 and older conducted by Satio Company in 2012 in

---

[5] http://finance.tut.by/news515405.html

[6] Ibid.

Minsk,[7] the ratio of working retirees was 23.8% of the survey sample, which confirms official data on working pensioners in Belarus (23.4%). But the income level in the surveyed sample was quite small: the average income value of people surveyed was close to the average retirement benefit in Minsk, while 61.3% of those surveyed had a total income of 33-55% of the average nominal salary in Minsk. This shows that the extra money earned by a retiree is rather small and covers only basic needs, and is not a source of savings. Interestingly, the survey also showed that nine out of 10 surveyed retirees were employed in the public sector (93.8%).

The Satio survey also identified three main challenges for the elderly population (according to the opinions of those surveyed): health problems, financial difficulties, and lack of support from authorities. Working pensioners more often indicated difficulties with employment as well as lack of demand for their knowledge and skills than those who were not employed.

We used a probit regression to determine the probability of employment for the group aged 50+ in Belarus and tested the hypothesis to determine if the population aged 50+ has a higher risk of becoming unemployed; the regression was controlled by a set of factors.[8] The calculation results showed that for people aged 50+, with other factors remaining unchanged, the probability of employment is reduced by 28.2 percentage points as compared with a younger age group. The health factor affects employment even more strongly, as it leads to a decrease in the probability of employment by 30.8 percentage points for a person with poorer health.

Statistical data from the National household survey[9] shows that the share of the population aged 50+ with a poor health assessment is 12.76%, while this share for the population under the age of 50 is significantly less, at 2.54%. Average spending for alcohol accounts for 1.9% of household consumption. Based on the above, we test the hypothesis that the population aged 50+ has higher alcohol consumption. According to the regression results,[10] for a female under the age of 50, non-smoking, and living in a city, spending for alcohol is equal to 1.72%. For individuals older than 50, the share of alcohol in consumption indeed grows by 0.3 percentage points. People who smoke spend 0.46 percentage points more for alcohol, men spend by 0.12 percentage points more, and for rural residents, the share increases by 0.26 percentage points. The results also showed that the share of alcohol in consumption decreases for larger families and for families with children up to 5 years old. We conclude that in terms of alcohol consumption, the most vulnerable group in Belarus is men who smoke, live in rural Belarus, and do not have children or whose children have grown up. The share of spending for alcohol for that group is almost twice more than the country's average, and thus these individuals need closer attention during the pension reform.

Chubrik and Shymanovich (2013) argue that raising the retirement age significantly reduces the current retirement burden in Belarus, but it should be accompanied by an assurance of an adequate period of retirement, especially for men. According to the authors, the labor market in Belarus should be prepared for the retirement age increase; otherwise, it can lead to a high risk of poverty among the population affected by the retirement age increase. Following this logic, we test the hypothesis that older people in Belarus have a higher risk of falling into poverty. The results do not confirm the hypothesis. The probit regression[11] reveals that with the average

---

[7] The survey titled "Education and Social Activity of the Elderly" was given in the Pieršamajski district of Minsk in 2012 (400 people aged 55 and over were surveyed).

[8] Model description and detailed results are presented in Валетко В., Навродский С., 2017. Население 50 лет и старше в Беларуси. CASE Belarus Working Paper, February 2017.

[9] Run by the Belarus National Statistical Committee: http://www.belstat.gov.by/en/ofitsialnaya-statistika/social-sector/uroven-zhizni-naseleniya/

[10] Model description and detailed results are presented in Валетко В., Навродский С., 2017. Население 50 лет и старше в Беларуси. CASE Belarus Working Paper, February 2017.

[11] Model description and detailed results are presented in Валетко В., Навродский С., 2017.

poverty level in our sample equal to 3.49% of the Belarus population, people aged 50+ are 2.84% less likely to fall into the poor group. However, the results showed that the probability of being poor for people from the group aged 50-59 is slightly higher than that of pensioners (in our sample, of 60 years and older). We conclude that the pre-retirement group aged 50-59 is slightly more vulnerable to poverty than the retirees (60+ group), and raising the retirement age will move part of population from the more poverty secure group to the less secure group.

Based on the results from above, we assume that raising the retirement age will expand the group of the Belarusian population with an increased risk of remaining unemployed, with higher alcohol consumption, and that is vulnerable to poverty. This indicates the necessity to adopt a system of measures aimed at the most vulnerable and to improve the welfare of those close to retirement age.

Население 50 лет и старше в Беларуси. CASE Belarus Working Paper, February 2017.

3. What could be done along with the current pension reform?

The results of public debate in Belarus, as well as the experience of EU countries, suggest that a more systematic approach is required when raising the retirement age in order to ensure a better social impact.

First, one should consider the pension reform options for Belarus. As there is an imbalance between men and women of pre-retirement and retirement age, the most pressing issue is equalizing the retirement age for men and women as a way to solve the problem of the SSF fund balance in the longer term. Calculations conducted by the IMF indicate that the additional increase in the retirement age to 65 years for both men and women can delay the SSF deficit until 2034, whereas pension index reform and reducing early retirement plans can balance spending for even longer (see IMF, 2016). Bornukova, Lisenkova, and Luzgina (2015) also note that among the various reform options, aligning the retirement age for men and women is the most effective scenario, and the gradual raising of the retirement age to 65/65 will not only ensure the financial stability of the SSF, but will also become the driver of cumulative GDP growth. However, as argued above, to see the maximum benefit, pension reform should be accompanied by renouncing the practices of excessive employment and of maintaining wage levels in the public sector through cheap borrowing and state support programs.

Within the current reform settings, the most vital seems to be a set of social measures and financial instruments designed to ease the impact of pension reforms on the quality of life of those at the pre-retirement age as well as to create stimuli for GDP growth in the future. We distinguish three directions of such measures:

1. Stimulating demand for employees in the older age groups

Several authors, including the recent IMF report dated July 2016,[12] have mentioned this set of policy recommendations. Chubrik and

---

[12] Ibid.

CASE Belarus

Pension reform in Belarus in the shadow of Social Europe: vulnerability issues of people aged 50+ and points for improvement

Shymanovich (2013) support the idea that, along with pension reform, it is necessary to improve the efficiency of employment support systems in order to increase labor mobility, especially for people at the pre-retirement age.

Among the key issues are additional employment guarantees for the elderly, more training or retraining services for the 50+ aged group, as well as removing institutional barriers to greater labor mobility. There should also be a focus on promoting employment instead of early retirement and a review of the system of early retirement in Belarus.

2. Introduction of individual retirement accounts and pension contribution scaling

The idea of individual retirement accounts is not new for Belarus. Economists argue that an increase in the retirement age and the introduction of a second pillar will bring more long-term effects.[13] Our proposal is to combine individual retirement accounts with a formula to scale pension contributions in order to make the population aged 50+ solvent consumers in the medium term: the older the current employee aged 50+, the greater is the contribution to his individual account.

The introduction of a funded pillar of the pension system, at the moment, could be implemented under the terms of the pilot phase only for public sector employees. If so, this must be linked to wage reform in the public sector so as to achieve more wage differentiation as compared to the current system aimed at salary equalization. More differentiation would bring more results-oriented discipline in the public sector, stimulate the growth of productivity, and reduce employment turnover. One possible way to introduce these changes would be via transfer of any wage differentials to an individual retirement account, with additional contributions to the SSF. By this mechanism, the overall cost of labor will grow but the retention of a portion of the salary in a savings vehicle will not have immediate inflationary consequences.

A funded pillar of the pension system for employees of the public sector is a source of long-term money and could be managed by the Development Bank of Belarus to enhance the development of the local financial market. The effective management of accumulative pension funds would facilitate the improvement of the list of financial instruments available on the currency and stock market, as well as the liquidity of existing financial instruments (primarily stocks and corporate bonds).[14] At the same time, a legal framework for fully-operational private pension funds in Belarus could be constructed. New financial institutions—not currently present in Belarus—could gain access to the retirement accounts of citizens at the second stage of the reform, when the scale of the funded pillar is extended from the public sector to the entire economy.

3. Updating the social security system

Changes in the system of social security contributions should focus primarily on increasing the effectiveness of social programs to better compensate for the risks of reduced consumption and to protect against the deterioration of the social situation of individuals from vulnerable groups who are approaching retirement age.

If following the EU's concept of social harmonization, the most pressing issue for the elderly in Belarus remains the modernization of unemployment compensations and the introduction of an unemployment insurance system. Currently, unemployment benefits are eight times lower than the minimum subsistence budget that was calculated by the Ministry of Labor and Social Protection as a baseline for survival in Belarus. Increasing the amount of the benefit (at least to the level of the minimum subsistence budget) for the unemployed aged 50+ during pension reforms could be an option. Furthermore, the initiation of an unemployment insurance payment for people aged 50+ could be a first step towards the introduction of a

---

[13] See, for instance, Bornukova and Luzgina (2015)

[14] See Акулич В., Валетко В., Навродский С., Равинский Ю., 2015. Рынки труда и капитала в

Беларуси: равный статус для долгосрочного роста. CASE Belarus Working Paper, February 2015.

nationwide unemployment insurance system in Belarus.

One should remember that in the long-term, the quality of life of workers is associated with the conditions of the labor market, and the social security system, in the broader sense, should be aimed at greater labor activity. The latter remains of great importance for the elderly population, especially during the parametric pension reform. This implies improvements in the institutional background of the country's economy, including more flexible forms of employment or self-employment, support for lifelong learning, improvements in the efficiency of the national health system, and the development of a system of social integration for the elderly population. The above-mentioned improvements are on the "to-do list" for Belarus.

CASE Belarus
Pension reform in Belarus in the shadow of Social Europe: vulnerability issues of people aged 50+ and points for improvement

14

References

1 Dobrinsky, R. (editor), Adarov, A., Bornukova, K., Havlik, P., Hunya, G., Kruk, D., Pindyuk, O., 2016. The Belarus Economy: The Challenges of Stalled Reforms. The Vienna Institute for International Economic Studies (wiiw). Research Paper No 413, November 2016

2 Lisenkova, K., Bornukova K., 2015. Effects of Population Ageing on the Pension System in Belarus. BEROC Working Papers Series, WP No 28

3 Акулич В., Валетко В., Навродский С., 2015. Рынки труда и капитала в Беларуси: равный статус для долгосрочного роста. CASE Belarus policy paper, February, 2015

4 Акулич В., Валетко В., Навродский С., Равинский Ю., 2015. Рынки труда и капитала в Беларуси: равный статус для долгосрочного роста. CASE Belarus Working Paper, February, 2015

5 Борнукова, К., Лисенкова, К., Лузгина А., 2015. Пенсионная система Беларуси: Текущее состояние и необходимость реформ. BEROC Working Papers Series, WP No 30

6 Валетко В., Навродский С., 2017. Население 50 лет и старше в Беларуси. CASE Belarus Working Paper, February, 2017

7 Гайдук, К., Джуччи, Р., Чубрик, А., 2008. Пенсионная система Беларуси: вызовы и пути их преодоления. IPM Research Center Policy Paper No 1, 2008

8 Чубрик, А. Шиманович, Г., 2013. Влияние некоторых мер социальной политики на благосостояние социально уязвимых групп. IPM Research Center Policy Paper No 4, 2013

9 Эстель Сюэ Лю, 2016. Устойчивость пенсионной системы в Беларуси: влияние на бюджет и варианты реформ. / Республика Беларусь. Отдельные вопросы. IMF, VI, 2016