



The Romanian Pension Funds' Association



A CEE Perspective on the “EC Green Paper on Pensions” consultation process

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1) Economic Governance + the deficit issue (ESA95 review)

- We salute the adoption of the Economic Governance package by the European Council, thus acknowledging the importance of systemic pension reforms (ex: mandatory 2nd Pillar funded schemes introduced in CEE)
- In normal times, this alone would serve as a sufficient compromise to properly recognize the scope and merit of pension reforms + give incentives to member states for continuation of such reforms, but...
- ...normal times are nowhere near: we believe a clear review of the ESA95 budget accounting methodology is needed by political decision of the EU in order to prevent some member states from further reversing pension reforms (see Hungary and potentially Romania)
- Hungary's dismantling of pension funds = a "how NOT to do" textbook example for fixing public finance in the short term, at the cost of reversing sound long term reforms.



2) Funded pensions under political attack in CEE countries

- In the last 2 years, several CEE countries affected the adequacy and sustainability of their funded pension system (mainly mandatory 2nd Pillar)
- Excuses used: initially to protect plan members from investment losses, then “solidarity in times of crisis”, then “fiscal consolidation”
- Real motivation: to keep PAYG systems unreformed and maintain populist policies with a short term view
- No CEE 2nd Pillar system left unharmed by this approach: from the Baltics to Slovakia, from Bulgaria to Hungary and Romania, Governments severely damaged the young funded pension systems by:
 - reduction in contribution rates (or even nationalization proposals!);
 - opening of system (i.e. removing mandatory feature);
 - cutting fees, increasing costs for solvency, introducing new “guarantees”;
 - altering investment policy, delaying previously scheduled reforms.



3) Need of support from the EU for CEE funded pensions

- Political risk has been significantly more dangerous for the CEE private pension systems than investment risk, destabilizing long-term reforms
- We would welcome EU policy recommendations and guidelines to support and foster the further development of the funded pension systems
- EU guidelines setting out the importance of legislative stability of pension systems and the need to have a stable flow of contributions could be very helpful for the development of these systems
- The future survival of CEE pension reforms essentially depends on the decisions by the European Council (ESA95) and European Commission to support the feeble funded systems and discourage member states' Governments to engage in irrational, short-sighted reform reversals.