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ANNOUNCEMENT

World Bank Representative Himanshi Jain on the historical evolution and pillars of pension systems

On September 28, 2023, within the framework of the high-level international round table " Mandatory Funded and Mixed Pension Schemes Development Prospects ", various panel sessions and discussions were held.

The first panel session of the round table "Population aging and pension reform" was moderated by one of the architects of the Kazakh funded pension system, Grigory Marchenko.

The session was opened by Himanshi Jain, senior social protection specialist at the World Bank, with a report on the topic: What does the history of pension reforms teach us and how is the effectiveness of the pension system assessed?

She presented the functioning of pension systems from the perspective of their historical evolution. At the same time, she identified 3 periods of pension development in the world. The first period (1890-1970) was accompanied by the spread of the DB (defined benefit) pension system in Europe and America, which involved significant state obligations to recipients, not backed by stable financial resources, and created inequality within and between generations.

The second period (1980 – 2000) is characterized by the emergence of the DC funded system (with defined contributions), because the DB system showed its financial instability. Many countries in Europe switched to the DC system when Asian countries and Australia introduced mixed DB/DC systems.

The third period was marked by a shift in focus from pension system design (DB/DC) to population coverage (in developing countries) and adequacy/sustainability (in OECD/EMDE) of pension systems. Between 1995 and 2018, 78 countries increased their contribution rates, 55 increased their retirement age, 61 countries changed their DB scheme, and the number of countries with social pensions increased from 40 to over 80.

The fourth period (current) is characterized by the rapid spread of digital/ID/payment systems and the growth of self-employed people working in flexible working hours. These factors require new approaches to reaching investors and accumulative pension provision.

The World Bank has systematized pillars of pension provision as follows: **zero pillar**, providing a guaranteed income to all older people, if social conditions require it and the state has the ability to support such a system (without paying mandatory pension contributions); **the first pillar**, in which part of the guaranteed pension payments is covered by mandatory contributions from wages; **the second pillar**, which provides for a funded element through mandatory defined pension contributions, which are accumulated and invested, and **the third pillar**, which involves voluntary contributions in various forms. At the same time, a generally accepted indicator of the adequacy of pension systems is the replacement rate (RR), which determines the level of predictability of benefit payments for both the individual and the pension fund.

RR reflects the percentage of average monthly income that a person can expect to receive in retirement. A post-retirement RR of 40% is "adequate" for the average worker with 30 years of experience.

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Analyzing pension schemes using Coverage, Adequacy, Sustainability, Equity (C.A.S.E) criteria, the speaker concluded that the results will look different for each scheme and will vary from country to country.

“Analyzing a country's pension landscape requires looking at all components simultaneously, with a clear understanding of the objectives of each. Ensuring coordination and coherence, as well as communication between the main directions is important for the formation of common policies,” says Himanshi Jain.

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