LATEST PENSION SYSTEM REFORMS IN EASTERN ASIA
(JAPAN, S. KOREA) AND EASTERN EUROPE (LITHUANIA)

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Abstract
The aim of this article is to define the Japanese, South Korean and Lithuanian latest pension system reforms and measures during economic crisis. Problems of the Japanese, South Korean and Lithuanian pension systems are similar to the others industrial Asian or European Union countries: ageing, impact of economic crisis and pension system budget deficit. Moreover, the Japanese, South Korean and Lithuanian population ageing rapidly (low birth rate, longer life expectancy) and it influences the entire society and requires more complex and pressing pension systems reforms. All countries of the world fighting against the ageing and searching for the pension system financial sustainability. After the universal pension system reform in 1985, the task of Japanese government is to ensure for each participant an adequate and regular pension income, to implement the social justice and solidarity. Pension system reforms in South Korea began intensively only since 1997 and this was associated with a global currency crisis. Since the end of the last century until 2009, South Korean government has developed a modern social security and social assistance systems. The government is constantly increasing social security coverage and benefits (from 1999 to 2009, social benefits increased almost four times). However, the social security coverage is still insufficient, income disparities increasing and the financial disbalances require to reform the pension system for a long-term perspective. The pension system reform of 2003 and 2011 raised the wide discussion on the state social pension insurance system future development of Lithuania. This reform clearly demonstrates that the government in 2003 opted for a liberal position and in 2011 – it was decided to strengthen state social insurance guarantees.

KEY WORDS: pension system, reform, crisis, ageing, Japan, S. Korea, Lithuania.

Anotacija

PAGRINDINIAI ŽODŽIAI: pensijų sistema, reforma, krizė, visuomenės senėjimas, Japonija, Pietų Korėja, Lietuva.

Introduction

Japanese and S. Korean pension systems are analysing in the context of Asia-Pacific region. The exclusivity of this region hides the fact that in this region the
world’s largest population is concentrated, the rapid increase of older population growth is expected, life expectancy is increasing, but the fertility rate is decreasing. Ageing in this region will be the most rapid until the year 2030. Given the long lag in pension-policy planning, there is now a narrow window for many Asian economies to avoid future pension problems (OECD, 2012).

New economic and social trends encourage the countries of this region to reform their pension systems. Pacific Economic Council notes the following Asian countries’ pension system’s policy trends: a population ageing, expansion of atypical employment relationships, the need to the pension accumulation system, increasing of pension coverage, growing industrialization and urbanization (it requires extra income for persons living, higher costs for health care and pension income) and increasing demand for cross-border social security agreements (because of the migration of workers) (Pacific economic council, 2010, p. 41–42). International Social Security Association emphasizes that people uses an early retirement pension schemes, the Asian and Pacific countries pension coverage is relatively low, the actual pension amount is not index-linked according to the standard of living (Asher, 2009).

At the end of XX century, European Union countries (Lithuania became a member of the European Union from May 2004) faced with social changes in family and employment structure (growth of the number of divorces, increased demand for highly skilled professionals etc.), economic changes (decreasing economic growth and deindustrialization) and demographic challenges (ageing). Today we could underline common challenges to be met by Europe’s social security systems: demands for more personal choice and quality improvements in services and benefits; the impacts of globalization (greater flows of people, goods, services and capital across national borders); population ageing and economic, fiscal and social fallout of the current economic crisis (ISSA, 2010).

European Commission in the White paper “An agenda for adequate, safe and sustainable pensions” indicated that member states should: i) create the link between the retirement age and the life expectancy; ii) restrict access to early retirement schemes and other early exit pathways; iii) support longer working lives by providing better access to life-long learning, adapting work places to a more diverse workforce, developing employment opportunities for older workers and supporting active and healthy ageing; iv) equalise the pensionable age between men and women; v) support the development of complementary retirement savings to enhance retirement incomes (European Commission, 2012).

Thus, the international organizations identified the essentials social security reform strategies: to prolong the active working life, to ensure the security of persons income from the inflation, to review models of income redistribution, to ensure protection against poverty, to ensure the financial sustainability of pension systems and to ensure labor market efficiency. N. Barr and P. Diamond argues that the main cause of the pension “crisis” is a failure to adapt to long-run trends. The main source of financing problems is that, with the exception of adjustment to price and wage growth, defined-benefit systems have had a static design with no automatic adjustment to long-term trends (Barr, Diamond, 2008, p. 195).
State social pension insurance system reforms and effective governance should be done analyzing the best practice in other countries, identifying the social, economic and cultural phenomena in the country and identifying necessaries changes in the pension system, preventing from the future financial shocks.

1. Economic and social assumptions of the pension reforms

Analysis of recent pension reforms shows that today pension systems are more vulnerable to the economic shocks and shifted part of financial and economic risks on individuals. However we should emphasize, that over recent decades most of the reform debates were implicitly analyzed by the perceived or real need for financial stabilization, not by the social stabilization. Social stabilization implies that pension levels are not allowed to fall below a certain minimum benchmark.

Social expenditure for pensions in Japan in 2007 was 8.8 % of GDP, in S. Korea – only 1.7 % of GDP (an average of countries of OECD was 7 % of GDP) (OECD, 1998). Change of pension expenditure (period 1990–2007) in Japan was 80.5 % of GDP, in S. Korea 130.5 % of GDP. We could note that an average change (period 1990–2007) of countries of OECD was only 14.5 % of GDP.

Pension expenditures in Lithuania in 2007 was only 6.8 % of GDP and it was almost twice lower than an average of EU-27 (11.8 % of GDP in 2007): this is due to a more favorable population structure and due to the fact, that in the rapid economy growth period (year 2002–2007) the pension level was not increased accordingly. Pension expenditures in Lithuania will grow: the change of the age-related expenditure 2007–2060 will be 4.6 % of GDP (in EU-27 is projected 2.4 % of GDP over the period 2007–2060).

The level of the social security contributions in Japan (for people, working in the company under a contract of employment) in 2010 was 15.4 % (contributions are paid in equal parts by the employee), in S. Korea 9 % (contributions are paid in equal parts by the employee and the employer), while the OECD average was 19.6 %. In Lithuania, social insurance contributions for pensions: 23.3 % of gross wage – employer contributions, 3 % of gross wage – employee contributions. In Lithuania there is no automatic indexation rules, no minimum social insurance pension and no income tax is levied on pension benefits paid from the statutory schemes.

Japanese pension system accumulates a reserve. In 2009, in Japan’s pension reserve was accumulated 25.2 % of GDP, in S. Korea 2.2 % of GDP (in OECD countries – 67.6 % of GDP). The long-term pension system reserve in Lithuania does not exist.

In Japan, the public debt continues to increase: in 2010 it reached 199.7 % of GDP (in 1993 the debt was 74 % of GDP, in 2003 it increased to 158 % of GDP, in 2009 it was 193 % of GDP). In S. Korea, the level of the public debt in 2010 was 33.9 % of GDP. In Lithuania, the public debt was 38 % of GDP in 2010.

Japan and S. Korea, as well as other industrial countries are faced with ageing processes. In 1975-1980, the fertility rate in Japan was 1.83 children per woman, in S. Korea was 2.92 (OECD average – 2.26). In the period of 2005-2010, the fertility
rate in Japan fell to 1.27, in S. Korea to 1.22 (average of OECD – 1.69), but in 2050 the fertility in Japan will increase until 1.6, in S. Korea until 1.59 (average of OECD-1.8) (OECD, 2011, p. 13–192). According to the Eurostat and Ministry of Social protection and Labour of Lithuania projections, the population of Lithuania will decline to 2.5 million from 2009 to 2060, the elderly population (aged 65 and older) will more than double from 16 to 32.7 %. It means that instead of the current ratio of people of working age to people over 65 years of age, which stands at 1.6, only 1 will remain. Lithuania has one of the highest negative rates of crude migration (net) in EU-27 (4.6 % against 1.9 % in EU-27 and majority emigrants are 20–34 years (European Commission, 2010, p. 87). The fertility rate in Lithuania is one of the lowest in the European Union. In 2007, total fertility rate was 1.35 children per woman (in 1970 it was 2.4, in 1990 – 2.03, in 2005 – 1.27) (European Commission, 2010, p. 194).

Japan’s life expectancy (at the retirement age) in 2010 was 19.8 years for men, in S. Korea was 20.2 (OECD average – 18.5 years). Meanwhile, life expectancy for women in Japan was 26.7 years, in S. Korea was 25.2 (OECD average was 23.3 years). According to the demographic projections, in 2050 the life expectancy in Japan will increase until 21.6 years for men and until 27.7 years for women and the life expectancy in S. Korea will be 19.3 years for men and will be 24.5 years for women. In Lithuania, life expectancy (after retirement age) was 13.38 years for men and 18.25 years for women (in 2009).

Because of life expectancy and pension system deficit, the retirement age in Japan is increasing and for the first pillar pension will reach 65 years (retirement age for men is increasing during the period 2001–2013 and for women – during the period 2006–2018). The retirement age in the second pillar occupational pension is also increased until 65 years (for men the retirement age will be reached in 2025 and for women – in 2030). In S. Korea, the retirement age for men and women is 60 years. In Lithuania, the retirement age from the year 2012 to 2026 will be gradually increased until 65 for men and women.

Japanese and S. Korean people can use an early retirement pension (at the age of 60), but in this case the pension amount will be reduced by 6 % annually. If the person continues to work after 65 years, the additional supplement to pension will be applicable (8.4 % per every year in Japan, but the maximum limits is applicable. In S. Korea the supplement is 6 %). In Lithuania, the early retirement pension scheme (if less than 5 years were left until the retirement age) has been introduced in the year 2004 (0.4 % reduction for every full month remaining until and after the retirement age).

2. Measures during economic crisis

Latest global economic crisis (which started in 2008) was an additional financial shock for the European states pensions systems among continuous problems since last decades: ageing society, engagements of the pay-as-you go pension systems, unstable results of funded pension system.

The crisis has wiped out years of economic and social progress and exposed structural weaknesses in Europe’s economy, the world is moving fast and long-term chal-
Challenges: globalization, pressure on resources and ageing (European Commission, 2010). Because the public pension replacement rates in general declined in the EU, reforms have given and will continue to give rise to greater individual responsibility for outcomes and it is important to provide sufficient opportunities for complementary entitlements: e.g. enabling longer working lives and increasing access to supplementary pension schemes (European Commission, 2010).

The need to strengthen the pension system and seeking for the financial sources in Japan and S. Korea, is related to the global world economic crisis (Asian financial crisis in 1997–1998 and world economic crisis in 2008), as well as the spread of atypical employment relationships, the growth self-employment, the increasing of the migration of workers, the need to strengthen pension system management and mistrust of people in pension system (especially in Japan), low incentives to participate in the private voluntary pension accumulation funds. The Japanese and S. Korean population is ageing rapidly (low birth rate, long life expectancy). Ageing influences society and requires reforms of the pension system both more difficult and more pressing.

The Japanese government is looking for new ways how to stop pension system deficit growth, not only by reducing benefits or increasing contributions, but trying to change other pension system parameters. For example, in 2004 a modified indexation (automatic size change in the pension, depending on the demographic processes) has been introduced, the minimum pension has been established, the retirement age has been extended and so on.

S. Korean government improves the social situation and increases pensions, however, the income inequality and population ageing will generate serious problems in the future.

Social and economic changes in Japan and S. Korea require not only a comprehensive pension system reform, but reforms in other related areas (fiscal policy, labor market, management and capital markets).

2.1. Japan reforms during economic crises

Before the year 2000, the most serious problems of the pension system’s second pillar were the height of eventual contribution rate in order to maintain the present benefit level and the degree of intergenerational inequality in the contribution-benefit relation due to the pay-as-you-go financing system (Fukawa, Yamamoto, 2003, p. 6–13). Another problem was increasing number of atypical workers (short-term workers, temporary workers, subcontractors). Due to the low economic growth, companies started to cut personnel costs (restructuring their full-time staff and searching for the possibilities how to avoid paying of social insurance contributions). It was estimated, that the contributions rate of the second pillar pension insurance would increase from 13.6 % in 2002 to 23 % in 2025 without further reform (Fukawa, 2007, p. 131–143). The last decade of 20-th century, has been sometimes called the „lost decade“ for Japan’s economy and society in general with some sense of self-scorn and this „lost decade“ also represents a loss of confidence among policy makers (Uzuhashi, 2003, p. 1–11).
The aim of the pension system reform in the year 2000 was financial sustainability, raising of the retirement age and efforts to reform the second pillar pension system (Pacific economic council, 2010, p. 71–81). In summary, it can be stated that the fundamental reforms were implemented during this period: the national basic pension was introduced, the reform in the second pillar pension was started, the contributions were consistently increased and the benefits reduced, the increase of pension coverage and pension guarantees was implemented, the increase of the retirement age was continued, new rules for the pensions indexation was introduced. However, the demographic situation deteriorated and pension system deficit continued to grow. Furthermore, we could note that no sufficient changes were made to improve the administration of the pension system (the high rate of exempt, non-participation in the system decreases the universality principle and creates instability of whole pension system), the general pension system data basis was not created. The increased level of the social security contributions for the second pillar pension resulted in various atypical employment relationships. However, the pension system was not adapted to the changes in the labor market.

Further increase in the pension system deficit and the deterioration of the demographic indicators, conditioned series of new reforms in 2004. In order to reduce benefits level and evaluating the life expectancy projections, the government decided to introduce an automatic pensions balancing mechanism. This automatic pension balancing mechanism is depending on the demographic situation - life expectancy (cohorts of people reaching the retirement age).

The government decided to fix the timetable for increase of social insurance contributions from 2004 to 2017 (pensions in first and second pillars). The reason was the low income of pension system and ageing issues. In 1999, the exempt rate of the national pension was more than 20 %, indicating that one from five persons did not pay into the system. Another serious concern was the increase of the number of people who are not exempt, but are not paying the premiums (i.e. defaulters): in 2001, as much as 30 % of the total expected premium revenue was defaulted (Abe, 2003, p. 59–70). Therefore, after government decisions, person can be exempted from the social security contributions only in two cases: if it is related to the disability and if it is related to the public assistance system.

It should be noted that the constant increase of contributions and benefit reductions have a negative impact on confidence in the social security system and encourages the companies to pay lower wages (and persons will get lower pensions in future). Due to the increased contributions and general taxes, due to the development of the information technologies and other economic transformations, the Japanese companies already changed the employment policy: employment of young persons (because of possibility to pay lower salary) and avoiding of long-term contracts (because of the obligation to increase wages from the number of years).

According to the demographic projections, the Japanese government should continue with pension system reforms because the fertility rate will increase very slightly, life expectancy is growing, and the number of retiring persons with long professional career is increasing.
2.2. S. Korean reforms during economic crises

During S. Korean presidential election in 1987, the social policy questions were important. Same year, the minimum wage was introduced, the health care system was expanded and the national pension plan established.

Over the past decade, public spending on social sector increased in S. Korea. The Government tried to create a welfare state within a short period of time (until the last decade of XX-th century, social expenditures did not increase so far as economic growth, in contrast to the Japanese case). For example, the change of pension expenditures was 130.5 % (from 1990 to 2007).

In 1988, the universal national pension scheme for all persons (except for public servants, soldiers, teachers in the private sector) was created. This scheme operates on the basis of pay-as-you-go, financing from the social insurance contributions (only the administrative costs of the system are financing from the state budget). Social security contributions from 3 % (in 1988) in 1993 increased until 6 % and now are 9 %. Furthermore, the pension reserve was introduced (financed from the social insurance contributions). Participation in the pension system is compulsory for the employees who work in the companies with ten or more employees. In 1992, the participation in the pension system became mandatory for the employees working in the companies, having five or more employees (including farmers, fishermen and other self-employed persons). In 1999, this system applies to all other firms (having less than five employees), as well as self-employed persons in the urban areas. The pension age is 60 years, mandatory minimum period is 20 years and the average pension is about 40 percent former wages (ILO, 2010, p. 179–232).

Social insurance reforms were implemented in the other social fields: new unemployment insurance law in 2000; long-term care law in 2007; basic old-age pension law in 2008) (Pacific economic council, 2010, p. 57–69).

In 2009, the Government has adopted several programs, which aim is to encourage the development of middle-class, professional mobility and retraining.

S. Korean pension system is relatively young (the modern pension insurance system for employed persons introduced in 1988 and in 1999 – for the self-employed persons), there are exemptions from the payment of contributions and a few people have a mandatory minimum 10 years of social insurance. Therefore, a brief involvement in the pension system does not provide a sufficient amount of pension benefits; a large number of people does not participate in the pension system and receive only social assistance benefits. Moreover, the labor relations are changing, the atypical employment expanding, and the international migration increasing. It means, that pension system must be reformed relating to the labour structure changes, involving more people in the pension system and ensuring the maximum participation of contributors.

2.3. Lithuanian reforms during economic crises

The last economic recession (from 2008) strongly impacted Lithuanian pension system reforms. Therefore the reforms started quite late and government had to cut pension bene-
fits level. During the economic crisis, the state can reduce pensions. However, the reduced pensions should be compensated in future, when the state social insurance fund’s budget will be balanced (ruling of the Constitutional Court of 20 April 2010).

On 28 October 2009, a National Agreement was signed between the Government of the Republic of Lithuania and social partners: the largest trade unions, business and employers as well as pensioners’ organizations. Under this Agreement, the Government undertook to implement measures for financial consolidation, including a temporary and differentiated reduction in all pensions, pursuing the essential objective to pay social benefits on time, so that recipients of the smallest pensions would be protected and recipients of bigger pensions and other income would jointly assume a heavier burden of reduction (until 2012):

- in 2010–2011 all pension above the threshold of 650 LTL (1 EUR = 3.45 LTL) temporally reduced (exception: disabled persons who lost 75–100 % of capacity for work: no reduction) – in average by 5 %.
- Additional reduction for working pensioners - progressively, depending on income (max. reduction – 70 %; in average – 17 %). No additional reduction for working disabled.

3. New trends for reforms

Pension system can be reformed reducing benefits (or reviewing the entire system of social benefits), introducing new taxes or increasing contributions (pensions are taxable in many EU countries). However, the success of reform depends on the employment growth, flexible employment forms and active social policy.

OECD noted that pension system should be reforming in accordance with the following principles: to prolong working life and the retirement age, to apply dependency ratio between pension benefits and life expectancy, to cancel early retirement system, to reduce the redistribution in pay-as-you-go system, to promote the incentives for private savings, to increase the confidence in the pension system and to diversify the pension system (pension system should work in two ways: pay-as-you-go system and funded savings) (OECD, 2011, p. 9–11).

International Labour Organisation does not have a specific pension model, but we could fix a set of basic requirements for pension systems: i) universal coverage; ii) benefits as a right; iii) equity and fairness; iv) protection against poverty; v) replacement of lost income; vi) collective actuarial equivalence of contributions and pension levels; vii) guarantee of a minimum rate of return on savings (the real value of contributions paid into savings schemes should be protected wherever these are part of the national pension systems); viii) fiscal responsibility (schemes should be financed in such a way as to avoid uncertainty about their long-term viability); ix) policy coherence and coordination (providing affordable access to essential health care and income security to all those in need); x) state responsibility (the state should remain the ultimate guarantor of the right to affordable retirement and access to adequate pensions, such guarantees can be applied to both PAYG and fully funded pension schemes) (ILO, 2010, p. 119).
3.1. Future reforms in Japan: balancing of the budget deficit and future trends

There are three weaknesses in Japan’s pension system: the budget deficit, ineffective management and demographic challenges.

Since 2002, the deficit of pension system is compensating from the reserve fund. The deficit has increased significantly, when the Japanese economy started to grow. Despite the increases in social security contributions and value added tax (from this tax the pension system deficit is financing), the pension system deficit is projected until 2050.

Because of the economic crisis, Japan’s budget deficit in 2011 exceeded 8% (Doi, Hoshi, Okimoto, 2011, p. 414–433). Japan’s Economy, Trade and Industry Ministry forecasts that the increases in social security contributions will lead to the fact that about 1 million jobs will be lost, the unemployment will increase by 1.3% and level of consumption will decrease (Pacific economic council, 2010, p. 78–81). It should be noted that in 2009 the government already subsidized a half of the pension system (first pillar), which means that half of the pension system is financed from general taxes.

Other problem of Japanese social security and pension system is the management efficiency. The Japan’s pension system administration costs are relatively low. However, the serious problem is the avoidance of paying of social security contributions. This is arising not only from the complexity of system, but is related to the efficiency of management and creation of the central database. In 2002, even 8.3 million persons had arrears of contributions and 12 million persons did not participate in the pension system (Chia, Kitamura, Tsui, 2005).

As a model of inefficient management we could mention the miscarriage of pension files, when about 50 million pension beneficiaries files missed. In Japan, there is no social security numbers or personal codes, the benefits are calculated according to the work books (issued for the first time in employment). Only in 1998 it was decided to create a centralized information system.

Despite the reforms or reform’s proposals, the trust in the social security system is still decreasing. It is an undeniable fact that every time population projections have changed in Japan, public pension schemes have also been revised so as to raise premiums and lower benefits. This has led to public scepticism over the veracity of these schemes, and hence, more positive solutions are now required to ensure the sustainability of public pension schemes (Seike, 2001, p. 1–5). The basic concepts of the first and second pillars pension system were so different in so many ways (individual vs. household as a unit of the coverage, flat-rate contribution vs. wage proportional contributions, flat-rate benefit vs. wage proportional plus flat-rate benefit etc.) that this reforms brought about a public pension system which was excessively complex and in transparent, the basic rules of which and the relation of whose burden and benefits almost nobody could understand and it causes people to mistrust the public pension system and which discourages willingness to pay contributions (Tanaka, 2007, p. 96–104).

Japan is one of the fastest ageing countries in the world. Population projections show that in 2055 the number of pensioners will exceed 40% (Yamada, 2011, p. 199–224). Japan’s National institute of demographic studies predict that in 2050 the popu-
lation will fall by 32 million (from 128 million to 95 million) and the fertility rate will fall to 1.26 children per woman. But Japan, in particular and traditionally, has an advantage in promoting the employment of older people given their high motivation to participate in the labor market. And this positive situation in the labour market could partially balance budget deficit.

Thus, the Japanese scientists and international organizations raises questions, related to the confidence in the state social insurance system, better management, pension system reforms, flexibility of pension system, adaptation of pension system to the labor market changes. Definitions of social justice, equity between generations, solidarity and the pension system model are analysing as well.

T. Yamada proposes to cancel second pillar pensions and suggests, that first pillar basic pension could be financed directly by the consumption tax (the tax payers are richest part of society) and income tax (because pensions are related to personal earned income). T. Yamada research showed that in this way it is possible to achieve greater welfare of future retirees (Yamada, 2011, p. 199–224).

T. Fukawa emphasized that it is necessary to make the system less vulnerable to economic and demographic changes, to reduce the intergenerational inequality in the contribution-benefit relation due to the pay-as-you-go financing system. It is important to increase in the normal pension age beyond 65 years old, to change benefit structure (departure from flat-rate benefit, benefit accrual rate according to income level) and to adjust to the pension system to the changing labour market (Fukawa, 2007, p. 131–143). Future reform of the Japanese tax and transfer system would have to pay more attention to: a) deploying measures that enable younger parents to combine child raising and work; b) changing the structure of social spending inevitably biased towards the elderly and refocusing on younger generations; and c) making social systems neutral to the individual’s life style. It is rather obvious that a new form of solidarity is needed in Japanese society, and each member should bear the proper burden (Fukawa, 2008, p. 57–66).

Pacific Council experts emphasize that level of social security contributions in Japan already exceeds the amount of tax revenue. More and more companies are facing difficulties in paying the increased social security contributions and average overall wages decline because the newly recruited employees receive lower wages than already employed middle-aged workers. Government increasing contributions and reducing benefits, but it means that people pay into the pension system more than they will get and this reduces the confidence in the system (Pacific economic council, 2010, p. 78–810).

Currently, the main task of Japan’s government reform should be focused on questions, how to raise a number of employment and contributors (including especially women), reduction of exemptions, how to improve collection of contributions and how to increase confidence in the system. Employment and labor market system reform issues should be considered in the field of pension system reform. Excessively high tax and social security contributions can reduce the burden of Japan’s competitiveness in a globalized world and could eliminate the motivation to participate in the pension system.
3.2. Need for the social security in Korea

We could stress following S. Korean pension problems: the rising cost of financing social security benefits, income inequality and social differentiation and demographic challenges. Pension reform in S. Korea is carried out in order to expand pension coverage achieving the sustainability of the pension system, promoting the involvement of private pension funds, improving the administration of the system and reducing income inequality.

The financial need for the social benefits (including pensions) is increasing: change of pension expenditure (period 1990–2007) in S. Korea was 130.5 % of GDP (OECD average – 14.5 %).

Despite the efforts of S. Korean government increasing social benefits, income inequality increasing from 1990 (Gini coefficient in 1996 was 0.275, in 2008 was 0.321) and the relative poverty rate increased from 9.3 % (1996) to 14.3 % (2008). This can be explained by the fact that economic growth has changed the labor market structure (development of the information technologies) and because of globalization. Moreover, the number of elderly people growing rapidly.

About 28 % of social insurance contributors are exempted from payment of contributions and it could be treated as social investment or as the support for low income earners. However, this principle is not suitable for the construction of the traditional pension system because the social assistance system in S. Korea is closely integrated into the social insurance. The social assistance system should be distinguished from the social insurance system and individuals should be encouraged to participate in the supplementary pension insurance.

Another problem, related to the imbalances of income – increasing social differentiation. It may be noted some examples: a) the development of private education institutions (because of the high fee, persons having higher income participate in this system); b) persons having permanent employment contracts (working in big companies, belonging to trade unions as well) receive different salary compared to those working in the atypical labour relations (in small and medium-size enterprises, not belonging to the trade unions as well); c) high number of social insurance exemptions (Pacific economic council, 2010, p. 57–69). Thus, an important future challenge for government is to increase the social coverage of self-employed and low-income earners and improve the collection of contributions.

The demographic situation in S. Korea is one of the most complex and the Asia-Pacific region. The average fertility rate for 2005–2010 period was only 1.27 children and life expectancy (at the age of retirement) in 2010 was 20.2 years (males) and 25.2 m. (females). The lack of attention to women’s employment, balancing the career and family life, the high price of private education created preconditions for a low female employment rate and low fertility rate. The growing number of not working elderly persons creates the problem for the economic growth, a declining number of the social security contributions, pension expenses and higher health or care system costs.
3.3. New reforms in Lithuania: the future trends

The time for reforms is actually critical in Lithuania: without the prolongation of retirement age and without incentives for the private pension accumulation, the deficit of state social insurance fund will be higher and the trust of people in social insurance system could fell down. In addition, after economic crisis, the demographic and macro economical situation in Lithuania should improve (the wages should increase, unemployment decrease, growth of GDP).

On 15 June 2010 the Concept of the reform of state social insurance and pension scheme has been approved. The goal of the reform is to establish the essential elements of the reform and to foresee new legal regulation (which could ensure long-term financial sustainability and could guarantee adequate and target-oriented benefits, including better administration).

In the long term perspective, several proposals fixed in the Concept: non-contributory social assistance pensions (ensuring a minimum protection of income at old age should be paid from the state budget; social insurance old-age pensions and work incapacity pensions should be paid from a separate budget of the state social insurance fund; to apply a new cleaner formula for pensions and procedure for the establishment and indexation of the amount of pensions; to change the formula for calculation of the social insurance old-age pension by awarding a certain number of accounting units (“points”) for each year of the social insurance record and contributions paid or to switch to the scheme of virtual personal accounts; to gradually switch to a new basic pension or a national pension financed from general taxes by expanding the funding base of the scheme; to separate the calculation of work incapacity benefits from that of old-age pensions in order to increase the clarity of the scheme and rationalize it; to optimize strategies for the investment of accumulated means in pension funds; to integrate state pensions into the general scheme of social insurance and cumulative pensions by paying higher contributions.

The Lithuanian Parliament reached a wide political agreement and on 24 May 2011 adopted Guidelines of pensions and social security reform and on June 8, 2011, the Government adopted the Measures plan for implementation of Parliament Guidelines, including legal regulation timetable. This reform will have two stages: the transitional period will start since 2012 and will continue until 2026. Second stage will start from 2027.

The main aim of the reform (as indicated in the Guidelines) is to ensure that persons would receive adequate pensions, that social insurance fund budget would be stable, non-deficit and that system of pensions would adjust more easily to economical and demographical changes. Several principles have been indicated in the Guidelines:

1. More transparency in the pension system – pension system participants should receive all information about pension rights, should know about system’ benefits and should be constantly notified of the obtained rights to the state social security pension.

2. Separation of the social insurance and social assistance. It means that we should seek for the better correlation between contributions and benefits and make labour market more flexible: gradually increase a retirement age (65)
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and later pensionable age should be flexible, pensions amounts should be related to the demographic and economic situation and governmental must encourage employment of elderly persons.

3. To establish clear indexation rules and clear relationship between social insurance fund and state budget. The pension benefits indexation should be linked to economic and demographic indicators (and not to the strong political impact). Other changes related to the new pension formula: to transfer of flat-rate basic pension to state budget and to introduce NDC (virtual accounts) system or accounting units (“points”) system. All reforms should be made without raising of the level of the social insurance contributions.

4. Consolidation of privileged state pensions to the state social insurance system and to professional funds: to refuse privileged benefits in future, to reintegrate all state privileged pensions to the social insurance system and to create professional pension funds.

5. Better regulation and more efficiency in second pillar private funded pension schemes. In the first place, accumulation in second pillar gradually should be restored and voluntary pension accumulation should be encouraged. In the same time, measures for the better management must be introduced: introduction of the life-cycle investment system; to analyze the possibility to introduce state pension fund; to reduce assets fee and gradually abolishing contribution fee; to reduce the total deductions from the pension asset levels; to reduce the pension system participants the investment risk and to regulate the pension annuity sale process.

6. Better management of the social insurance fund is based to achieve the main goal – to balance the budget of the social security fund. In the first place, when the budget will be balanced, pension reserve fund should start functioning. Also the state budget is guarantee (including interest rates of loans) when state social insurance fund is in the deficit and not enough the reserves in pension reserve fund. Other measures: better administration and control of the disability benefits; to distinct health insurance and pension social insurance; state social insurance fund board should pay all social insurance benefits (state pensions, unemployment benefits etc.).

On June 9, 2011 the Parliament approved the amendments to the Law on state social insurance pensions, whereby the retirement age will be gradually raised as of 2012. The retirement age will be increased by 4 months per year for women and 2 months per year for men as of January 1, 2012 until it reaches 65 years in 2026. In the year 2011, the retirement age is 60 years for women and 62.5 years for men. This decision was adopted with regard to the longer lifespan after the retirement age.

On June 28, 2011 the Government has approved changes in the funded pension scheme and submitted its proposals to Parliament. The aim – to create opportunities for current and future retirees to decide how they would like to accumulate their pensions in future. According to the new proposed regulation, starting from 2014, the person’s contribution to retirement pension will consist of three parts: the contribution transferred from state social
insurance fund budget, contribution paid from person’s earnings and from encouraging contribution paid by the State for participation in private accumulation.

Regarding to the first part of contribution, it is offered that possibility to participate in accumulation of pensions at current conditions, when contribution of 2 % size from insurable earnings is transferred from state social insurance fund to the private funds and insurance companies, would remain. The currents size won’t change (until 2020) and will the obligatory to every participant of this scheme. Since 2020 the first part of contribution would be increased from 2 % to 3.5 %.

If a person on his initiative and from his earnings decides to accumulate bigger part of pension in private funds and pay bigger contribution, this possibility will be allowed. It is offered that in this case since 2014 a person would pay contribution of 1 % size, since 2016 – 2 % size from his insurable earnings to private pension fund (second part of contribution).

In order to encourage a person to accumulate in the private funds, the state will financially encourage person: in this case an encouraging contribution (size of 1 % since 2014 and 2 % since 2016 from an average wage in the Lithuanian economy) would be transferred from the state budget to a person’s pension account.

During transitional period (from 1 January 2013 to 1 September 2013) persons would be able to return to accumulating their pension only in the state social insurance fund (as it was before 2004). The possibility to abort participation in accumulation in private funds will valid only until September 1, 2013.

Others changes related to the better regulation of the pension funds. The Government’s approved the proposal to repeal the restriction to change the pension fund (actually it is possible to change pension fund for the first time only after three years). Pension fund or insurance company could be changed if a person is paid on behalf of at least one savings deposit.

It is also proposed to reduce the deductions from the assets fee and gradually abolishing contribution fee. It is therefore suggested that a maximum deductions from the assets in the conservative investment funds must be 0.7 % (now – 1 %), maximum deductions from the assets in the non-conservative investment funds will remain 1 %. The maximum deduction from the contributions will be 2 % in 2013 and will be reduced by 0.5 % every year until the total relocation.

After optimization of the structure of State social insurance fund board territorial institutions, the total amount of job positions was reduced by 11.4 % (in 2012). None of the State social insurance fund board territorial divisions will be closed down, only the juridical status and subordinations will change (actually State social insurance fund board has 47 territorial units, will be 10). The order of servicing won’t change but customer service quality will be improved. The reform will allow saving around 10.5 million LTL per year.

In conclusion, it is definitely clear that Lithuanian government should continue pension system reforms. A low fertility rate, longevity and other facts of ageing population challenged the need to increase the social security contributions, to revise benefits level and to raise the retirement age. But the budget deficit is still considerable and ageing is significant.
Conclusions

Japanese and S. Korean pension system model could be classified as conservative welfare model (according to the classical G. Esping-Anderssen classification types) because of state functions (guarantor of pension system), state employment related policy, earning-related pensions and mandatory contributions. Some elements (basic national pension) could be treated as an element of liberal model. The biggest practical challenge in designing or realigning national social security systems is the interplay of social insurance schemes, universal benefit schemes, social assistance schemes and private benefit systems as well as integrating social security policies closely with other sectors.

The overall movement of Lithuanian social policy model from corporative, bismarckian type to the marginal, liberal model does not raise any doubts. Before 2000–2003 it is possible to affirm that corporative – bismarckian model has comprised a basis in the country. It consisted mainly of State social insurance fund system together with limited social assistance system which mainly comprised from stationary services. But on the threshold between the XX-th and XXI-th centuries the reform of private pensions clearly outlined the trajectory of the model change from corporative to liberal – marginal type.

Article analysis leads to the following conclusions:

1. The key policy in Japan and Lithuania is to rebuild the trust in public pension schemes. It is necessary to intensify the pension reforms because of sharpening of the demographic and social changes. Participants of the first and second pillars pension system should be constantly and clearly notified of the obtained rights to the state social security pension.

2. The state role in Japanese, S. Korean and Lithuanian pension systems should be maintained as main pension rights guarantor. State should guarantee adequate state social insurance pension level.

3. The concept of social security in Japan, S. Korea and in Lithuania should cover state social security pension schemes (first pillar), occupational pensions or statutory private quasi/mandatory funded pensions (second pillar) and private funded pension schemes (third pillar). Governments should encourage a third pillar voluntary pension, assigning a certain part of liability for his own welfare to a person himself.

4. Japanese and S. Korean societies today are the oldest in the world, the life expectancy in Lithuania is one of the lowest in the European Union. The challenges for the Japan, S. Korea and Lithuanian pension systems are still ageing population (especially low fertility rate, raising number of elderly people and life expectancy) and economic transformations.

5. Pension system must be very closely related to the flexibility of labor relations. Social policy should be more oriented on flexible working time arrangements, balance between work and family life.

6. Pension system reforms must be accompanied by the regulation of capital markets and the strengthening of fiscal policy. In the pension system the diversity of benefits sources should be foreseen (pension funds, guarantees of
the state social insurance pension), the financial incentives for individuals to continue working longer should be increased, the requirements for early retirement should be revised).

7. The pension management and administration capacities must be improved (creating data bases and improving customer service), the analytical and forecasting work should be organised.

8. Social policy in Lithuania, S. Korea and in Japan should encourage women’s and elderly person’s participation in the labour market.

9. In the past, Japan government decided several times to raise social insurance contributions and to cut benefits. In the future, Japan government should apply new policy regarding financial sustainability. Because of the impact on international competitiveness, it could be difficult to raise the contribution level from 2017 again and reconcile growth based on high labor productivity.

10. During the period of economic crisis (2008–2010 years), Lithuania survived huge diminishing of its social protection system, a sudden growth in unemployment and increasing gap between citizens expectations.

11. Because of restricted European Union competence in the field of pensions, in Lithuania it is necessary to identify national economic, social and cultural phenomena, searching consensus between the social partners and following the European Union’s recommendations.

12. Pension system in S. Korea should be clearly separated from the social assistance system. The government should encourage person’s participation in supplementary pension insurance, improve the collection of social insurance contributions, decrease social differentiation, increase the social coverage of self-employed persons and low-income earners.

13. Due to the increasing migrant workers, Japan and S. Korea should try to conclude international treaties in the field of social security.

References


