*Anja KOPAČ MRAK, Andraž RANGUS**

FUTURE CHALLENGES OF DEMOGRAPHIC CHANGES

Abstract. *This paper focuses on the need to reform the Slovenian pension system in order to adapt its functioning to the country's future demographic challenges. The theoretical part details the different types of welfare state along with the fundamental principles historically incorporated in the social security systems. A special part considers the demographic trends and their implications for the sustainability of Slovenia's pension system. The theoretical part is then applied to review whether the solutions proposed in the White Book on Pensions in fact follow the fundamentals of the welfare state and those principles that traditionally have roots in Slovenian society.*
Keywords: *welfare state, intergenerational solidarity, intergenerational justice and equality, demography, sustainability of public finances, pension system, White Book on Pensions*

Introduction

Demographic trends and their future developments pose a serious challenge to welfare states across Europe. Social security systems, which especially in continental Europe are a fundamental income source for different vulnerable groups, face two particularly challenging future goals. On one hand, social security systems have to remain sustainable in the long term so as not to hinder future economic growth or exert too much pressure on public finances. On the other hand, achieving the goal of social security systems that are sustainable should not water down the level of rights already secured by these systems. The question of how to implement new policies while also ensuring safety nets for vulnerable groups such as the unemployed, old, sick or only on parental leave has become even more important in the aftermath of the global economic and financial crisis. The 2008 economic changes around the world revealed the weaknesses of the existing social security systems that had successfully survived two world wars. Those

* *Anja Kopač Mrak, PhD, the Minister for Labour, Family, Social Affairs and Equal Opportunities. Andraž Rangus, PhD, Head of the Working Group for the White Book on Pensions at the Ministry of Labour, Family, Social Affairs and Equal Opportunities*

weaknesses become more prominent when demographic trends have a great impact on the ratio between active and inactive persons.

Among the different social sub-systems, it is the pension insurance system that will be affected the most by the unfavourable future demographic trends (European Commission, 2015). A considerable drop in the number of insured persons and a rise in the number of pensioners are two inevitable facts for most future European pension systems. Influenced not only by demographic trends but also by the financial crisis, at the start of the second decade of this century new pension reforms have also tried to achieve sustainability by reducing levels of future pension rights. Although the future goal of sustainability could be achieved in this way, the goal of adequacy now certainly remains a key issue for the future. Uncertainty regarding pensioners' future income levels and pressure on the young generations to enter into private schemes to ensure they have an additional retirement income might hinder the underlying social contract and social peace that derives from it. Future reforms should therefore focus not simply on the issue of how to prevent poverty among the old-age population, but also on how to achieve intergenerational equality. Moreover, in order to achieve a balance among all generations in the pension systems the social contract will have to be rethought and basic principles reconsidered. This is so much more important in those European continental states with Bismarckian roots where the rights those systems provide should reflect one's past earnings.

Slovenia is no exception in this regard. Demographic changes will have a considerable impact on the future financing of its social security systems. Among the different sub-systems, pension expenditure will account for the biggest share of the future burden of population ageing (Kajzer and Fajić, 2016: 9). To ensure the proper functioning of one of the country's most important social security sub-systems and guarantee a decent standard of living for all future generations of retirees, the Slovenian legislator will have to accede to a new pension reform. Proposed ways for securing future retirees' old-age income were already presented to the public in April 2016 (MDDSZ, 2016). This paper now analyses whether those proposed ways are in line with the existing social contract and supported by fundamental principles historically inherited by the Slovenian pension system. For the pension system to ensure its future existence, it must be sustainable and moreover respect the principle of equality among different generations. These two preconditions guarantee the participation of younger generations in the already existing social contract.

The welfare state

The (social) welfare state began to develop in the second half of the 19th century and continued in the first years of the 20th century (Esping-Andersen, 1990). Its origins can be closely linked to the 20th century workers' movements that were formed to secure for themselves fundamental labour rights, social protection and security of life and income in sickness, old-age and other life-occurring situations where a person cannot provide for himself an adequate income by actively participating in the labour market (Kohli, 1987).

Different types of welfare state were established across Europe, depending on the historical trajectory, values and moral rules that have a dominant influence in a given society. One pioneer in researching the different welfare state types was Gøsta Esping–Andersen who set up an initial division of states in his book »Three Worlds of Welfare Capitalism«. Esping-Andersen categorised the states in three different types: liberal, corporatist and social-democratic (Wildeboer Schut, 2001: 11).

The liberal type of welfare state is often associated with Anglo-Saxon states and the Beveridge model of social security (Blake, 2003). This type presumes that state intervention in social security is limited and only seeks to secure the minimum subsistence of the individual with the goal of returning each individual back to the labour market where he can provide an income for himself (Wildeboer Schut, 2001: 11–12). The main financing source of this type of social security systems is taxes, although taxation is often low (Wildeboer Schut, 2001: 11) also due to the lower and universal rights deriving from such a system (Soede et al., 2004: 20). While the minimum subsistence offered by the liberal type of welfare state might be an appropriate form of protection for the Anglo-Saxon world, it could be insufficient for continental Europe. The neoliberal approach to social security means the individual is left to provide for his standard of living by himself in every life-occurring situation. The minimum subsistence level pushes individuals to return to the labour market. Accordingly, they have to take care of themselves even when their psychophysical abilities are not up to the tasks they should perform. On the other hand, the lower contribution rates and lower taxation entailed leave more disposable income to the individual who can then decide himself how he will distribute the surplus over his life cycle.

The Scandinavian or so-called social-democratic type of welfare state is designed to provide a universal system of national security. This model's fundamental principle is the equality, cohesion and homogeneity of all social groups within a comprehensive middle class with the objective to ensure a high level of social security for all population groups. The universal state of well-being encompasses all aspects of social life. In such a way, the concept of social rights is exercised in full because the rights and services provided by the system depend less on the individual's previous labour market involvement and much more on the individual's needs. Rights in the Scandinavian welfare state type are universal in nature and guarantee the individual a high level of living standard (Palier, 2010: 23; University of Pittsburgh, 2000). The Scandinavian system thus guarantees a high standard of living to every individual, irrespective of their past social status. The state takes care of the less fortunate and provides them with high-standard social services, including an old-age income. The positive side of such a system is that individuals have a high-standard safety net on which they can rely, yet the danger is that some individuals might take advantage of the system. Taxation is the main origin of funding for social security systems of the Scandinavian type and is often set at a high level in order to secure the rights paid out of the system, while social security contributions represent a much lower income source for the system (Wildeboer Schut, 2001: 15). The system relies on the 'goodwill' of people to participate in the system, meaning they pay the high contributions and taxes. Any kind of avoidance in the payment of social security contributions and taxes could adversely affect the system's stability.

The third type of welfare state, which is also important from the Slovenian social security point of view and its fundaments, is the corporatist type, also sometimes referred to as the catholic-corporatist type. It is the most common type among the states of continental Europe, strongly influenced by Bismarck's social security regime. The chief characteristic of those countries that have introduced the corporatist model is their autocratic tradition. Social security systems were in place to ensure the loyalty of individuals to a centralised government or emperor. In this sense, the social insurance system sustains mirror-image differences between the castes and the social classes under the auspices of the state. Different forms of collective insurance specify the rights and obligations of individuals according to their position in society (Wildeboer Schut, 2001: 11; Soede et al., 2004: 20). Among the many collective schemes, the scheme for public servants enjoys a special privilege. The social security system under the corporatist regime secures a high level of rights to the individual, which often represents a share of his past earnings. Taxation is high and social security schemes are primarily funded through contributions paid by employers and employees. The state provides regular transfers to the schemes to provide a balance between revenues and expenditure and to ensure the sustainability of the scheme and the intergenerational solidarity incorporated therein. The level of rights varies among different groups of insured persons (blue and white collars) and the system itself limits the number of means-tested rights (Palier, 2010: 23). The corporatist regime, to which Slovenia's pension system is traditionally linked, seeks to ensure the continuation of the individual's past and future (post-retirement) living standard. Its greatest virtue is that of ensuring a social security standard tailored to each individual's needs. On the other hand, it is much more vulnerable to demographic changes than the other two types. Further, this system is far less flexible in adapting its functioning to the ever-changing social and economic circumstances than the liberal and Scandinavian types. Its future challenges include addressing the role of funded pension schemes in order to meet the task of ensuring a past living standard also for future generations.

Further research revealed three new additional types of welfare regime whose characteristics are somewhat different from those presented by Esping-Andersen. Arts, Gelissen and Ferrera point to the southern or Mediterranean type (Arts and Gelissen, 2002; Ferrera, 1996), Soede mentions the hybrid type (Soede et al., 2004: 24 and 37) while Standing and Deacon added a sixth, the Eastern European type of welfare state, developed since the fall of the Berlin Wall (Standing, 1996; Deacon, 1993).

Fundamental principles

The fundamental principles of social security systems are a cornerstone of every social security sub-system. This is particularly so for Bismarckian pension systems which rely on the functioning of an intergenerational agreement whereby each generation takes on the burden of financing the rights of their predecessors. In such a way, the fundamental principles represent unwritten rules that oblige every active person to participate in the system with a future promise that his own personal rights will also be safeguarded against every succeeding generation.

The first and most important principle is *the principle of intergenerational (social) solidarity*. Based on an inter-generational contract mechanism and the rights and obligations arising from the latter, the principle of social solidarity within the pension insurance system is defined as the collective willingness of individuals to share and combine the risk and take on the distributional effects that arise as a result of such pooling of risks (DeDekken, 2006: 156). Solidarity therefore has to be understood as the pooling of the risk of inadequate income and longevity in old age, rather than being equated with the provision of minimum social standards to specific categories of contributors (Rangus, 2012: 202). The individual therefore combines certain risks through the social security (pension) system with the aim of achieving the profits (benefits) the private market schemes cannot deliver (Rangus, 2016: 43).

The second principle is *the principle of reciprocity*, which refers to the pooling of risks and funding sources on one hand and the distribution of benefits on the other. The reciprocity principle is also associated with the PAYGO system of pension scheme financing under which current contributions are used to fund the payment of rights (pensions) of current pensioners. Together with the principle of intergenerational solidarity, these two principles constitute a system in which each generation contributes to the already acquired rights of previous generations. In such a system, current beneficiaries have their rights based on the payments they have made in their active life for the previous generation, while the entitlements (rights) of individuals who contribute to the system for the current beneficiaries are dependent on the future contributors (Rangus, 2016: 43).

The third is *the principle of redistribution*. Although not explicitly mentioned in the applicable legislation, its role is just as important as that of the principle of solidarity and reciprocity. The principle of redistribution ensures that some beneficiaries can exercise the right to an entitlement exceeding that they would obtain if their rights were solely based on paid-in contributions (Rangus, 2016: 43). The aim is to provide for their social security and social subsistence. Unlike the principle of solidarity, the role of this principle is to allow the redistribution of wealth between "the rich" and "the poor" (Papež et al., 2014: 24). To put it another way, this principle ensures the social protection role within the pension insurance system and represents a move away from the pure insurance and actuarial principles on which private schemes are based.

The principle of self-responsibility is a key principle of health insurance, but may also be applied to the pension scheme as it contains some elements that are important in pension insurance terms. That principle follows on from the provision that the mandatory pension and disability insurance is based on the joint responsibility of the state, employers and the personal responsibility of the insured persons. It should be emphasised that the state is not exclusively responsible for compulsory insurance, but it is more the responsibility of the employers and particularly the insured persons themselves. Employers and insured persons are primarily responsible for the payment of contributions (Belopavlovič et al., 2000: 102). They also are responsible for providing all necessary insurance-related information to the insurance provider. Further, the principle of self-responsibility highlights the responsibility of individuals to provide for themselves a sufficient income in old age through inclusion in the 1st pillar as well as through participation in the context of the supplementary (private) pension schemes.

The concept of intergenerational justice and equality should not be set aside. This concept is one of the essential elements of the pension scheme (along with the inter-generational contract) that provides for its timelessness. Kohli explains that the question of the relationship between ageing and the issue of justice is not so much important from the point of view of the ageing process of individuals. It is chiefly important in terms of the integration of individuals in the group and generations or cohorts as socially determined entities (Kohli, 2006: 462). Further, it is necessary to understand that age groups by themselves are not the problem. What is questionable is the demarcation of generations in terms of distributive justice (Kohli, 2006: 462). In the last two to three decades, a debate has been underway on the (re)distribution of wealth and resources known as generational equality (Williamsom and Watts-Roy, 1999). The debate encompasses a fair redistribution of ageing costs between different generations. Similarly, based on the argument of Rawls' theory of justice, Daniels shows that intergenerational equitable burden-sharing lies in the fact that each succeeding generation can expect to receive the same treatment throughout all stages of life like any previous generation as well as any future generation (Daniels, 1999). In other words, this means that in the ideal world an individual financing the rights of current pensioners via the PAYGO pension scheme can expect that at the time of his retirement his own rights will be funded at the same level by the next generation.

The demographic and financial challenge

Europe is facing a great demographic challenge as the baby boomers are slowly moving from their active age into retirement. The problem, however, is not that the baby-boom generation is getting older, but more the fact that the baby boomers are followed by the baby-bust generation. The demographic challenge, as described, is not an isolated challenge that can simply be attributed only to certain EU member states, but is a challenge for the EU as a whole. The fact is that the currently predominant cohort of those aged around 45 will become much weaker in the decades to come. Projections show that in 2060 the number of elderly people will account for an increasing share of the population, mainly due to the combination of the large cohorts born in the 1950s and 1960s on one hand and the continuing projected gains in life expectancy on the other (European Commission, 2014: 17). The increasing life expectancy is also to be followed by lower replacement fertility rates. The projections show that the proportion of young people (aged 0–14) will remain fairly constant by 2060 in the EU-28, while the biggest difference will be in the group aged 15–64 whose share in the overall population will become substantially smaller, declining from 66% to 57% (European Commission, 2014: 18). The effect of the ageing population will contribute to the rise of share of the group of those aged 65 from 18% to 28% of the population, while those aged 80 and over (rising from 5% to 12%) will almost become as numerous as the young population in 2060 (European Commission, 2014: 18). These changes will have an enormous influence on how future social security benefits are financed. They present an almost unbearable financial burden and the question is what a fair redistribution of this burden would be. One thing is certain, generations whose longevity will contribute to the growth in the expenditure should provide ways to at least tackle part of this financial burden.

Demographic changes will also have an adverse effect on the old-age and total age dependency ratio. The old-age dependency ratio measures the number of people aged 65 or above relative to those aged 15–64. This ratio is projected to grow from 27.8% to 50.1% in the EU as a whole until 2060 (European Commission, 2014: 18). To put it more practically, this means that four working-age people, who now account for every person aged over 65 years, will be halved to only two working-age persons in 2060. The numbers imply a drastic shrinking of the working-age population. Another significant indicator that the EU is getting older is the increase in the total age-dependency ratio – calculated as the number of people aged 14 and below and aged 65 and above over the population aged 15–64. This ratio is projected to be even more worrying as it will be rising from 51.4% to 76.6% (European Commission, 2014: 18). In other words, over the next four decades the number of working-age persons to persons considered to be inactive will be lowered from 2 working-age persons to only 1.3 working-age persons for every inactive person.

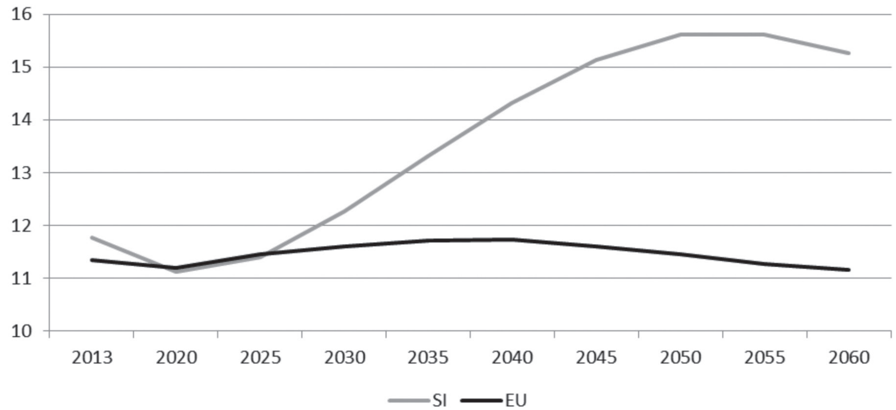
Slovenia is challenged by the demographic changes even more drastically than the average EU member state. The age structure of the Slovenian population will be significantly different in 2060 compared to now. Major changes can already be seen today as life expectancy has been increasing over the last two decades. The share of those over 65 increased in 1990–2015 from 10.6% to 17.9% (UMAR, 2016: 3). Moreover, the projections show that the share of elderly people will almost double by 2060 when this group will account for almost one-third of the whole population (UMAR, 2016: 3). The effect of the baby-bust generation coupled with increasing life expectancy will therefore increase the total age dependency ratio (people aged 19 and below and aged 65 and above over the population aged 20–64) from 57.1% in 2013 to 98.0% in 2060 (UMAR, 2016: 3). The projections show that in 2060 only one person considered to be of working age (20–64) will have to provide financially for one dependant person (aged 0–14 or 65 and above). Slovenia thus has to consider major steps in redefining its social security systems in order to preserve the sound public finances. The demographic challenge might place today's systems under serious threat should the systems not adapt to this challenge.

The demographic effect will have a strong impact on the financing of social security systems right across Europe. As the share of the elderly is rising on account of the increasing life expectancy, it can be predicted that the biggest burden of the growing costs of population ageing will be borne by the pension system.

The pension system's vulnerability is evident as expenditure for old-age retirement income is projected to increase considerably over the long term, despite the positive initial effects of the 2012 pension reform. In the long run, Slovenia's public pension spending is to increase by 3.5 percentage points to an unsustainable 15.3% of GDP in 2060 (with a peak in 2053 of 15.7% of GDP), which is the second highest projected pension spending increase in the long term (European Commission, 2016: 35). A burden of 15.3% of GDP is not only unsustainable from the public finances perspective, but also unfair from the generational aspect. Such high expenditure clearly shows that some generations have claimed their pension rights prematurely if the consideration is made from the longevity perspective.

Projections show that the element contributing the most to the increased public pension expenditure in Slovenia will be population ageing. Old age dependency will contribute 9.7 percentage points of GDP in Slovenia and only 7.2 percentage points on average in other EU member states (European Commission, 2016: 35). The baby-boom effect can be seen from the rise in public pension projections showing that between 2030 and 2040 public pension expenditure will increase by 2 percentage points of GDP, which is the largest increase in public pension spending in EU projections for the EU (European Commission, 2016: 35).

Graph 1: PENSION EXPENDITURE PROJECTIONS IN SLOVENIA AND IN THE EU AVERAGE AS A SHARE OF GDP



Source: MDDSZ, 2016: 45.

The rise in longevity and increase in public spending due to pensions leads to the question of who will bear the burden of population ageing. This question becomes so much more important when the delicate nature of the unwritten social contract is hindered by the future pension promises that are not backed up with the contributors' sufficient financial means. Intergenerational solidarity and especially intergenerational justice and equality are challenged as the future generations might oppose the financing of the baby boomers' pension rights acquired due to their lower retirement ages. Further, the principle of reciprocity is not being respected if one generation shifts part of the burden which it would have to bear on its own while the reciprocity principle might be ineffective as funds needed for the PAYGO system's functioning are insufficient. Thus, the challenge for the future remains as Slovenia's welfare state is put to the test to ensure its future existence by providing sustainable and well-functioning sub-systems of social security. The biggest challenge is to ensure a sustainable pension system that will also be able to provide an adequate income for the elderly.

The White Book on Pensions and its mission

One of the Slovenian government's responses to the issue of population ageing is the White Book on Pensions. The White Book on Pensions is a comprehensive document that attempts to answer the question of how to achieve the pension system's sustainability on one hand and to deliver an adequate income on the other. The novelty of this document is that it does not only deliver one possible solution, but offers a combination of several different measures that can deliver the goal. It is important that the most suitable combination is confirmed by the broader public as the welfare state is nothing but the generations living in one time horizon deciding by themselves what are the values and morals of the society at that point in time.

The retirement conditions resisting the negative demographic impacts

The White Book on Pensions does not give a single answer to the question of what should be the proper legally determined retirement age in the new pension reform. It does, however, present a variety of different combinations of retirement ages and contributory periods that could serve as a basis for determining future retirees' retirement conditions (MDDSZ, 2016: 97–117). The purpose of this paper is not to present the different options set out in the White Book on Pensions, but to comment on the results of the proposed solutions. In order to achieve intergenerational justice and equality among different generations, the new pension reform will have to take three fundaments into account (Rangus, 2016: 330). These are as follows: 1) Daniels' theory on equal distribution of the (financial) burden of pension expenditure among different generations (Daniels, 1988); 2) the Schokkaert rule on the fact that every generation must carry the burden of financing their own longevity (Scokkaert, 2003); and 3) the Musgrave rule on redistribution of the financial burden arising from unexpected demographic shocks among different generations (Musgrave, 1981). Any formula respecting these three rules presumes that the rise in the retirement age should follow the longevity in the sense that an individual's years in retirement as a certain share of the years of his whole life would be fixed and preserved for all generations at the same level (Rangus, 2012: 216).

Calculations show that, in order to preserve intergenerational justice and equality among different generations, future pensioners should be effectively retiring at the age of 64.4 years (men) and 63 years (women) in 2025, while in 2060 the effective retirement age should be raised to 67.5 years for both genders (Rangus, 2012: 218–219). Projections of the proposed measures in the White Book on Pensions show that the average effective retirement age in 2025 would be around 62.5 to 64 and in 2060 around 65.5 to 67 (MDDSZ, 2016: 109). Thus, the proposed retirement conditions would fall somewhat behind the goals, but still provide enough of a rise in the effective retirement age as not to hinder intergenerational solidarity, justice and equality too much. In any case, the presented results are much more in line with the mentioned fundamental principles than the projections for the current system (61.5 in 2025 and 64 in 2060). Evidently, the proposed changes try to follow the principle of intergenerational equity by distributing the demographic effect across different generations. Today's generations, even those close to retirement, should contribute to the long-term sustainability by prolonging their working life and the proposed changes clearly indicate how this should be done.

Linking past with future income

One of the most important issues of the new pension reform will be achieving the goal of providing an adequate income for future retirees. Here the issue of the type of welfare state to which one country (society) belongs is much more important than the question of the particular retirement age. Bismarck's legacy dictates that the individual's retirement income should reflect his past earnings and so secure him a position in the decile he belonged to before his retirement. In order to preserve the type of the welfare state Slovenia belongs to now, the future reform will also have to take this fact into account.

The White Book on Pensions proposes important changes when it comes to the calculation of benefits. A major step forward in this sense is the introduction of the point system (MDDSZ, 2016: 124–128), a mechanism that allows for greater transparency in the systems on one hand and a closer link between an individual's past income and their future pension. The point system can also establish greater trust among current contributors as it allows every individual to calculate his future rights based on the number and value of points he has collected so far. Moreover, the point system allows, if so agreed, that certain unfavourable years are taken out of the calculation and that some years are valued more on account of the fact that a person has contributed to sustainability in some other way (e.g. childbearing). In such a way, the introduction of a point system is a proposal that fits well with combating the future challenges. The points system will improve the system's functioning, bring the system closer to the people and help improve trust in the system.

Looking closely at the measures proposed in the White Book on Pensions, it also offers solutions for the most vulnerable groups. In line with the principle of redistribution, the minimum pension is established with a 10% higher nominal value than is guaranteed by the current system. At the same time, it offers a greater span between the lowest and highest pensions (MDDSZ, 2016: 120–123), which is also in line with Bismarck's doctrine. The designers of the new pension system propose a move to ensure a stronger link between past earnings and future pensions. A daring move, but one that should also have a positive effect on higher participation as the pension promises made to future retirees are then more in line with their expectations.

Based on the results the White Book has to offer on the pension level from 1st pillar, it should be emphasised that the pensions to be be guaranteed under the future reforms are not completely in line with the OECD's recommendation of a 70% replacement rate – first pension compared to one's last wage (Antolin, 2011). Replacement rates under the 1st pillar fall behind by around 10–15 percentage points in the long run, promising generations retiring between 2025 and 2040 slightly higher pensions. It does, however, promise higher pensions than the current system offers on account of longer working lives. Bearing in mind that the pension system tries to secure an adequate income for all generations, the pension promises are consistent with the system's sustainability. However, one would expect that the future pensions would be slightly higher.

Preservation of rights and additional income sources

Two important issues that affect the adequacy of pensions should be discussed. The first is the indexation of pensions, which guarantees that acquired rights are not watered down by inadequate revalorisation and the income from supplementary pension schemes, which represents additional financial security in one's retirement.

When talking about the indexation of rights, Whitehouse's view on indexation should be respected. Whitehouse considered that indexation should have the function of providing a higher initial replacement rate that would still be sustainable from the financial point of view on account of the indexation with inflation (Whitehouse, 2010: 26).

Future retirees' additional income should also be guaranteed by supplementary pension schemes. This is not to put an additional burden on the individual in his active age, but to assure that part of the future longevity risk is also shifted to fully-funded schemes. It has to be emphasised that 2nd pillar pension schemes can have positive impacts on future pension levels and provide a complementary risk-sharing basis to the risks covered by the 1st pillar (Kuné, 2007).

As regards the question of indexation and complementary income sources, the White Book on Pensions offers pragmatic answers. The White Book defines a different indexation formula for a different generation of future retirees, preserving the current formula (60 wages: 40 inflation) for the period of the first decade after the reform, then reducing it to 30 wages: 70 inflation in the second decade and finally setting it to 100% inflation at the end of the reform period (MDDSZ, 2016: 136–142). This formula allows for the acquired rights to be preserved at a somewhat higher level for pensioners who will be retired after the reform and giving those who will retire later an opportunity to save additional income under the 2nd pillar. The formula offered is generous from a comparative point of view, yet one should have in mind that indexation plays an important role in sustaining the level of past pension rights. Hence, favourable indexation cannot be changed drastically without giving the future retirees the possibility to ensure for themselves an adequate additional income through other sources.

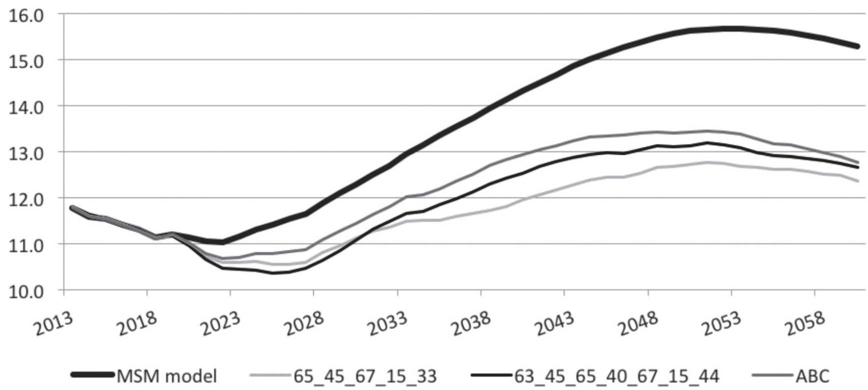
The solutions offered in the 2nd pillar are also in line with the principle of self-responsibility. With a view to supplementary pension schemes offering additional safeguarding elements against longevity risks, the White Book on Pensions shifts part of that risk to this kind of insurance. What is important is that it shifts only a smaller proportion of rights to these schemes, leaving the fundamental part of old-age income to be guaranteed by the 1st pillar. This is consistent with Bismarck's pension insurance whereby the majority of old-age income should be provided by the public pension scheme. Second, it is important that the burden-sharing for financing the supplementary insurance is divided equally among employers and employees (MDDSZ, 2016: 201) since, according to the principle of self-responsibility, both parties are involved in financing the pension system. Moreover, the proposals in the White Book on Pensions also cover the principle of redistribution by including the "matching contributions" system (MDDSZ, 2016: 198), which allows low-wage workers to also be covered by the supplementary pension schemes. The White Book's proposals in the 2nd Pillar are well designed and in line with the future evolution of the Bismarckian pension scheme. The changes proposed in this field provide for a sufficient back-up income to that stemming from the pay-as-you-go pension scheme, thereby taking some of the financial burden off its shoulders.

The simulation results show that future retirees can expect the 2nd pillar to replace the gap between the first pillar pension and the targeted 70% replacement rate. Generations that would be retiring just after the reform would enjoy higher indexation of their 1st pillar pension, while the generations now starting on their careers would substitute part of the wage indexation with supplementary pension income.

Financial outcome of the proposed changes

The sustainability of a pension system is a relative notion. It is up to a certain society to decide how much it wants to spend on pensions and what remains for other social policies. When we try to define sustainability in terms of intergenerational solidarity, justice and equality, one should keep Daniels' theory of equal burden sharing in mind. Acknowledging this theory, sustainability could be defined such that future pension expenditure does not rise considerably above today's pension expenditure.

Graph 2: PENSION EXPENDITURE AS A SHARE OF GDP BASED ON DIFFERENT SCENARIOS IN THE WHITE BOOK COMPARED TO CURRENT SYSTEM EXPENDITURE (MSM MODEL – CURRENT SYSTEM)



Source: MDDSZ, 2016: 210.

Should the proposed changes be introduced into the system, future pension expenditure will amount to around 12% of GDP. In this way, the White

Book on Pensions balances the weight of financing public pensions among different generations, without excessively burdening any particular one.

Conclusion

Population ageing will adversely impact the financing of social security systems right across Europe. Slovenia, one of the countries with the most unfavourable demographic picture, is faced with the great challenge of adapting its existing social security sub-systems to future trends regarding longevity of the population. Future reforms in Slovenia, especially of the pension system, will have to incorporate changes that will include some new innovative steps in the adaptation of these systems, but they will also have to take account of the fact that these systems have long traditions and are based on foundations that cannot simply be changed overnight. Changes will have to consider the type of welfare state to which Slovenia's social security system belongs. Slovenia, a country with Bismarckian roots, is considered to belong to the corporatist type of welfare state. When thinking about the future pension reform this fact gives us an important starting point. Further, the basic principles of the system should not be overlooked in the future reform as they give a substantial basis to the underlying social contract that provides the system with its timeless nature.

The White Book on Pensions answers most of the questions raised by the future adverse demographic effect on the public pension system. The proposed measures are consistent with the type of welfare state to which Slovenia belongs and respect the basic principles that have historically been implemented in the system. The solutions provide a good balance in distributing the financial burden of longevity among the different generations and thus for securing intergenerational solidarity, justice and equality in the future. Changes to the system address the question of sufficient safety nets for the vulnerable and provide answers on how to ensure the adequacy of income in old age. In line with the corporatist type of welfare state, the White Book on Pensions assures a stronger link between past earnings and future pension benefits and attributes the public pension system with the leading role in providing income to retirees. Second-pillar pensions provide additional income for future retirees to ensure an individual retains his position in the decile he belonged to before his retirement. Public spending on pensions according to the changes proposed in the White Book on Pensions is sustainable and thus in line with intergenerational justice and equality. The starting points for the new reform are now in place. How the new pension system will look in the future remains to be seen, but one thing is certain – the primary goal of any changes should be to restore trust in the system.

BIBLIOGRAPHY

Antolin, Pablo (2011): Policy Options to Strengthen Retirement Income Adequacy in DC Pension Pans, OECD Special Seminar on Annuities and Pensions, Mexico City, 8. 6. 2011.

Arts, Wil and John Gelissen (2002): Three Worlds of Welfare Capitalism or More? A State-of-the-Art Report. Journal of European Social Policy 12 (2): 137–158.

Belopavlovič, Nataša et al. (2000): Zakon o pokojninskem in invalidskem zavarovanju s komentarjem, Ljubljana: Gospodarski vestnik.

Blake, David (2003): Pension Schemes and Pension Funds in the United Kingdom. New York: Oxford University Press.

Daniels, Norman (1988): Am I My Parents Keeper? An Essay on Justice Between the Old and the Young. Oxford: Oxford University Press.

Deacon, Bob (1993): Developments in East European Social Policy. In Jones, Catherine: New Perspectives on the Welfare State in Europe. London: Routledge.

De Deken, Johan J., Eduard Ponds and Bart Van Riel (2006): Social Solidarity. In Clark, Gordon L., Alicia H. Munnel and Michael J. Orszag: The Oxford Handbook of Pensions and Retirement Income. Oxford: Oxford University Press.

European Commission (2015): The 2015 Pension Adequacy Report: Current and Future Income Adequacy in Old Age in the EU: Volume I, Joint Report prepared by the Social Protection Committee (SPC) and the European Commission (DG EMPL), Luxembourg: Publications Office of the European Union.

European Commission (2014): The 2015 Ageing Report: Underlying Assumptions and Projection Methodologies European Economy 8/2014. Accessible at http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee8_en.pdf (15. 12. 2016).

Esping-Andersen, Gøsta (1990): Three Worlds of Welfare Capitalism. Oxford: Polity Press.

Ferrera, Maurizio (1996): The Southern Model of Welfare State in Social Europe. Journal of European Social Policy 6 (1): 17–37.

Kajzer, Alenka and Lejla Fajić (eds.) (2016): Demografske spremembe ter njihove ekonomske in socialne posledice. Ljubljana: Urad RS za makroekonomske analize in razvoj.

Kohli, Martin (2006): Aging and Justice. In Binstock, Robert H. and Linda K. George (eds.): Handbook of Aging and the Social Sciences, 456–478. 6th edition San Diego, CA: Academic Press.

Kuné, Jan B. (2007): Solidarities in Collective Pension Schemes. In Steenbeek, Onno W. and van der Lecq, S. G. Fieke: Costs, and Benefits of Collective Pension System, 13–32. Berlin, Heidelberg, New York: Springer.

Musgrave, Richard (1981): A Reappraisal of Financing Social Security. In Skidmore, Felicity (ed.): Social Security Financing, 89–127. Cambridge, MA: The MIT Press, 1981.

Palier, Bruno (2010): A Long Goodbye to Bismarck: The Politics of Welfare Reform in Continental Europe. Amsterdam: Amsterdam University Press.

Papež, Marijan, Jože Kuhelj, Anton Dobrina, Irena Štrumbelj Trontelj, Andraž Rangus, Mitja Žiher (2014): Novi veliki komentar zakona o pokojninskem in

invalidksem zavarovanju s področja obveznega in poklicnega zavarovanja. Ljubljana: Založba Reforma
Rangus, Andraž (2016): Reforma obveznega pokojninskega zavarovanja v luči temeljnih načel slovenskega pokojninskega sistema XVI (1), 39–60.
Rangus, Andraž (2014): Kakšna naj bo prihodnost slovenskega pokojninskega sistema Delavci in delodajalci XIV (1): 7–39.
Rangus, Andraž (2012): Zavarovalni principi in medgeneracijska pogodba tristebrnega sistema pokojninskega zavarovanja v Sloveniji, (doktorska naloga), Univerza v Ljubljani, Pravna fakulteta.
Schokkaert, Erik and Philippe Van Parijs (2003): Debate on Social Justice and Pension Reform: Social Justice and the Reform of Europe's Pension Systems. Journal of European Social Policy 13 (3): 245–263.
Soede Arjan J. and J. Cok Vrooman (2008): A Comparative Typology of Pension Regimes. ENEPRI Research Report (54), AIM WP2. European Network of Economic Policy Research Institute. Accessible at https://www.ceps.eu/ (16. 12. 2016).
Soede, Arjan, J., J. Cok Vrooman, Pier Marco Ferraresi, Giovanna Segre (2004): Unequal Welfare States: Distributive Consequences of Population Ageing in Six European Countries. The Hague: Social and Cultural Planning Office.
Standing, Guy (1996): Social Protection in Central and Eastern Europe: A Tale of Slipping Anchors and Torn Safety Nets. In Esping-Andersen, Gøsta: Welfare States in Transition: National Adaptations in Global Economies. London: Sage.
SURS (2016): Prebivalstvena piramida. Ljubljana: Statistični urad RS. Accesible at http://www.stat.si/PopPiramida/Piramida2.asp (12. 12. 2016).
Wingert, Jamie, Dan Galluppi, Nicol Faher, Patricia Dinsmore (2000): How to Conceptualize the Welfare State. University of Pittsburgh. Accessible at http://www.pitt.edu/~heinisch/concept.html (15. 12. 2016).
Wildeboer Schut, Jean Marie, J. Cok Vrooman, Paul T. De Beer (2001): On Worlds of Welfare: Institutions and Their Effects in Eleven Welfare States. The Hague Social and Cultural Planning Office.
Whitehouse, Edward R. (2010): Pensions, Purchasing – Power Risk, Inflation and Indexation. OECD Social, Employment and Migration Working Papers (77). Paris: OECD Publishing.
Williamson, John B. and Watts-Roy, Diane M. (1999): Framing the Generational Equity Debate. In Williamson, John B., Watts-Roy, Diane M. and Kingson, Eric R. (eds.): The Generational Equity Debate, 3–37. New York: Columbia University Press.

SOURCE

MDDSZ (2016): Bela knjiga o pokojninah. Ljubljana, Ministrstvo za delo, družino, socialne zadeve in enake možnosti. Accessible at www.mddsz.gov.si (11. 12. 2016).