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主 論 文 の 要 旨

論文題目

Analysis of the Privatization as an Approach for a Pension Reform. The Experience of Bulgaria and Lessons from United States and Japan

(年金制度改革の方法としての民営化の分析—ブルガリアの経験ならびに日本およびアメリカからの示唆)

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論 文 内 容 の 要 旨

The public pension systems in developed countries with aging societies are facing problems with their sustainability. As a result, governments seek approaches to make their pension systems more financially sustainable. One of these approaches is the privatization of the public pension plans. The present doctoral thesis examines the effects of this approach by comparing the pension systems of three countries – Bulgaria, United States and Japan. The structure of the thesis is five chapters – Chapter I - Introduction, Chapter II - The Bulgarian Pension System, Chapter III - The Old-age Security in the United States, Chapter IV - The Japanese Pension System, Chapter V - Analysis of The Results, and Conclusion. The thesis statement is that the private pension plans and especially the Defined Contribution plans should be regarded only as supplementary instruments to stimulate savings, and not as an institutionalized part of the pension system that can replace the public Defined Benefit pension plan.

Chapter I and II of the doctoral thesis introduce the two approaches to old age income security and the Bulgarian reform. In 2000 the Bulgarian government,

following a recommendation from the World Bank, and in order to achieve financial stability, replaced a part of the public Defined Benefit pension plan with privately operated Defined Contribution plans. The idea behind the reform was that part of the pension insurance contributions will be transferred to these DC pension plans will be used for profitable investments. The final goal was that the benefits from these plans will not only match the pension benefits from the DB public pension they replace, but also be higher. The Bulgarian government expected two positive effects from this approach. First, the burden for the public pension plan would be relieved. Second, the covered individuals will receive higher benefits from the accumulated funds and the profitable investments. These DC pension plans were to be managed by private pension companies, which means that part of the pension system became privatized. However, the results from 18 years of operation have not met the expectations. The reason is that the replacement of part of the public DB with privately managed DC plans came at a cost: it solved one problem, but created others.

The biggest issue is that the expected profits did not materialize, and in the late 2019 the Minister of Labor and Welfare Policy had to acknowledge that for a number of people the pension benefits from the DC plans will not be enough to match the benefits that they would have had from the public DB pension plan. It is also referred to as the “two is less than one” problem: the combined pension benefits of people that are going to receive pension benefits both from the public DB pension plan and a private DC pension plan (two pensions) will be less than the benefits people who will receive pension benefits only from the public pension plan (one pension). Until now the research of the Bulgarian private pension

system was focused mostly on the financial aspect – to set limits on investment in different classes of assets, or how to change the legal definitions to prevent investments in related parties.

The problems in the Bulgarian pension system are not limited to the DC pension plans. The rules in public DB pension plan are not uniform, and create preferential treatment. As a result many people are able to retire too early.

The doctoral thesis examines the problem from broad perspective, focusing on the nature of the pension system. The privately managed DC pension plans may relieve some of the burden on the public DB pension plan, but they have their own set of inherent problems that makes them unfit to be universal pension plans.

The most important of these problems is that, the shift from DB to a DC pension plan fundamentally transforms the nature of the old-age security- from insurance to savings. This transformation is a core issue of the thesis. In essence, there are two approaches to old-age income security. One is the traditional savings approach in which individuals create their post-retirement income by saving during their active years. A practical example of this approach are the DC pension plans. In these plans the individuals have their own account in which they accumulate funds, which are invested and paid out as benefits after retirement.

The other approach to old-age income security is the insurance approach. In this approach, by paying contributions, the individuals transfer a risk to another individual or entity that can support the consequences of the risk more easily and with less distress. In the field of old-age income security the risk is a person to be left in poverty because he or she is unable to work due to old age. The practical example of this approach is the DB pension plan. In these plans the individuals

pay contributions and the risk of poverty is transferred to another entity which can bear it more easily – the State or an employer. The benefits are calculated using a formula that takes into consideration the paid contributions.

The important difference between these approaches is the redistribution of income and the protection of the lowest income individuals. In the DC pension plans there is no redistribution of income, and the post-retirement benefits depend entirely on the accumulated funds and the profits/losses from the investment. In the DB pension plans, the formula for calculation of the benefits may be used to redistribute income, and as a result to provide better protection to the low-income individuals.

The present research examines the pension systems in United States and Japan to prove that the Bulgarian approach to the sustainability of the pension system was flawed from the beginning, and that the DC pension plan are not able to provide the expected old-age income protection, especially for the low-income individuals. Chapter III examines the old-age income security in the US. This country was selected as a subject of comparative research due to the fact that in US the private sector plays an important part in providing old-age income security. First, the doctoral thesis examines the US public pension system. Compared to Europe, the US were slow to implement a federal pension plan (a part of Social Security) because of the high number of Civil War veterans. As a result, the US was not under pressure to adopt a national pension plan until the Great Depression. As a result, the scope of the program was limited. Initially, the protection of the right to pension benefits was also limited. In the first landmark case – *Flemming v. Nestor* the US Supreme Court ruled that the right to pension benefits is not

protected as a property right under the Fifth Amendment to the US Constitution. However, after serious criticism from lawyers and academics the Supreme Court eventually reversed its opinion and currently the right to pension benefits is protected under the Fifth Amendment.

Currently there are two federal programs for old-age income security Old Age and Survivors and Disability Insurance Program (OASDI) and Supplemental Security Income (SSI), but the pension benefits that they are able to provide are relatively low and people have to rely on private pension plans to increase their retirement income.

Next, the thesis examines the US private DB and DC pension plans. The DB pension plans were popular during the Second World War and the years after, but after the bankruptcy of a big car manufacturer, which left a significant number of individuals without benefits, the US Government enacted Employees Retirement Income Security Act (ERISA). ERISA required the employers to act as fiduciaries for their employees, which created a lot of uncertainty about their specific obligations. As a result, the employers became reluctant to offer DB plans and switched to DC pension plans. This switch did not increase the old-age income security. The DC plans had three important problems, which also exist in Bulgaria. First, it is very difficult for the individuals to plan their savings decades in advance. Second, the savings in a DC pension plan are exposed to unpredictable market fluctuations. Third, the management fees consume a large part of the profits and the savings. The result, is that the coverage ratio of the US private pension plans is low, and even lower among the low-income individuals.

Chapter IV is devoted to the Japanese pension system, and starts by examining

the Japanese public pension plans and their constitutional framework. In contrast to the U.S. Constitution, Art. 25 of the Japanese Constitution provides a framework of social security and for the pension system as a part of it. This conceptual framework was further developed by the Japanese Supreme Court in two prominent cases in which the Supreme Court held the view that the practical measures of the executive branch are subject of judicial review only in cases of obvious deviations and abuses. The doctoral thesis claims that Art. 25, Para. 2 contains argument against privatization of the Japanese pension system. The property protection on constitutional level is also examined.

The current Japanese public pension system is composed of two main pillars – the universal National Basic Pension Plan and the Employees' Pension Plan. The National Basic Pension Plan is designed to contribute to the preservation and improvement of the healthy life of the population by using cooperative solidarity among the people to prevent loss of economic security arising from old-age, disability or death. This plan has universal coverage and has to provide income for the most basic needs.

The other pension plan is the Employees' Pension Plan, which has the purpose to contribute to the improvement of the security and welfare of the employees and their surviving families by providing pension benefits for old-age, disability and death. It does not have universal coverage, and covers individuals working at qualified workplace, state and municipal servants, and employed in a corporation. To limit the negative effects of the worsening demographics and financial situation of the public pension plans, the Japanese government introduced a system that links the expenditures for pension benefits to macroeconomic

indicators – macroeconomic slide. The estimates of the Japanese government show that this measure would decrease the ratio of the pension benefits to GDP. However, the old-age income security offered by the Japanese public pension plans is decreasing. Calculations show that the public pensions will not be sufficient to maintain the standard of living, and that a household of two retirees will need JPY 20,000,000 in savings to cover a 20-year period. In addition, a model of the Ministry of Health Labor and Welfare shows that achieving a replacement rate of 50% will not be possible in the long term. This falling replacement rate will result in increasing number of elderly people falling in poverty and relying on welfare benefits.

The next part of Chapter IV examines the Japanese private pension plans. Similarly to the US, in Japan there are two types of private pension types – Defined Benefit and Defined Contribution. The DB pension plans were popular until the property bubble burst in the early 1990s and the employment practices started to change. These conditions made the DC much more attractive. In 2001 the Japanese government enacted the Defined Benefit Corporate Pensions Act and the Defined Contributions Corporate Pensions Act (DCCPA). A common feature of both the DB and the DC pension plans is that they were designed to supplement the benefits from the public pension plans, and not to replace them, even partially. To deal with the principal-agent problem in the private pension plans DBCPA and DCCPA use the concepts of duty of loyalty and duty of care. However, as with the private pension plans in the US, the definitions of these duties allow broad interpretation.

The result is that the level of old-age income protection provided by the Japanese

private pension plans is not high. The number of individuals covered by corporate pension plans increased until it peaked in 1995 and then started to gradually decline. The long period of economic decline also had a detrimental effect on the willingness of employers to offer corporate pension plans. On the other hand, the effect of the Japanese corporate pensions is not high either. In 2018 61% of the average income of the households of elderly people was coming from public pensions, while the share of the corporate pensions was no more than 5%.

There are problems with the Japanese corporate pension plans in several areas, and they are similar to the ones in the US. First, the employers are reluctant to offer DB corporate pension plans, because they bear the risk entirely. Second, the requirements regarding the investment and the administration of the corporate pension plans (especially the DB type) are so complex that they act as a deterrent for the employers to offer such plans. Finally, the tax treatment of the different types of pension plans is not uniform: the contributions and the pension benefits from the DC pension plans are exempt only to a certain amount, while there is no such amount for the DB corporate pension plans.

The last chapter of the doctoral thesis covers the conclusion drawn from the comparative research. The first one concerns the nature of the pension system. Currently there is a debate whether the right to pension benefits has to be regarded as an insurance payout, or as an earned right. The conclusion in the doctoral thesis is that the right to pension benefits is an insurance payout and the risk it covers is poverty in old age due to inability to find employment. The retirement age is set as a condition, because it is costly to determine when this inability occurs for each individual, and reaching this age can be regarded as a

presumption that the insurance risk has materialized. This view of the pension system serves as a basis for the recommendations about the Bulgarian pension system. The first one is that the Bulgarian privatization reform was flawed. The reason is that the public pension system and the private one work under completely different principles. The first one is the biggest insurance plan in a country, redistributing wealth in accordance with the socially accepted ideas of solidarity and social justice. The second one is a savings instrument, based on individual accounts, which excludes the redistribution of wealth. The guiding principle of the private pension plans is the maximization of profit, and not maximizing social welfare. This means that the people that cannot save will fall out of the pension system, and yet the historical evolution of the three pension systems shows that they were introduced to provide security to the low-income individuals. Even the individuals that can save face challenges like uncertainty about how much they need to save, market fluctuations and high management fees. As a result the first recommendation of the doctoral thesis is that Bulgaria needs to restore its public DB pension plan to its full extent. This would not necessarily mean the abolition of the private pensions and they could continue to exist, but as a private and voluntary savings mechanism, as in Japan. This would create a competitive environment for the companies offering private pension plans. To bring the expenditures under control Bulgaria could introduce a macroeconomic slide mechanism, but it needs to be combined with other reforms like reforming the early retirement and increasing the retirement age. Another area in which reforms could have a positive effect on the financial sustainability of the pension system is the benefits of the working retirees. In this area Japan has taken the

correct approach to decrease the pension benefits of the working retirees. The reason why this approach is correct comes from the insurance nature of the public pension plan. The fact that an individual is employed after retirement shows that the insurance risk has not yet occurred, and this should be reflected in the amount of the pension benefits this individual receives.

The insurance nature of the pension system of a long-term insurance policy, which also redistributes income, makes it vulnerable to short-term political decisions. Therefore the final recommendation of the doctoral thesis is that Bulgaria needs to transform the Bulgarian pension regulatory body – the National Social Security Institute into a politically independent pension regulatory body, with powers to apply macroeconomic indexation, set the rate of contributions, amount of benefits, and determine retirement age, based on actuarial calculations and models for long-term sustainability.

Finally, the doctoral thesis emphasizes on the need always to take into consideration the nature of the pension system when introducing reforms.