



3rd GLOBAL CONFERENCE on BUSINESS, ECONOMICS, MANAGEMENT and TOURISM,  
26-28 November 2015, Rome, Italy

## Pension System in Changing Economic Environment: Case of Latvia

Inese Mavlutova<sup>a\*</sup>, Stanislava Titova<sup>a</sup>, Andris Fomins<sup>a</sup>

<sup>a</sup>BA School of Business and Finance, Kr. Valdemara 161, LV-1013, Riga, Latvia

---

### Abstract

European and other world countries are facing changes in their population age structure. This leads to conclude that intensifying ageing of population is a global phenomenon. Latvia has introduced a new three-level pension system aimed to reduce the effect of demographic risks and demonstrating the country's intention to provide viable public and private combination in old-age provision. The demographic estimates of European Commission show that by 2060 in Latvian population number elderly people aged 65 and over will almost double. The potential impact of demographic change on the age structure and the size of population is dramatic and still the main problem that cast the doubt on the ability of state mandatory non-funded pension scheme to provide a full-fledged social security. Personal financial planning, personal investments in Private voluntary pension schemes are important. The objective of research is to investigate whether the existing Pension system in Latvia is working effectively under changing economic environment to reach the goal of providing appropriate pension level for the retired persons. It analyzes the role of Private voluntary pension schemes, the current demographical situation with a flow of emigration and impact of new tax incentives for employees. The research evaluates efficiency of Private voluntary pension schemes and Latvian pension managers in providing appropriate pension level to future retirees in actual financial markets situation. Necessary action scenarios to provide wholesome standard of living in the future are analysed.

© 2016 The Authors. Published by Elsevier B.V. This is an open access article under the CC BY-NC-ND license

(<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of the Organizing Committee of BEMTUR- 2015

*Keywords:* Economic development; Demography, Pension Levels; Private voluntary pension scheme; Solidarity principle; Full-fledged social security.

---

---

\* Inese Mavlutova. Tel.: +371-29-524-701; fax: +371-67-320-620.

E-mail address: [inese.mavlutova@ba.lv](mailto:inese.mavlutova@ba.lv)

## 1. Introduction

Today's global economic development trends require a change of views on the sustainability of pension systems and the prospect of their future development directions. Rapid changes are taking part in the economy and these changes will have an impact on the demographical structure of the population. Due to technological progress life expectancy will increase and changes the relationship between the number of employees and the number of recipients of old age pension will occur. Better health care will cause even deeper demographic crisis. Productivity in the sector of «real economy» will raise and that will cause economic structural changes and changes in labour demand.

The aim of the reform of Pension System was to restructure the existing pension system according the present social-economic system in Latvia. The previous pension system did not meet the needs of market economy and, consequently, it was not able to function in the new situation. A complete rework of the pension system was carried out in 1995 in cooperation with the World Bank. Three pension levels have been introduced in the country.

The objective of research is to investigate whether the existing Pension system in Latvia is working effectively under changing economic environment to reach the goal of providing a full fledged social security for the retired persons. The authors analyse the role of Private voluntary pension schemes taking into consideration the current demographical situation with a flow of emigration as well as the impact of macroeconomic situation.

Qualitative methods are used for theoretical comparison and analysis of pension systems. Interviews with experts and personal observations are used to reveal the problems in the current pension system of Latvia. Quantitative research methods: statistical data analysis, forecasting and other financial calculations are used.

## 2. Define Pension System

Creating a social security system, it is essential to meet the present generation's social and economic needs without compromising future generations. Without such an approach sustainable development of society cannot take place and quality of life would not increase. A serious challenge is the aging population, which is of increasing concern. The major question is whether the society will be able to provide dignified existence and active social life at the retirement age. Currently pension systems are a subject of a lively debate among professionals and society.

The previous pension system in Latvia did not meet the needs of market economy and consequently, it was not able to function in the new situation. According to previous system reform the size of the pension did not depend on the amount of payment made, thus, the amount of the pension depended on average salary and the length of service. Such situation did not stimulate the workers to follow tax payments because the pension was ensured even in such cases when tax payments were made according minimal wage set by the legislation of the country. So risks of pension system sustainability in the future were present. The major task was to set up a financially sustainable system to reduce the risks of rapidly aging population. ( Mavlutova & Titova, 2014)

Origin of the name *pension* derives from mediaeval England term *pension* (payment), which in its turn derives from *pensio*, *pension*, *pensus*, *pendere* (consideration, to consider, payment, to pay) in Latin.

The following definition of the term *pension* is found in Great Britain Concise Encyclopaedia: a pension is a regular payment to a person retired from work in case of disablement due to age, physical disability or expiration of fixed term service (Britannica Concise Encyclopaedia, 2006). The payment period usually continues till the end of natural life of the retiree, or sometimes the payments are extended and assigned to the widows/widowers of retirees after their death.

Oxford dictionary ( 2012) explains the term “pension” as a regular payment made to the retired persons (or older) or to the physically handicapped persons, or to the widows.

Statistical bureau of European Communities defines the term “pension” as periodical payments with the aim to maintain receiver's income after retirement ceasing paid employment at the normal pension age or to back the income of elderly people.(European Parliament's Employment and Social Affairs, 2010)

Organization for Economic Cooperation and Development ( 2003) defines pension as payments made to the participants of the pension fund ( or to the dependent person) after retirement age.

The following definition of old age pension was suggested in Latvia: the old age pension is constant and regular income of society members approaching the age determined within laws and regulations, which provides them with

Download English Version:

<https://daneshyari.com/en/article/980511>

Download Persian Version:

<https://daneshyari.com/article/980511>

[Daneshyari.com](https://daneshyari.com)