Abstract:

This paper explores the sustainability of pension system in Slovakia on the local institutional, socio-economic and political background, analyzing the past and current reforms and their impact on public finance. In the first, theoretical part of the paper, the World Bank strategy is sketched out to provide general framework for sustainability of reforms and their goals, and actual past reforms that took place in Slovakia from 2004 until present are dissected. These reforms are most notable for their reorientation from pure pay-as-you-go system to combined PAYG and fully funded system. While this step alleviates the crushing implicit social security debt to some extent, it is shown that not even the latest reforms alone will suffice to cover the increasing burden of the pension system on public spending. Therefore, in the empirical part of the paper, several parametric reforms are proposed and are analyzed from long term perspective (until 2100) using the World Bank PROST economic model. These scenarios approximately represent some of the reforms currently on the table that could be carried out in the near future. The varying inputs are retirement age, the contribution rate for the fully funded system, the replacement rate, the affiliation rate and the type of valorization, with the output being the deficit generated by the pension system each year and the cumulative deficit over the next 90 years. Each scenario is the discussed in detail, along with the effects the change of parameters will have on the deficit. The analysis implies that in order to achieve long term sustainability, severe cut-downs in the generosity of the pension system need to be made, along with other savings measures, such as increasing the retirement age further. In conclusion, these findings are then reconciled with the goals set in the World Bank *Averting the old age crisis* report, and challenges which might hinder the effort to attain these goals discussed.