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ESTONIAN STATE OFFICIALS' POLITICAL GAMES IN OTHER WORDS WHAT WILL HAPPEN TO THE REFORM OF MANDATORY FUNDED PENSION SCHEME

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Abstract
The idea of introducing a mandatory funded pension model, aims to ensure the retirement age of the population. Nevertheless, one of the disadvantages of this model, emphasized by the population of different countries, is the principle of obligation. The bill initiated by the Estonian government aims to abolish this principle and give freedom of choice to the population.
We can say that existing anxiety about political passions around the bill, reaches its peak. The Estonian government, president and parliament are involved in these political games. What kind of consequences they will leave in the history of the Estonian pension system depends on the results of ongoing processes of 2020.

Keywords: *Bill, mandatory accumulative pension of Estonia, pension reform, political game.*

JEL Classification: *D71, D72, H50, H53, I38.*

I. INTRODUCTION

2019 has been a crucial year for Estonia's mandatory funded pension system, which was formed years ago and has been working properly till the moment.

At the end of 2019, the Estonian government initiated a new bill on accumulative pensions, which could be considered as a revolutionary bill. The government's decision was based on the following approach: each individual should be able to decide how he/she would ensure his own old age. There was another circumstance leading to the initiation of the bill: in the second stage of the Estonian pension system (mandatory funded pension), there existed excessive strictness of the rules for participation, which required a revision. The bill was giving new opportunities implying a change in the processes of joining, accumulating, and exiting the scheme. In the second stage of the accumulative pension scheme, according to their own desire, young people not due to age and employee status were allowed to become member of the scheme.

The ideology that was basic principle of the initiation of the above mentioned bill considered: to find and create a model which could be the most suitable one for individuals' interests underlining the importance of accumulation.

II. GENERAL ANALYSIS

A bill initiated by the Estonian government, unlike current legislation, gives choices to individuals to get engaged or leave the second stage of the Estonian pension system. Otherwise, if the participant of the mandatory funded pension scheme decides to continue accumulating under the existing conditions, in this case nothing will change for him. In fact, the draft law envisages the replacement of the principle of obligation under the second stage of the Estonian pension system with the principle of voluntariness.

Individuals who are not members of the second stage of the Estonian pension system, are given the opportunity to join the system. The new model does not consider age restrictions; at the same time, the percentage distributions are still the same, including 2% from the tax-free income of the individual and 4% from the social tax.

The bill also gives possibility to individual to invest independently his/her own accumulated funds which is in his/her own account in the mandatory funded pension scheme. For this reason, he/she must apply with statement to officials of the mandatory funded pension scheme. This will be the basis for his/her conversion into cash by the Paye Foundation and after that, the money will be transferred to a special investment account opened by the individual in the bank.

It is possible to transfer the accumulated pension fund to the pension investment account, as well as make new pension contributions for the second stage; There is no other way to deposit money into the above mentioned account.

The conditions for withdrawing money from the investment account coincide with the conditions of the pension fund provided by the current legislation, considering the origin of the right to use it for retirement age, but if the individuals have certain necessity, they are allowed to leave the second step and withdraw cash before the deadline.

As for pension funds, an individual can change the investment account. Besides, the bill allows an individual to replace his/her investment account with a pension fund. The above mentioned record also highlights the fact that individual has maximum freedom in his/her choice. The government tries to increase the level of “satisfaction of citizens” as well as tries to demonstrate their hard work aiming to improve the pension system.

The bill gives the opportunity to individuals to make their own choices based on their own views, experiences, and circumstances, and not force them to do what they do not want to do. In addition, the main thing that the bill allows is the possibility to make comparison and choice; But it doesn’t matter whether the suggested project is profitable or not. If there exists an alternative and a person does not have the right to test that alternative, there always arises a protest for restriction of his/her right. Protest, caused by restrictions.

It can be said that an universal finding was made by this record which aimed to suppress the above mentioned internal protest. When individual has his/her own investment account he/she is better able to evaluate effectiveness of the suggested model, including its advantages or disadvantages. And after that, he/she can make the appropriate and informed choice and decide whether support the new model and continue independent investment, or transfer the funds back to the pension fund.

The bill also gives the possibility to existing pensioner to leave the second stage of the accumulative pension.

The amount paid to the pensioner in a single payment is considered to be taxed with a halved rate of income tax (10%). In addition, in case of changes in the mandatory funded pension section of the Estonian Law on Accumulative Pension, within the second stage of the pension system, early retirement can be allowed only to individuals whose age is not less than 5 years of established retirement age.

The initiative of the Estonian government to reform the mandatory funded pension scheme has both its supporters and opponents. Mostly the supporters’ arguments are based on the arguments of the government, as for opponents' arguments, they share the position of both the International Monetary Fund and the Central Bank of Estonia. The recommendation of the International Monetary Fund given to the Government of Estonia emphasizes the importance of the mandatory principle of the second stage of the pension system, as the second stage is only an addition to the first stage. The Central Bank of Estonia also shares the recommendations of the International Monetary Fund. The central bank is focused on the complimentary content of the first and second stages of the pension system as well as shares the opinion that this model has the most critical importance especially for country whose population is prone to aging; According to the assumption, after planned changes, when the law comes into force a significant portion of the 700,000 people with pension savings, will leave the second stage of the accumulative pension scheme and consequently it will decrease the value of the assets of those individuals, who remain at that level.

The International Monetary Fund has made an unfavorable forecast for the expected results of the reform of the Estonian pension system. The Fund considers that if a big number of the member individuals leave the second stage of the accumulative pension system and if at the same time they spend the money accumulated within the second stage, the predictable results of the economic growth will be unstable.

The Central Bank of Estonia also shares the position of the International Monetary Fund. According to their forecast, the short-term explosion will be followed by decrease in growth rate or, in extreme cases it can cause a recession; So, this process will worsen the living standards of the Estonian people.

If the bill is approved, the Central Bank of Estonia predicts an increase in prices, remuneration and imports in 2021. And, after the individuals leave the second stage of the accumulative pension system and after the funds spend the total amount received from the process, the increased demand as well as jobs created during the short-term growth period, will be decreased. Both the increased prices and wages caused by short-term increased demand and the expected slowdown of economic growth are unable to show the corresponding level of declining trend that will weaken the competitiveness of Estonian companies in long term.

Both the International Monetary Fund and the Central Bank of Estonia have quite negative expectations about reforms of the the mandatory funded pension scheme, but the results of the survey on the reform of the mandatory funded pension scheme conducted by the Estonian Association of Insurance Companies make them to lose intensity of these negative expectations. The survey showed that if the changes to the bill go into force, only 44% of existing members will continue to accumulate amounts through pension funds.

41% of respondents prefer to withdraw the accumulated amount and 29% of respondents, expressed a desire to withdraw and then invest his/her accumulated amount independently. As for 11% of respondents, they do not plan to invest the money, which they will receive after they leave the mandatory funded pension scheme; instead, the money will be used to cover loans and current expenses.

Despite the differences of opinion existing about the reform of the mandatory funded pension scheme, on January 29, 2020, Riigikogu (the Estonian Parliament) approved the law in the second reading. The initiated bill was supported by 56 members of the Riigikogu, while 45 members went against the approval.

On February 7, 2020, the President of Estonia vetoed a law approved by Riigikogu on the reform of the mandatory funded pension scheme. The President turned out to be one of those, who considered the bill inconsistent with the Constitution.

Both the mentioned issue and the idea of reform caused discussions which were not shared by the initiator. However, the President of Estonia stated that his decision was based on the following argument: “the

President of the Republic does not act in favor of or against any law. By law he is obliged to control legal environment as well as ensure its constitutional framework", said the President of the Republic of Estonia Kersti Kaljulaid. The President's statement and his veto emphasize the fact that the adoption of the law was incompatible with the Constitution. After that, the President Kersti Kaljulaid sent back the law to Riigikogu in order to bring it into compliance with the Constitution of the Republic of Estonia. Though on February 20, 2020, in response to the President's decision, Constitutional Commission of Riigikogu supported unchanged approval of the law. Chairman of the Constitutional Commission considered the President's legal veto as his political will.

On February 25, 2020, the Riigikogu Financial Commission reviewed the President's veto on changes to the law on funded pensions. Despite existing different opinions within the members of the Commission, the majority of the members supported the adoption of the unchanged approval of the law. With this decision, the Financial Commission of the Estonian Parliament shared the position of the Constitutional Commission. The fact that the Riigikogu commissions would not take into account the President's recommendations was predicted after declaration stated by the Chairman of the Constitutional Commission. The content of the declaration included a subjective basis for the president's position.

It can be said that the Chairman of the Financial Commission fully shared the position of the Chairman of the Constitutional Commission. He stated that the different positions taken during the discussion of the bill, did not constitute an obstacle to the adoption of the law. Aivar Kokk's (Chairman of the Finance Commission) general statement was just response to the President's behavior. This behavior was dictated by the position on the amendments to the law on accumulative pensions, which has been reviewed several times by the parties during the process. At the same time, the statement of the Chairman of the Finance Committee of the Riigikogu, indicated the President's ineffective use of the veto. The fact was confirmed by the Commission's adoption of the law without any changes.

Despite existing opposition from most MPs, international organizations, the Central Bank and the President, also against the background of different opinions in the society, on March 11, 2020, after the President vetoed the law on amendments to the mandatory part of the accumulative pension and then he sent it back to the Parliament for further review. 52 members of Parliament still approved and adopted the Law without any changes. With this decision, the Parliament, together with the Constitutional and Financial Commissions, did not share the President's position on the inconsistencies of the amendments to the law with the Constitution.

The law, which was approved without any changes, was sent to President Kersti Kaljulaid on March 16, 2020. Like Riigikogu, the position of the head of state was still unchanged. Therefore, on March 20, 2020, the President decided to continue the political dispute in the Estonian State Court. He aimed to prove the inconsistency of the law with the Constitution of Riigikogu. Now Estonian state court must decide which side will win in this political game.

III. CONCLUSION

Regardless of the decision of the Estonian state court, a key factor in mitigating the expected challenges of the pension system can be considered as the highest level of self-awareness of the population. According to the research conducted by Estonian Association of Insurance Companies, more than 70% of respondents want to accumulate their pensions in traditional or new ways. According to the mentioned fact, for the majority of the population, the existing risk to retirement age is almost zero.

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