PROBLEMS OF THE DEVELOPMENT OF THE PENSION INSURANCE IN THE INDEPENDENT LITHUANIA

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Abstract
The aim of this article is to analyse the causes, tendencies, practical reforms and perspectives of the pension system in Lithuania. Also in this article the regulation of the right to the social insurance in the international and European Union (EU) law documents were analysed. The analysis of development of Lithuanian state social pension insurance guarantees is an actual issue, because the main task of the pension system is to create for each member a stable and adequate source of retirement income, implementing the idea of social justice and without reducing state social security guarantees. In this article the scientific literature analysis, legal acts analysis, document analysis, historical methods were used. It may be used as methodical literature studying the actual processes in the field of the pension system reforms of Lithuania.
KEY WORDS: pension system, reform, Lithuania, funded pension system, tendencies, perspectives.

Introduction
The aim of state social insurance is to reduce the poverty and to protect persons from the poverty due to the occurrence of social risks, to promote social inclusion and equity between different social groups. State social insurance is based on the solidarity principle, i.e. social security contributors in real-time finance social security beneficiaries.

State social pension insurance and other types of social insurance and reforms in Lithuania, like other European Union countries, is an ongoing process because of changing economic, political and social phenomena, developing the concept of reforms strategies, increasing the European Union’s institutions activity in the field of pensions etc. State social pension insurance system reforms and effective governance is analyzing in accordance with best practice in other countries, identifying the social, economic and cultural phenomena in the country and identifying necessities changes in the pension system.

The right to the social security has been mentioned already in the Versailles Treaty of 28 June 1919, almost at the same time the creation of modern social insurance system in Lithuania (Republic of Lithuania declared its independence in 1918) began. The Lithuanian Republican had to create a new social insurance system, primarily fo-
cused on the prevention of occupational accidents and health care and only then at an universal pension system model. The social security pension insurance in the interwar Lithuania was expanded, but an universal pension system did not introduced before the Second World War. Currently in Lithuania the state social insurance schemes are applying for all social groups and covers all risks: pension, sickness and maternity, occupational accidents and occupational diseases, health and unemployment. At the end of XX century, European Union countries faced with social changes in family and employment structure (growth of the number of divorces, increased demand for highly skilled professionals etc.), economic changes (decreasing economic growth and deindustrialization) and demographic challenges (ageing). Principles of social solidarity and social security, the fight against poverty faced with a liberal conception of economic development (i.e. the social security system should not hinder economic development and only liberal labour market can better regulate social security). The traditional concept of the welfare state has changed because of increasing of social security costs and the slowdown in economics, therefore states tried to find new forms of organization and management of the social security systems. However, liberalism did not outweigh the importance of social protection guarantees and many European Union countries began to reform state social insurance systems in the past decade, which aim – to reduce the budget deficit, promote efficiency and strengthen the state social insurance guarantees. The development of liberal ideas did not bypassed Lithuanian pension system. The pension system reform of 2003 raised the wide discussion on the state social pension insurance system future development of Lithuania. This reform clearly demonstrates that the government opted for a liberal position, i.e. funded pension system's participants on a voluntary basis (though it is actively promoting) has a possibility to transfer a part of the state social insurance guarantees into private pension funds.

2. Regulations of the right to social insurance in the international and European Union documents

State social insurance – one of the most psychologically acceptable and widely spread forms of income redistribution in many countries, when everyone knows that state social insurance contributions will be used exclusively to pay the social benefits (40, p. 7).

In the State Social Insurance Law of Republic of Lithuania we could find a definition of the state social insurance which means a part of the system of social security whose measures are intended to compensate, in full or in part, for the income derived from work and lost by insured persons and, in the cases specified by laws, their family members as a result of insured events or to cover additional expenses (24).

2.1. Regulations of the right to social security in the international documents

The right to social security is already mentioned in Versailles Treaty of 28 June 1919, this right also included in the Statute of the International Labour Organization (41, p. 5).
The right to social security as a human right also enshrined in the United Nations Universal Declaration of Human Rights of 10 December 1948 and in the International Covenant on Economic, Social and Cultural Rights of 16 December 1966. Article 9 of this International Covenant on Economic, Social and Cultural Rights provides that the States Parties to the present Covenant recognize the right of everyone to social security, including social insurance (42).

Thus, the consolidation of social insurance law of the United Nations documents has become an important force for strengthening the overall social insurance principles in the national legal systems and established the obligation of States to ensure that the right to social security would be released.

In European Declaration of Human Rights of 4 November 1950 we could find not only the right to the social security, but also instruments for the protection of this right. Any person who believes that the state violated his rights, and exploited the national legal remedies, may appeal to the European Court of Human Rights (43).

Article 12 and 13 of the European Social Charter of 1961 (revised in 1996) establishes the right to social insurance and social assistance. Defending the rights the annual reports and the collective complaints procedure settled out. Article 12 of this Charter stipulates that with a view to ensuring the effective exercise of the right to social security, the Parties undertake: a) to establish or maintain a system of social security; b) to maintain the social security system at a satisfactory level at least equal to that necessary for the ratification of the European Code of Social Security; c) to endeavour to raise progressively the system of social security to a higher level; d) to take steps, by the conclusion of appropriate bilateral and multilateral agreements or by other means, and subject to the conditions laid down in such agreements, in order to ensure equal treatment and the granting, maintenance and resumption of social security rights (44).

European Social Security Code of 16 April 1964 requires to the states to adopt the best possible solutions for its citizens in the field of the social security system and to improve the procedures. This Code is aimed at facilitating the social progress and to encourage all Member States to further develop their social protection systems (45).

2.2. Acts of the state social insurance coordination in the European Union

European Coal and Steel Community Treaty of 1951 is intended to improve working conditions and raise living standards. European Economic Community Treaty of 1957 introduced free movement of persons, goods, services and capital and ensure the rights of migrant workers. The aim of European Economic Community law has been to focus on the social security rights of migrant persons and economic development.

The Resolution of the European Economic Community Council of 1974 “On the Social Action Program” provides that economic development should be an integral part of social policy. Social Action Program has provided to improve employment, improve the implementations of the adopted decisions in the social, economic and labour law field (33, p. 67).
The notion of the social insurance do not exist in the EU legislation, but the first Regulations setting the standards for coordination in key areas of social insurance (sickness and maternity benefits, disability, old age and widows' pensions, accidents at work and occupational disease benefits, unemployment benefits, family allowances), already adopted in 1958 by the European Economic Community Council (Regulations No. 3 and No. 4).

Article 4 of Regulation (EEC) No. 1408/71 of the Council of 14 June 1971 “On the application of social security schemes to employed persons and their families moving within the Community” stipulates that this Regulation shall apply to all legislation concerning the following branches of social security: (a) sickness and maternity benefits; (b) invalidity benefits, including those intended for the maintenance or improvement of earning capacity; (c) old-age benefits; (d) survivors' benefits; (e) benefits in respect of accidents at work and occupational diseases; (f) death grants; (g) unemployment benefits; (h) family benefits. This Regulation shall apply to all general and special social security schemes, whether contributory or non-contributory, and to schemes concerning the liability of an employer or ship-owner (46).

The Single European Act of 1986 initiated discussion about the convergence of social protection systems. To achieve this goal the various forms of cooperation between countries has been developed. For example, the Mutual Information System on Social Protection (MISSOC) introduced.

The Community Charter of the Fundamental Social Rights of Workers of 1989 provides that the same attention for the social issues should be given as to the economic issues. Although the Charter was declaratory, but it showed the EU desire to regulate in detail the social security rights and to promote social integration in the EU. The principles of the Charter were set out in the treaty of Maastricht of 1992.

The role of EU institutions particularly increased after Lisbon EU Council of 2000, in which has been agreed that social policy and social security is a priority objective of the EU, but economic growth must be linked to the social integration of countries. This Council adopted the Lisbon strategy and set the strategic goals in 10 years: a) the European Union should be the most competitive and dynamic knowledge-based economy in the world, b) to develop and improve technological progress and knowledge society, as well as carry out necessary reforms and to reduce social exclusion. Social protection systems need to help society to adapt to the economic changes and the state must give the great attention to the adequacy of pension systems and sustainability: to increase employment, reduce public debt and begin the pension reforms.

Lisbon EU Council has introduced the “the open method of coordination”, i.e. the action plan to promote and improve cooperation between countries and to formulate common goals for reforming the pension systems. Another aim of “the open method of coordination” is to harmonize the social policies of Member States to follow best practices. “The open method of coordination” allows to the countries to maintain a constructive dialogue on the common goals of good governance practices and to exchange ideas searching the model of sufficient and financially stable pension systems, also prompted them to intensify the fight against poverty and social exclusion.

European Code of Social Security of 1964 is important not only to the Council of Europe, but across the EU because the EU does not have such a document, establish-
ing mandatory minimum standards of social protection and guaranteeing the right to social insurance. As the EU's competences in particular pension systems are limited, a major role in EU social policy development has the European Court of Justice.

European Union social policy objective – to promote the growth of living standards combining economic growth with social protection. Implementing this objective, the EU institutions coordinate social policies and provides recommendations of EU countries on social security reforms. EU institutions try to impose certain common criteria to all countries, which could be distinguished as unique European Union's social model. Such features of the European Union's social model could be identified: “the open method of coordination”, the Lisbon Strategy, social dialogue, the EU enlargement and the jurisprudence of the European Court of Justice.

European Union Parliament pointed that in order to better meet the demographic changes and globalization, it is essential to modernize and reform the European social model and to better adapt human resources to the rapid technological evolution, in order to achieve social integration, social justice and the eradication of poverty. The European social model must include measures to increase immigration, promoting social inclusion, equity, solidarity, individual rights and responsibilities of non-discrimination, to take the opportunity for all the citizens to access to high quality public services (47).

3. Development and Prospects of Pension Insurance in Lithuania

Development of a modern social security system in Lithuania started when the Republic of Lithuania declared its independence in 1918. Contemporary Republic of Lithuania needed to develop a new social security system, which first of all should be directed towards protection against accidents at work and health care and only later determination of a universal model of the pension system. Unfortunately, after the World War II when the states of the Western Europe (Great Britain, France, Germany) put the foundations to their modern social security system, the subsequent development of the social security system of Lithuania was developed according to the soviet model, the main feature of which was a total domination of the state in establishing principles of the social security and eliminating a possibility for the individuals themselves to create their social welfare. After restoration of independence development tendencies of the modern social security system of Lithuania have been closely related to membership of Lithuania in the European Union (EU), economic phenomena and ageing process of the society.

3.1. Development of Social Security System after Declaration of Independence of Lithuania

Pension system was not universal during the period between wars. Personal pensions were assigned based on laws of an individual character. For instance, Law on Assigning a Pension to Dr. Jonas Basanavičius of 8 July 1921 indicated that 2,000 golden Lithuanian coins should be assigned to establisher Doctor Jonas Basanavičius of the magazine “Ausra” for his remarkable merits during revival of Lithuanian nation and they should
be paid from the credit of the Ministry of Education every month until his death” (1)].

Later on 12 June 1925 a Law on Pensions for remarkable persons of the society was enacted which defined that “pensions for remarkable persons of the society should be paid lifelong which would be equal to any category of the state clerk salary or part of it. Pensioners should also be paid the holiday bonus, too (Article 1). Such pensions are “assigned and their category is established by the President of the Republic at the suggestion of the Cabinet of Ministers” (Article 2). However, it should be mentioned that “pensioners, who received a pay for their job from the State Budget, did not get a pension. Exceptions were made only to persons who used to get a student grant or pension before inaction of this law” (Article 3).

Another group of persons, who had regulated pension insurance, was soldiers. On 21 August 1922 a Law on Pension for soldiers, who were disabled or their family members and also for families of the killed soldiers (2) was enacted and a Chart for determination of the loss of working capacity was approved in supplement to this law (3). On 10 April 1923 Ministers of Finance, Trade and Industry ratified Regulations for enforcement of the law on Pension for soldiers who were disabled or their family members and also for families of the killed soldiers (5), where payment of pension issues, the procedure for budget, the procedure for determination of working capacity, a list of documents necessary for obtaining pension, lodging powers, the procedure for issuing pension books and their use and etc. were described in detail.

Later on 23 June 1925 a Law on Pension for soldiers (8) was enacted which established that “the state shall grant pensions to war disabled persons and after their death to their families; to families of the killed soldiers if soldiers have been killed or missing during their service or because of service in the Lithuanian state army; to Riflemen of the Union of Lithuanian Riflemen if they served as soldiers or comply with item one and two of this paragraph; to soldiers who served in the army for twenty years and more and after their death to their family members” (Article 1 of the Law). Under Article 2 of the law on Pensions for soldiers “war disabled persons are deemed as persons who lost their health or working capability serving or as a result of serving in the army”. Articles 4–8 of the Law describes in detail rules for establishing pensions, additional bonuses for loss of working capability and cases of increasing pensions. For instance, it is said that establishing a monthly pension for the war disabled person, the last basic salary depending on the rank and duties of the officer, war doctor, war official or war chaplain is taken as a unit of calculation. Regulations for proper execution of the Law on pensions for soldiers (10) describe in detail issues relating to allotment of funds, formation of budget, filing applications and their consideration, medical checks and so on.

Pension insurance has been applied to the state clerks, too. On 13 November 1925 a Law on Pensions for State clerks was enacted (11), Article 1 of which defined that “a state clerk is entitled to the pension who held office at least twenty five years; a state clerk who held the office at least twenty years if he/she furnishes with a certificate issued by the medical check board that he/she is no longer able to hold the office;
a state clerk who held the office at least ten years if he/she was dismissed from the
office as a result of weaker psychical or physical state; a state clerk who lost at least
twenty five percent of his/her physical or professional capacity as a result of his/her
duties; a family of the deceased state clerk who died being a pensioner or had a right
to receive a pension” and in other cases. Article 7 of the Law indicates that “full-time
period of work; freelance period of duty if contributions deducted of the basic salary
of the clerk are paid to the pension fund; a lawful time of the leave; time spent in
prison; time spent working in the Seimas; time served in a mobilized or volunteer
troops shall be included into the time necessary for receiving a pension. Article 14 of
the Law regulates principles for calculation of the pension – “a principle salary of the
last year category of the employee is taken as a basis for determination of the pension
if the employee has held this category for at least three years; in case the employee has
not held this category for three years, then the basic salary of the last but one service
category is taken as a basis for calculation of the pension”. The basic salary also in-
cludes premiums and bonuses. Value of the pension depended on length of service.
For instance, after twenty-five years of the service, the volume of pension was sixty
percent of the last basic salary (Article 22 of the Law).

Regulations for enforcement state clerks’ pensions and allowances (13) describe in
detail what volume and how social security contributions should be paid (common
rule – “a state institution paying salaries to its full-time employees, deduct 6 % of the
basic salary and triennial bonuses to the pension and allowances fund”), issues on cal-
culation of the service working time, procedures for filing applications for granting
pensions and execution, the procedure for granting pensions (pensions used to be
granted by a special committee established by the Prime Minister), procedure for
payment of pensions and suspension or reduction of pensions and etc. Besides, these
Regulations also defined that “Pension and allowances fund is at the disposal of the
Ministry of Finance”.

On 23 March 1926 General Social Security Office under the Ministry of Interior
was established based on the law of the General Social Security (12). Purpose of the
establishment was dealing with social security issues.

Summarizing development of the social security of Lithuania during the period be-
tween the wars we may quote P. Leonas that a social issue is an issue of welfare of the
working society, search for ways and measures how to make welfare of the largest
number of population the best and do it in the cheapest way (with least costs) in all
spheres of their life (37, p. 511).

3.2. Development of the Pension Insurance System and ITS Growth after
Restoration of Independence of Lithuania

Set of problems arising in development of the pension system

After Lithuania declared its independence, political and economical changes had a
significant importance to the pension system, too. On 13 February 1990 the then Su-
preme Council passed a resolution XI-3690 “On reformation of the Social Security
System of the Lithuanian SSR”, in which the social security was taken over from pro-
fessional unions to the disposal of the state of Lithuania. The same year on 7 March the Council of Ministers passed a resolution No 64 “On Reformation of the social security system of the Lithuanian SSR”, under which the General State Security Office was established under the Ministry of Labour and Welfare which was assigned to exercise the functions of the state social security and its transient regulations were ratified. General State Security Office and its territorial divisions started to register the insured, collect contributions, arrange and monitor pay-off operations, execute the budget of state social security. On 23 October 1990 a Law on state social welfare system was passed which distinguished social insurance from care and welfare and legalized an independent state social security budget (19).

After restoration of independence Lithuania has chosen the tradition of Bismarck social security: state social security system is universal, covers almost all population of the Republic of Lithuania and the right for receiving state social security pay-offs is relating to personal participation in the social security system. In pension system of Lithuania social security schemes and different universal pay-offs are dominating and the role of private pension funds (second and third level) is insignificant. We may also mention other features of the Lithuanian pension system module which are characteristic to the pension system of the Continental Europe (where Bismarck tradition is dominating): pay-offs depend on the previous salary and length of service, the fund of social security is financed by the social security contributions, social security system is based on the labour market, persons making the minimum income receive social allowances and etc. choice of such a module is motivated on not just recommendations of international experts or influence of the traditions of the socialist law, but on the previous economic background – a need to encourage labour market and collect social security contributions. Pension system of Lithuania also has some features of the pension system module of the Eastern Europe, because pension system of Lithuania was characterized by disproportionate ratio between social security contributions and convertibility of pension rate: social security contributions are high, pension convertibility rate is relatively low (which is in part determined by soviet length of service and devaluation of the soviet salaries).

In year 1991 a Law on Social Security of the Republic of Lithuania came into effect (24), which fixed types of social security, finances and management. Pension system was financed by social security contributions (paid deducting from the salary), state social security pensions have been started to pay. However the economic changes of that period (big unemployment, economic recession, income inequality, shadow economy, company bankruptcies, privatization, decrease in gross domestic product and purchasing power) determined the deficit in the state budget and at the same time the budget of the social security fund. The economic problems were accompanied by escalation of demographic and social phenomenon: ageing of the society, drop in birth-rate, increase in number of state-dependent people. After establishment of the pension system and financing mechanisms of the independent Lithuania, it was necessary to secure sufficiency of pensions, whereas despite frequent indexation, pensions constantly lost their value. R. Lazutka emphasizes that pensions of the 1991–1993 lost their value almost four times and until the year 2003 purchasing power of pensions
was only 57.9 percent of the level of the year 1990 (the year 1995 – 31.7 percent) (36, p. 73). In a situation like that the need for paying social allowances increased, the pension system did not conform to the actual economic and social situation, therefore increasing deficit in the state social security fund required taking drastic reforms in the pension system, which after long discussions, started only from the 1995.

The pension system reform of the year 1995

The reform of the pension system which started in 1995 may be considered as the first one, because until then reforms of the pension system were concentrated on the development of essential elements of the pension system: to segregate the budget of the social security from the state budget, segregate social security from social allowances, determine proportion of social security contributions, extend retirement age and balance budget of the social security fund.

Upon development of the new pension system there were no questions about availability of the Bismarck social security tradition for Lithuania, whereas its principal feature was that pay-offs depended on the paid contributions, besides principles of the Bismarck social security tradition had been used in the soviet pension system as well. Besides, experts of the EU states and international institutions (the World Bank, International Labour Organization, European Council, European Union, United Nations Development Program) gave recommendations (in some cases imagining possible reforms in a different way) to the Government of Lithuania in creation and development of social security (33).

Reasons for the reform of the pension system were the economic problems (increasing financing of pensions, changes in the labour market and economic recovery), demographic processes and increasing deficit in the budget of state social security fund. The principal goals of the pension system were to pay the retirement pensions, to secure necessary flexibility in the conditions of changing labour market, secure fair distribution of allowances and increase transparency of the system.

On 1 January 1995 a Law on State social security pension of the Republic of Lithuania came into effect (20)], which replaced still existing Law on granting and payment of soviet pensions. After this reform a system based on the principles of social security came into effect when pay-offs were paid only to the ensured persons, contributions were calculated individually and they were considered when determining the volume of the pension and the insurance period was deemed only the period when social security contributions had been paid. By this reform they tried to relate contributions to the paid pay-offs and differentiate volume of the pension according to the paid contributions.

Provisions of the reform of 1995 tried to implement the principles of social security, to give up exceptions and privileges inherited from previous times. Therefore a right to the pension was related to the period of social security pension and volumes of social security pensions were related to the volume of contributions of the state social pension paid by a person. A retirement age was extended, which was 55 years for women and 60 years of age for men. Previously existing possibilities and privileges for some professions and social groups early retirement were withdrawn. Pensions, granting of which was related to certain
professions or political conditions (officers and soldiers, suffered people, honored persons, etc.) were segregated from the social security and reorganized into a special non-contribution pension system section, which made suppositions for formation of the elements of clientelism pension system. It has been also established that a maximum state social security pension would be granted to persons who had paid social security contributions at least 30 years and the state social security became mandatory for persons working independently. The reform of the pension system introduced a new pension volume calculation formula, in which one part was a basic part which was of the same value to everyone (which was approved by the Government of the Republic of Lithuania) and the second additional variable part (which depended on the period of paying social security contributions, volume of paid social security contributions and the volume of social security contributions).

The pension system did not exclude pensions based on a privilege system (state pensions of the first and second level, pensions for the suffered persons and etc.); however additionally state pensions to soldiers, scientists, officials and etc. were introduced. Besides, the widow’s allowances were paid alongside retirement or disability pensions, accordingly there was a possibility to get a few pensions, though some seniors did not receive any retirement pensions or allowances due to lack of length of service. Upon increase of the number of people getting the state pensions, there was a forecast on the increase of expenses for state pensions from 0.65 percent GDP in the year 2005 (0.74 percent of GDP in the year 2020, 0.96 percent of GDP in the year 2040) to 1.15 percent of GDP in the year 2050 (38).

So, the reform of 1995 developed a completely new pension system in Lithuania, financed by social security contributions which were calculated in a separate budget and made presumptions for further development of the system, however a big number of people failed to get into the social security system and some persons had an opportunity to receive several pensions, besides a system of the privileged pensions had been established, a significant deficit in the social security budget still remained (only from the year 2001 income of the state social security fund exceeded expenses for the first time) and volume of pensions remained rather low, despite a relatively high social security contribution part paid by the employers. The reform of pension system of the year 1995 secured stability of financing the social security, however state social security pensions (not including privileged pensions) were not sufficient, because it did not guarantee a proper volume of the income in old age and did not help to avoid poverty.

Concepts of the funded pension system reform of the year 2003 and problems of the reform

In the year 2000 the Government of the Republic of Lithuania ratified the concept of the Pension system reform” (27). The pension system reform concept provided the principal goal – to change the pension system so that people at the retirement age could get bigger income than previously and that this system would become more visible and would include all population, that people at the retirement age would get bigger income than before, however the distribution should not be increased but decreased and a mandatory accumulation to the pension fund should be introduced without increasing a tariff of contributions to the pension insurance.
The concept provides that the first level of pension system of Lithuania should make state social security pensions: retirement, disability (disablement), widows and orphans. The second level pensions – that is mandatory funded pensions put into private pension funds. The third stage of the pension system is an additional voluntarily funded pension which is performed by the same pension funds which execute the mandatory accumulation, by several pension funds or insurance companies.

The concept of pension system reform was enacted based on the modeling theory and it changed due to lack of political understanding. The first draft of the Law on Pension system reform adopted in April 2001 provided that persons until the age of 40 should mandatory participate in the funded pension system, persons over the age of 50 do not take part in the funded pension system, participation of other persons is voluntary. Besides it also provides that 5 percent of the state social security contributions shall be paid to private pension funds. In July 2001 when new Government was approved, in November 2001 the second draft of the Law on Pension system reform was adopted which provided that persons until the age of 30 should mandatory participate in the funded pension system, persons over the age of 50 did not take part in the funded pension system, participation of other persons was voluntary and 5 percent of the state social security contributions should be paid to private pension funds. In April 2002 the Seimas returned the draft to the Government for development indicating that participation in the funded pension system should be voluntary and persons who were accumulating pensions should pay additional state social security contributions from 1 percent to 2.5 percent, and the state should subsidize people who accumulate, especially those who had no social security. In October 2002 the Government provided a new draft of the Pension system reform, which provided that participation of all persons having state social security in funded system was voluntary and the contribution, which was transferred to the pension funds would increase every year from 2.5 percent (one percent each year) to 5.5 percent. The anticipated beginning of the pension system reform was the year 2004, funded pensions were carried out without increasing the tariff of the existing state social security. In July 2003 the Seimas adopted a Law on Funded Pensions and amendments to other laws relating to it and in September 2003 signing pension capitalization agreements started.

It should be mentioned that the concept of Pension reforms has been prepared at the time when there was a deficit in the state social security fund and declining demographic and economic indices, therefore some measures (for example, limitation of payment of pension to working pensioners) has been acknowledged as anticonstitutional or increased the deficit of the state social security fund budget even more (for example, establishment of maximum margin for the taxable salary imposed by contributions for the social security). We should also note that goals of the Pension reform concepts which had to modulate a long-term prospects of the Lithuanian pension system have basically remained unimplemented: state pensions remained, the ratio of the social insurance contributions between the employer and employee has not been revised, funded pensions operate only in the first level, pensions funds are administered not just by one, but two institutions and etc.
The main reason, which stimulated the reform of the 2003 funded pension system, was inefficiency of the pension system and declining demographic and social indices. The situation existing in 2003 was a completely different, i.e., 1995 the principal task was to establish a modern pension system, giving up the heritage of the soviet system, while inevitability of the reforms of 2003 was based on surplus of the state social security fund budget and decline in a demographic situation.

The goals of reforms provide that from 1 January 2004 residents may direct part of the contributions to the state social security for funded pensions (21–23). The main officially declared goal of the pension system reform was to introduce a funded pension stage, which would enable residents of the Republic of Lithuania individually accumulate part of the social security contribution for their retirement pension. The reasons for pension system reform were: unfavorable demographic situation and assurance of stability of the pension system financing, also asset surplus in the anticipated state social security budget.

By the reform of the pension system they tried to reduce direct financial obligations of the state for future pensioners: the state shall secure smaller – about 21.5 percent (whereas the contribution tariff for mandatory social security pensions drops 5.5 percent) pensions, however this part should be secured by private pension funds, which would make investments in case of market risks. Pension capitalization should increase pensions to all people participating in it without increasing the contribution tariff of the mandatory social security and at the same time would encourage savings of people.

During the first years of the reform a contribution to the funded insurance was 2.5 percent and the funded contribution tariff would be increased every year 1 percent up to 5.5 percent. Acts of law regulating the pension system reform determined that total contribution tariff of the state social security, however upon calculation of the social security pensions, people participating in funded system for the years when they saved for pensions, the social security pensions would be decreased in proportion to the volume of the funded pension contribution. A right for receiving a pension from the funded pension companies, participants will receive at the retirement age established in the Law on State social security pensions. The volume of the capitalization depends on the annuity period, income, investment results of the saved assets and administration costs of the pension funds. Acts of law define that lack of assets in the budget of Social Security which occurred as a result of implementation of the pension system reform, may be financed according to the procedure defined by the Law on the Government and municipality property privatization from the assets obtained after sale of the state property, also by the assets of the state budget and other sources of financing. These assignments to State Social Security fund are determined in the law.

Upon developing a funded pension system in 2006 a few very important amendments to the law on Funded pension.

Pensions were adopted which came into effect on 1 July 2007 (25). These amendments provided that participants of the pension fund which had seven or less years until the retirement age, should mandatory be notified of a possible risk taking part in other than conservative investment pension funds, also all people starting to partici-
participate in the funded pension would be mandatory introduced to the risk of investment into pension funds and in this way their knowledge on investment would rise. Amendments also consolidated the provision that a person who started participating in the funded pension and upon conclusion of the funded pension for the first time, the pension capitalization company should mandatory introduce a person to comparison of all investment risks of all its managed pension funds in writing. However, such amendments relating to additional notification of older persons and their additional signature (that they are familiar with participating in risky funds) will not solve the problem, because a possibility to older people to get a bigger funded pension may be participation in a more risky funds (in case a person decided to participate in an funded pension system). Besides, persons who participate in the funded system and have a lower salary and are older, will receive a lower pension.

Taking part in the funded pension system was active; however this may be related to the opinion of the Government which was very intensively expressed in mass media that taking part in the funded pension will increase pensions. In the short-time prospects, introduction of the funded pensions meant that contributions (or taxes) of the social security will be increased or increase of pensions will be suspended. In the long-term prospect the decreasing number of payers of contributions had impact on the development of the public sector (35).

Summarizing we may say that introduction of the funded pension system decreased the warranty of the social security pensions and approximated the Lithuanian pension system to Anglo-Saxon model of pension system, because the state social security system became mixed and partly dependent on the state budget and situation in the financial market and also participants of the funded pension system became less dependent on state warranties whereas part of their future pension guaranteed by the state, will be lower.

3.3. Pension System Development Trends in Lithuania

Integrated Pension System Reform Assumptions

Since 2002 Lithuania had economic growth, increased employment and wages. Accordingly, the state social insurance fund surplus was initiated to increase the state social insurance pensions and other benefits. However, there were no political decisions to ensure the guarantees of social security, pension reserve fund not established, the pension system was liberalized, i.e. there were no political decisions to remain stable Social Insurance Fund budget. In 2008 the economic crisis influenced the financial stability of the Social Insurance Fund because of increased unemployment, reduced wages, company’s bankruptcies etc. Social Insurance Fund in a very short time has become deficit.

An economic crisis of 2008 hit the state social insurance pension system. From 1 July 2009 the amendments to the Pension system reform law adopted, which stipulates that the state social security transfers to private pension funds fall to 2 percent (from the income from the state social insurance contributions) from 1 July 2009. It is foreseen to raise state social security transfers to private pension funds from year 2011.
(the pension contribution rate for 2011 is 5.5 percent, in 2012, 2013, 2014 – 6 percent, from 2015 – 5.5 percent of participants in the revenue from the state social insurance contributions).

Despite the many financial injections to increase the social security contribution rates and permanent cuts in benefits, the State Social Insurance Fund revenue continue to decline. The Law on State Social Insurance Fund Budget indicators for 2009 provides that only 600 000 Lithuanian Litas paid into the pension funds will be compensate in the year 2009. However these were insufficient funds. In April 15 and 1 July 2009 the Government of Lithuania granted to the State Social Insurance Fund Board under the Social Security and Labour Ministry 420 million Lithuanian Litas and 715 million Lithuanian Litas loans. As well 2 September, 30 September and 28 October 2009 the Government of Lithuania granted accordingly 300 million Lithuanian Litas, 460 million Lithuanian Litas and 1025 million Litas (28–32).

When revenue is declining, the simplest way to regulate the social insurance fund budget is to increase state social insurance contributions (employees and employers part) or to reduce benefits. However, these methods can not be applied as the fastest economic effect because they are indirectly impacting the State's competitiveness and employment policy. The growth of social insurance contributions increase manpower and create the negative investment climate. Reduction of pension benefits (therein for the working pensioners) may affect certain undesirable legal and social implications, raise the questions of social solidarity, social security unity, benefits differentiation and a legitimate expectation principles. Thus, the reduction of pensions means that persons are not encouraged further work and expect a higher pension, and pensions will decline despite of paid higher social insurance contributions.

Reforms and social solidarity

The economic crisis and reduction in pensions, in general, deny the contribution-benefit balance and it’s important to maintain the principle that economic values (i.e. the current economic crisis) should be subordinated to the state social insurance pension guarantees. Reduction of pensions part which depends on how many years person worked and paid contributions and introducing the fixed basic pension could violate main principle of Bismarck social traditions: the benefit depends on paid contributions. In this case, the actual Lithuanian pension system model is more close to the Anglo-Saxon liberal model, whose main feature is that the pension insurance is a person’s own affair, because the state only guarantees the basic amount of the benefits.

Therefore, reforming the pension system should be taken not only the traditional simple measures (to reduce benefits and increase contributions), but to launch a new comprehensive social security system and labour law reform, with particular emphasis on means to grow the employment, more flexible employment forms and active social policies (according to the European Union recommendations), to review the entire system of social security benefits (reduce or eliminate some benefits), to introduce health social insurance contributions for pensions (pensions are taxable in many EU countries). Economic Cooperation and Development Organization in the pensions review of 2009 noted that in the face of the economic crisis, the government adopts
the short-term practical solutions. Meanwhile, long-term strategic plans, which are important to pensioners' incomes, are ignored (39).

Pension system reforms should be done in accordance with the social solidarity and legitimate expectation principles. The Constitutional Court of the Republic of Lithuania in the ruling of 26 September 2007 noted that the principle of solidarity means that the working (pursuing active economic activities) persons who receive insured income contribute to accumulation of social insurance funds, thus creating preconditions to pay payments to those persons, who must be paid the payments provided for in the law due to the fact that they have reached the pensionable age for old age pension, disability in their regard has been recognized or there are other reasons provided for in the law (inter alia when these members of society cannot work and provide for themselves due to the objective reasons provided for in the law). On the other hand, the solidarity principle also implies that the persons who pay state social insurance contributions have the right to receive, in cases and under conditions provided for in the law, to receive themselves state social insurance pensions and/or other payments, thus, they acquire a corresponding legitimate and reasonable expectation [18].

Article 52 of the Constitution of the Republic of Lithuania provides that State shall guarantee to citizens the right to receive old age and disability pensions as well as social assistance in the event of unemployment, sickness, widowhood, loss of the breadwinner, and in other cases provided for by laws [14].

The Constitutional Court of the Republic of Lithuania in the ruling of 25 November 2002 noted that „there may occur such an extreme situation in the state (economic crisis, natural disaster etc.) when it is impossible to accumulate enough funds for the payment of the pensions. In such extraordinary cases the legal regulation of pensionary relations may be corrected also by reducing old age pensions to the extent that it is necessary to ensure vitally important interests of society and protect other constitutional values. The diminished old age pensions may be paid only on a temporary basis, i.e. only when there is an extraordinary situation in the state“ (16). Although in this ruling of the Constitutional Court of the Republic of Lithuania it is pointed that the person who meets the conditions established by law in order to receive the old age pension, and who has been awarded and paid this pension, has the right to a monetary payment of a respective amount, i.e. the right to possession. Under Article 23 of the Constitution, this right must be protected and safeguarded.

The Constitutional Court of the Republic of Lithuania in the ruling of 26 September 2007 noted that social security payments implies a person’s right to an adequate level of old-age pension, this may not be independent of paid social insurance contributions (18).

It means that pension reduction should not be automatic, reducing pensioner’s (who have worked hard life) income (even though they have not reached 50 percent former salary Lithuania, while in Western European countries this rate is about 70–80 percent).
Conclusions

The following prospects of the pension system reform of Lithuania may be singled out:

1. It is necessary to start a new complex reform of the entire social security system, the main goals of which would be: to encourage employment, to refuse privileged pay-offs, gradually increase a retirement age; revise all social security system pay-offs; to balance the proportion of the ones paying contributions with the ones receiving pay-offs; to balance the budget of the social security fund; to revise volumes of social security contributions (for instance, to apply health insurance contribution to pensions); to change unemployment social security and early pension system and etc.

2. Based on practice of other states (in EU an “open coordination method” is used), recommendations of the EU institutions and legal principles of social welfare.

3. To relate the reform of pension system to changes in labour law, introducing part-time or half-day employment, increasing flexibility labour relations and employment.

4. To encourage a voluntary pension security, assigning a certain part of liability for his own welfare to a person himself.

5. State social security pension system makes a better social security than schemes of private pensions, because the goal of the pension system is to ensure sufficiency of pensions, therefore obligations of the state to the participants of the pension system should not be decreased.

6. Participants of the pension system should be constantly notified of the obtained rights to the state social security pension.

7. Independent permanently operating institutions liable for revision of the pension system or assessment of its course, establishing may help to consolidate management of the pension system.

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