

## Position of the Fiscal Council: Amending the pension legislation needs to be accompanied by presentation of its long-term fiscal consequences

Based on publicly available data and its own estimates, the Fiscal Council assesses that some provisions of the proposed Act Amending the Pension and Disability Insurance Act, which is currently the subject of public debate, could have significant long-term impact on the sustainability of public finances. It therefore calls on the Government to transparently present the calculations of total long-term fiscal consequences and the calculations of long-term fiscal consequences of individual provisions of the proposed Act in the course of public debate, and particularly when preparing the draft of this document in further procedures.

Within the scope of its statutory tasks, the Fiscal Council checks the compliance of budget documents with fiscal rules. Compliance with fiscal rules is the cornerstone of ensuring the long-term sustainability of public finances, in which pension expenditure plays an important role.

The lack of measures to neutralise a medium- and long-term increase in funds for social transfers arising from the proposed Act Amending the Pension and Disability Insurance Act, could impair the long-term sustainability of Slovenia's public finances. In the short term, the adoption of the proposed Act would very likely tighten the medium-term fiscal objective, resulting in demands for additional fiscal efforts arising from the need to achieve the fiscal balance over the medium-term, as required by the Constitution.

The Fiscal Council, therefore, proposes that, in the subsequent legislative procedure of adopting said Act, the fiscal consequences are calculated and published for a longer period or at least for the period to 2040. This legislation contains, *inter alia*, provisions on increasing pension entitlement ratio, which would improve the financial situation of new pensioners. Given the existing Act proposal to its fullest extent, these provisions would not take effect until 2025 due to the gradual adjustment of entitlement ratios. In line with demographic projections, a further increase in the number of pensioners ascribed to a higher entitlement ratio according to the proposed Act is expected after 2025. This could further increase public expenditure in a period when, due to the expected higher ageing-related costs, their rapid growth is expected already under baseline long-term scenarios (as stated in the 2018 Ageing Report). Although the proposed Act contains solutions that stimulate extending the active working period, the effects of such measures are more difficult to determine. Thus, one of the key factors in adopting legislation with long-term fiscal impact must be to determine whether the challenges of long-term sustainability of public finances have been properly addressed.