

Over the last few years, the government has short-listed eligible beneficiaries and adopted a directive ‘On the System of State Targeted Social Assistance’ aimed at establishing a targeted support system. It has moved to reform the inefficient social security system, but lacks resources for creating an effective one, an effort impossible without systemic macroeconomic reforms.

Measures to rearrange the social security system proposed in 2003 – in transition to targeted social assistance – would allow the government to trim expenses, but will not provide adequate support for people who need it. According to the Ministry of Labor and Social Security, 694,700 Belarusians, or 7 percent of the population, are eligible for targeted assistance under the aforementioned directive. The government set a low poverty line at a monthly per capita income of \$24.6. The government guarantees in-kind or financial aid to bring income up to a stipulated minimum.

As before, the taxpayers will not be consulted on how the outstanding funds should be spent. It is largely anyone’s guess what portion of these funds, if any, goes to those in need. Inconsistent efforts to modify the social security system, with the old system of benefits being preserved, albeit in reduced format, delayed its collapse, but failed to address the root cause.

Pension system

Under the 1993 pension law, the Belarusian government pays what is known as ‘occupational’ and ‘social/welfare’ pensions, as described below.

The main type of ‘occupational’ pensions are old-age benefits paid to more than 80 percent of the retirees. Belarus has more than 2.6 million people entitled to pensions, i.e. 26 percent of the population.

Under the law, men are eligible for benefits at the age of 60, with no less than 25 years in active employment, with the age of 55 for women having at least 20 years’ worth of occupation. Benefits may be claimed five to ten years prior to the statutory retirement age by ca. 20 occupational groups.

The size of pension depends on the average compensation earned over the last five years spent in employment and the maximum wage in the last 15 years.

‘Social’ pensions and disability and survivor benefits

Belarus’ redistribution pension system provides universal coverage and is based on the solidarity and pay-as-you-go (PAYGO) principles. ‘Occupational’ pensions are funded from employers’ contributions of 35 percent of the payroll, and by employees who pay a 1-percent tax. Benefits to the military, police, civil servants, and Chernobyl-affected population, and ‘social’ pensions are financed from general state revenue.

In 2002, public spending on pensions totaled eight percent of the GDP. Officially, benefits depend on years in service and the wage, but in fact differences are small. Benefits paid to half of the retirees are below the poverty line (\$2 per person per day), yet the average pension in Belarus is close to half of the average monthly remuneration (43 percent in 2002). The pension law provides for indexing pensions to the average monthly remuneration, but pensions usually lag behind the inflation rate and price hikes.

The pension system in Belarus depends on external factors such as the number of contributors, contributions, and income of the working-age population. The solidarity-type system is a heavy tax burden on enterprises. It has proved to foster unemployment and growth of the informal sector (estimated at 60 percent of the GDP) as employers neglect their system contributions. This is precisely the missing revenue side of the social tax equation. Moreover, the share of household income generated by salaries dropped from 53.6 percent to 50.2 percent in the first quarter. The social tax is not levied from sources of income other than payroll. At the same time, as the number of loss-making enterprises rises and their debt to the Social Security Fund grows, the government finds it more difficult to meet payments to pensioners.

International experts believe that the public redistribution program would be effective in a situation of a long, sustainable economic growth and a favorable demographic situation, i.e. one of having at least one pensioner per ten contributors. Such conditions do not apply to Belarus. In fact, the number of contributors has been shrinking. In 1990, the manufacturing sector employed 5.15 million people against 4.42 million in 2001. Some 900,000 went ‘missing’,

presumably into the informal sector, and evade taxation. The number is expected to top the 1 million mark in 2003.

The demographic situation exacerbated the pension system crisis. The number of new retirees increased to 131,500 in 2002 from 18,300 in 2001. There is no chance of the situation changing for the better. In 2020, the proportion of working-age people in Belarus is expected to stand at 57.1 percent, where the retirees will make up 27.8 percent and children just 15.1 percent.

So far, Belarus has a surplus of immigrants. However, no new jobs have been created, the number of industrial workers has been shrinking and the SME sector is stagnant. If these trends continue, there will be one pensioner per one worker in the country in 2020.

Other pension system problems are related to retirement age, the extensive range of occupational groups entitled to early retirement benefits, effective payment of benefits to those still in active occupation, and the emphasis on employers and employees funding the pension system.

Belarus has one of the world's lowest retirement ages – 60 years for men and 55 years for women. The average retirement age is even lower as many categories may stop working earlier. Thus, the average effective retirement age is 58 years and 10 months for men and 53 years and 11 months for women. On the average, men receive pensions for 14 years and women for 23 years.

At present, there are more than 20 categories of those eligible for early retirement, i.e. 25 percent of all new pensions in the last few years. This is twice the 1990 registered figure.

It turns out that all employees make the same contributions, but some of them may claim benefits five to ten years earlier than others. This depletes the level of old-age security in the country.

Housing and utilities

The majority of Belarus' current housing stock was built after World War 2, with only 6.9 percent of residential space built before 1945³.

³ Figures here are quoted after the 1999 census; more recent official statistics are not available, as yet.