

# CASE STUDY: CHANGES IN PENSION AND LABOR MARKET LAWS IN SLOVENIA

## FACTS AND BACKGROUND

With low birth rates and aging population, Slovenia is facing growing pressure on the pension, health, and other public systems. While in 2019 the share of the public PAYG pension system was approximately 10% of GDP, it could rise to 17% by 2050 based on the microsimulation model. A share of GDP is unbearable, considering that other closely related expenditures, such as health care and long-term care, follow this trend. With one of the lowest activity rates of those aged 55+ in the EU, one of the longest “bridges to retirement” composed of a mix of long-term sick leave and unemployment benefits, a significant drop in disposable income when comparing the last salary to the first pension, fairly high indexation rates (general and additional) and also other aspects, the pension system was a perfect fit for structural reform.

Slovenia has a fairly high wage compression and some difficulties in increasing productivity growth. In addition, politicians frequently engage in narrowing the personal income tax and social security contributions bases to collect “beauty points”, further limiting the maneuvering space for structural reforms, which take time, effort, and funds. Public awareness is vulnerable to oversimplification due to the complexity of the pension system and its long-term impact, and the past pension system “shock” reform that built public distrust and high political risk

due to the minority government taking office in September 2018<sup>1</sup>, were clear signs that an approach based on broad inclusion of stakeholders to build trust, awareness, and inertia was needed. 2018 was an election year that propelled high expectations of the political elite and the general public after years of austerity measures imposed due to the 2008 global financial-economic meltdown. A steep increase in GDP growth and budget revenues, and a rapidly diminishing public debt to GDP ratio have proven to be a counterproductive mix.

In order to plan for a successful outcome, the following was proposed (and accepted):

- to extend the changes to the pension system to labor market legislation in order to achieve the goals set by the coalition (decent/adequate pensions); a significant part of the issues faced by the pension system could be addressed by increasing the activity rates of the 55+ generation through “cutting the bride to retirement” and stimulating work activity just after fulfilling the retirement conditions
- to involve a broad range of stakeholders in the process in order to gain a broader consensus, understanding and support to the proposed changes; unanimous support of the economic and social council is needed to ensure a successful outcome in the Parliament

- the most relevant documents were the white book on pensions and a 2017 agreement of the social partners giving a general outline of future changes to the pension system; this was to be combined with the coalition parties’ programs and the coalition contract
- the expectations of the coalition parties, including two parties with the retired as their primary voting base, were high and diverging, hence interviews were to be held in order to prepare an adequate proposal and align the expectations/goals
- changes should happen fast since it was likely that the government would not be able to complete the usual four years term<sup>2</sup>

Subsequently, the negotiation process took more than half a year, significantly squeezing the time available for other phases. However, the project that started in October 2018 ended on time with the adoption of the amendments to the pension and labor market laws in late 2019 (in force since 2020).

<sup>1</sup> There were five coalition parties (LMS, SMC, SD, DeSUS, SAB) in the Parliament, which did not have a majority and hence relied on one opposition party (Levica) to gain a weak majority.

<sup>2</sup> The PM eventually stepped down (his term lasted from September 2018 to March 2020).

## IDENTIFICATION OF STAKEHOLDERS: DECOMPOSITION OF THE STRUCTURAL REFORM PROCESS

One of the practical approaches to the identification of relevant stakeholders is to make better use of the planning phase of the structural reform. Decomposing the project into steps and visualizing the whole process from start to post-implementation activities can be used also as a handy tool for stakeholder identification. The project in question was first split into three phases: setting the scene, negotiating, and implementing. It was then further split into tasks/milestones/interactions.

The process and its time frame were set by a plethora of rules that (pre)determine the timing and steps to be taken. While mandatory stakeholders were easily identified by reviewing the agreed rules of engagement (e.g. in the cooperation protocol of the coalition contract, the rules governing the procedures of the economic and social council, the government, and the parliament), the identification of other stakeholders required a fair share of common sense and some experience.



Based on the above flowchart, the following set of questions was considered to identify the relevant stakeholders: What do we need? Why do we need it? Who would be the best fit for it? Who will be engaged, when, and in what form?

The identification exercise resulted in a spreadsheet similar to the one listed below. However, please note that when listing stakeholders, identification of organizations or generic roles is not enough. You should always identify specific persons who will be addressed, not merely a group or organization, to make your efforts worthwhile. There is always a broad range of experts, politicians, journalists, and other parties who may be interested in cooperating; however, interest and expertise do not necessarily come in pairs.

## STAKEHOLDERS LIST: NEEDS, ROLES, ENGAGEMENT PHASES AND FREQUENCIES

Engaging stakeholders takes time and effort. Our approach included a multi-level interaction of the inner team (five members) with (external) stakeholders. Rules of engagement depended on the need and role/status, while carefully matching and balancing the interaction levels. There are some parallels with cooking a good meal when determining the extent to which a team member is engaging with stakeholders, i.e. minister (spice – used rarely and in small portions), state secretary and director of directorate (main ingredients – constant interaction), heads of relevant sectors (special ingredient – use rarely).

NEED	STAKEHOLDERS	ROLE/IMPACT	FREQUENCY <sup>3</sup>	PHASE <sup>4</sup>
Ensuring and nurturing adequate <b>political support</b>	Prime Minister (PM)	Sets priorities and provides primary political support	Q	Keep in the loop at all times (note that the political landscape is changing very fast & memory is short)
	PM's advisors	Keep track of the reform, provide regular updates to the PM and give feedback	M/W	
	Leaders of coalition parliamentary groups	Approve (minor) amendments to the negotiations mandate (approving fallback positions, extending/narrowing the scope)	Q	
	Coalition MPs and their expert assistants	Confirm the initial mandate for negotiations and give the final consent before the legislation procedure starts; align expectations to prevent friction with/among them; provide materials for fact-based discussions in the parliament	M	
	Opposition MPs and their expert assistants	Change "no" to "yes" or "neutral" by openly sharing data, measures and reasoning; give highlights of pros & cons from their perspective; obtain further insight into their reasoning	Q	
Expert <b>knowledge, data and analytical capacity</b> ; additional "free" brainpower to ensure "brain of reasonable scale"	Institute for economic research	Promptly and regularly estimates the financial impact of various measures, using a microeconomic pension model	W	D, N
	Pension and disability insurance institute	Collects historical and current data on pensioners; aligns measures with capacity/practical insight	M	All phases
	Fiscal council	Provide the fiscal council with all relevant data so it council can take a well-informed position on the changes	Q	D, I
	Government office for legislation	Ensures consistency with other legislation; improves the quality of translation of measures into provisions/law	Q	N, I
	Parliament office for legislation	Ensures consistency with other legislation; improves the quality of translation of measures into provisions/law; ensures there are no major outstanding (legal) issues	Q	N, I
	Ministry of finance (MoF); other ministries	MoF reviews and approves of the (expected) financial impact(s); health, public administration, defense, interior – review proposals, give opinions, ensure consistency with sector-specific legislation	Q	D, N, I
<b>Building broad (social) consensus</b>	Members of the social council	Name the members of the negotiation groups (two groups); hold negotiations (eight rounds of negotiations for each group); need a unanimously positive vote to avoid (lethal) changes to the law in the governmental and parliamentary procedure; provide inertia and resilience	W	N, I
Building <b>public awareness</b> and understanding	Media and general public	Attend TV and radio shows, give in-depth interviews (numerous); organize press conferences (two) and technical briefings for journalists (two); hold one-on-one discussions/correspondence with journalists interested in details, reasoning and calculations (numerous); provide updates on the status of negotiations; provide an alternative view in case of leakage of information from the negotiation room; ensure inertia and resilience of the reform by placing it high on the agenda of the institution	W/D	D, N, I
	Various expert and interest groups, opinion makers, non-governmental organizations (NGOs)	Present the plan, measures, legal and financial implications of the reform at conferences, roundtables, briefings and other events; ensure that opinion makers and interest groups have quality (first hand) data that they readily share and provide relevant feedback during public consultation; obtain information on likely responses/issues that could be raised by interest groups and foresee likely communication channels	M/W	D, N, I
Being on the same page; <b>echoing</b> ; <b>anchoring</b> the long-term strategy; additional "brain power"	International stakeholders/ organizations (EC, IMF, OECD, etc.)	Provide additional insight and share peer countries' data and measures; align the understanding of issues and solutions; anchor the structural reform in national strategies and international documents; generate broader goal congruence and assistance in horizontal communication across ministries and other stakeholders on what has to be done	Q	D, N, I

3 Engagement frequency: Q – quarterly, M – monthly, W – weekly, D – daily.

4 Phase: D – design, N – negotiation, I – implementation.



## HOW DO YOU KNOW YOU ARE DOING IT RIGHT?

Interaction with stakeholders takes time and effort and does not necessarily pay off (immediately).

Hence, how much time you spend on a separate stakeholder depends on your needs, which are closely related to their power and impact. Nevertheless, their expectations on how much interaction and focus you are willing to give them also matter. An additional effort may come in handy and provide a significant upside to your project that can result in positive externalities, such as:

- your inner team and the stakeholders are always willing to go the extra mile
- stakeholders take (co)ownership of the structural reform, passionately arguing for it and proudly stating that they are part of it in front of any audience
- “let’s (finally) do it” attitude spreads among stakeholders
- negotiators come well prepared to negotiations and signal potential issues and solutions in advance in order to allow you to prepare/pre-act and reduce unnecessary/unplanned conflicts and frictions
- negotiators talk freely on sensitive/key topics and willingly provide the background and reasoning that led to their positions
- (not necessarily) negotiations-related information starts to accumulate rapidly, which allows you to better understand every stakeholder and their needs and understanding where is their “exceeding expectations” goal
- a broad range of stakeholders starts to show genuine curiosity and deeper understanding of the structural reform at hand and its (deeper) implications
- you start hearing your echo from stakeholders on what the issues are and how to approach them
- stakeholders become resilient against false claims and readily discharge malicious/harmful initiatives



## THERE IS A POINT TO (COHERENT) “STORYTELLING”

There is a significant extent of “storytelling” that has to be done to maintain the inertia of the structural reform projects and support among stakeholders.

Besides openly sharing your vision, facts, background information, relevant measures, and implications of the structural reform, there are other handy tools that should be considered to amplify and leverage your positions. For example:

- we generated some “buzz” – a selection of real and proven fake facts and issues that can be readily understood and passed on/shared by any stakeholder
- hedging/anchoring/echoing – we stuck to the mandate that was given to us, and for any departures from it, we sought and obtained approval from the coalition to prevent future issues in support
- to gain trust we sometimes took the risk of giving the right to decide to stakeholders, even if it was not necessary according to formal rules (e.g. social partners decided whether public consultations can run in parallel with negotiations)
- we invested time (as much as was needed), sound evidence, data, information... and coffee
- we solved issues that were not directly related to the structural reform but could escalate into “keeping hostage” situations that would materially delay/harm the adoption process (e.g. renegotiating and updating the rules governing the economic and social council rules to allow for opposition law proposals to be processed to reduce tensions between social partners in other areas)

There is some additional food for thought that you can use to generate (new) ideas and develop your own innovative approaches for better engaging stakeholders and leveraging their inclusion – see appendix.



## APPENDIX: WHAT TEXTBOOKS WILL NOT TELL YOU

If it were easy ... it would have been done long ago.

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If it bothers you that bullets and medals rarely hit the right target, you are the single greatest risk for this structural reform to succeed.

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Only strong and well-nurtured stakeholders can provide traction to structural reform in times of a minority government.

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A strong government can pull off a structural reform by ignoring stakeholders. However, besides a lower quality of the implemented measures, you would be facing a reduction in their trust. Such trends tend to reduce political stability, deepen the divide among stakeholders and hence increase the probability of the structural reform being reversed. If the whole political elite says your reform is “the most precious of them all”, it just could be for you or Smeagol, but not for them.

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Modern politics is a day-to-day battle and a permanent campaign. Time runs fast and (government) priorities change. Locking yourself with the team for six months underground may produce an extraordinary “product”, but it can only be used as a dust collector. Make sure the structural reform you are working on stays in the spotlight – among the top ten government priorities at all times.

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Always have a mandate for what you are negotiating, and never make assumptions or take decisions that are not yours to make. However, if bad decisions are taken, it's still your fault – do your job.

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Your fairness, integrity, transparency, and reliability are your aces. Do not give them away (easily). Make detailed notes. Always. You may need them to prove your point ... or apologize.

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Two basic “must have” rules: (i) nothing is agreed until everything is agreed, and (ii) negotiate only what is on the table. Both rules can be used to your advantage also if departed from for tactical purposes.

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Your team can mitigate your handicaps – except for empathy.

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Fruits that seem to be low hanging, tend to be poisoned.

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The rationally, empirically, and hence objectively best solution is theory. Practice can usually do better.

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There is no point in trying to find the logic/reasoning behind each and every position of other negotiating parties; however, it can be fun.

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Starting negotiations five minutes late due to one negotiator missing out of twelve costs one hour.

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If you cannot find a way out, skip it, take a break or a walk, or go to sleep. And then try smarter, not harder.

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The timing and number of negotiation coffee and finger food breaks may significantly speed up the process.

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You can find a problem to any solution and leverage it through conflict to a desired level /goal – in some cases, provoking an intentional disagreement may have even more value than a yes or no.

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Usually, the opinion-maker and the decision-taker are not the same people – the first is the queen, and the second is the king. Treat them accordingly. If they like publicity, it may be useful for anchoring/front-runners.

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If one of the two social partners starts to praise you, it is likely that you made a mistake. If both praise you, you can be certain you made a mistake. Anyone can afford to make a mistake unless you are the one who makes it.

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