Pension reform in the Czech Republic

OECD, TUAC

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Dr. Vít Samek

Vicepresident

Czech-Moravian Confederation of Trade Unions

Czech Pension System from 2013

ČMKOS

General
mandatory

State pension insurance

PAYG

ČSSZ

(Cz SSA)

Opt-out
voluntary

Private
Pension Savings

FF (DC)
PMC
j.s.c.

Supplementary
voluntary

Private
Pension Savings

FF (DC)
PMC
j.s.c.

Private
Life Insurance

FF
LIC
j.s.c.

PAYG – pension formula

	Pre reform 2011	After Reform
Maximum assessment base	600% AW	400 % AW
Reference period	25 (30) years	Life long
Basic amount	2230 CZK (aprox. 9% AW)	9 % AW
Accrual rate	1,5 %	1.5 %
1st reduction limit	11 000 CZK (≈ 44%AW)	44 % AW
2nd reduction limit	28 200 CZK (≈ 114% AW)	400 % AW
Income replacement to 1st reduction limit	100 %	100 %
Income replacement to 2nd reduction limit	30 %	26 %
Income replacement over 2nd reduction limit	10%	0 %

Increase of retirement Age

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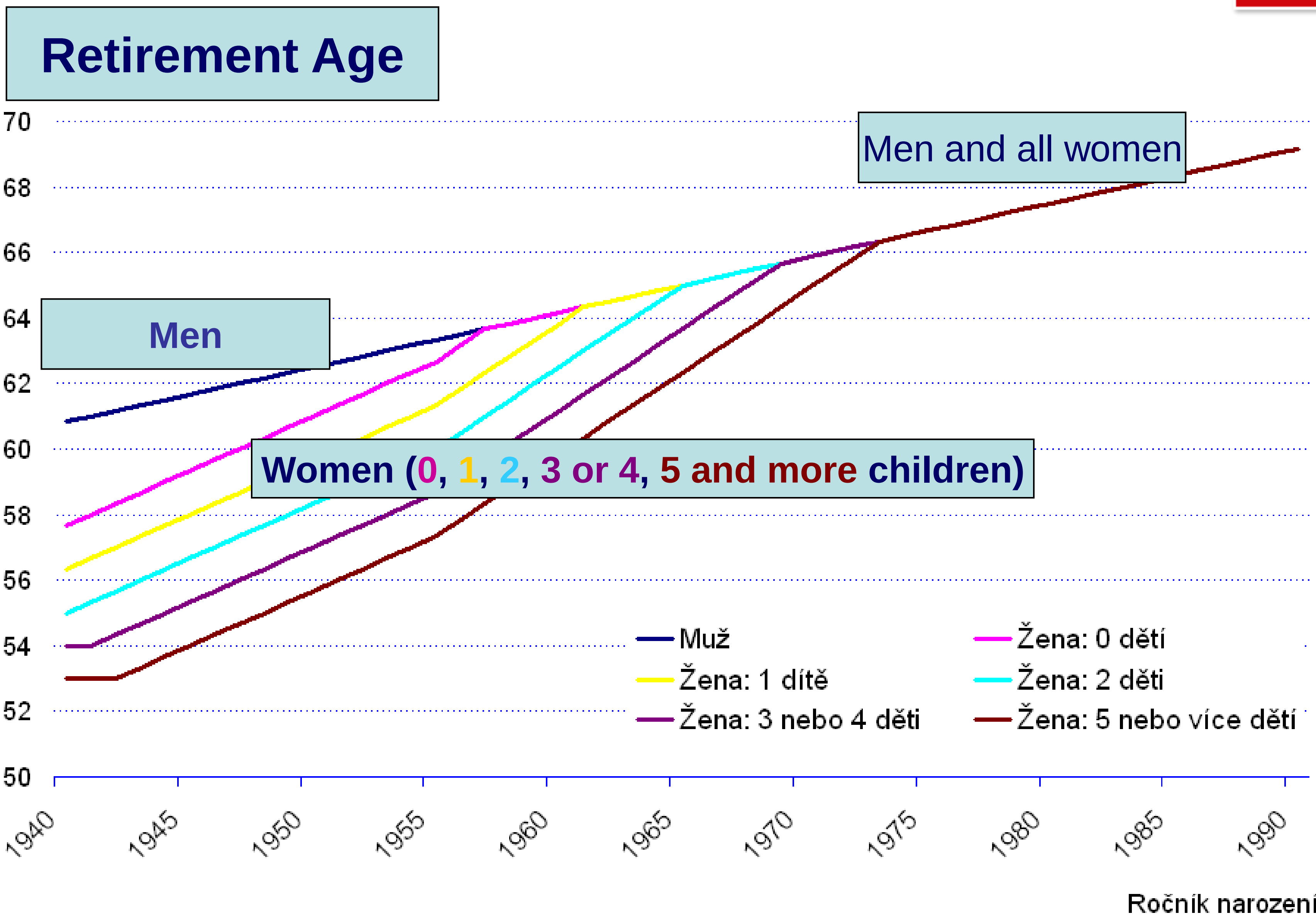
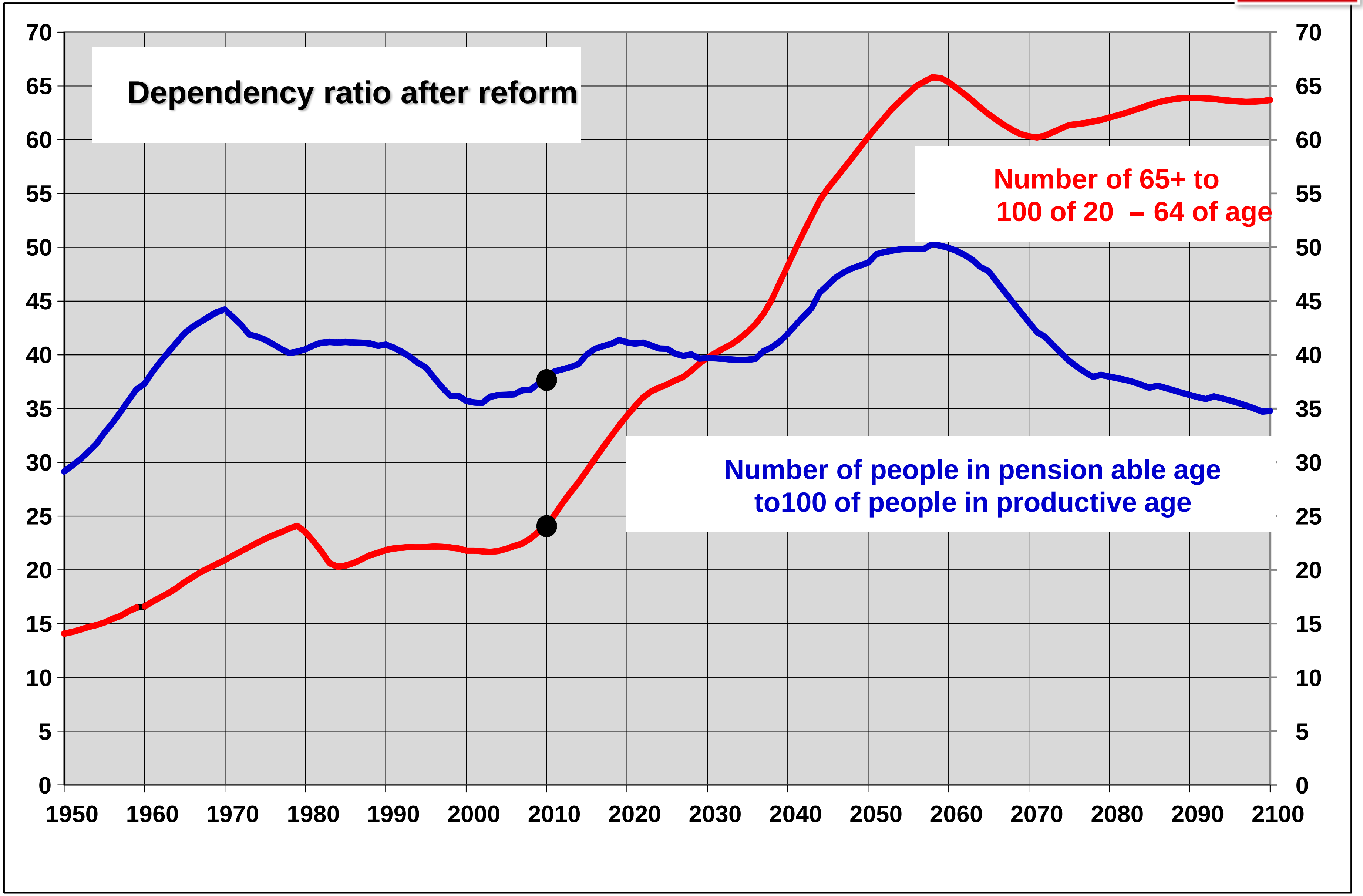


Dependency ratio



II. Pillar Reform 2013

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- **The new pension savings product** based on opt-out (voluntary) principle however once the person will join the II. Pillar it will be mandatory for them till the retirement
- All **persons up to 35** have the option to opt out partially from PAYG mandatory social security I. Pillar
- Those who take part in II. Pillar can redirect (divert) 3 % of their pay-a-roll tax (social security contribution) into their individual account in II. FDC Pillar
- Those who opt-out partially from I. Pillar will be obliged at the same time to put into their individual account in II. FDC Pillar also their own contribution (from their net disposable income) in amount of 2 % of their pay-a-roll/gross salary/
- Since this moment **those persons will pay the social security tax at the level of 30 % of pay-a-roll in place of current 28%**
- Persons above 35 (any age ceiling) had got 1st half of 2013 to join the II. Pillar under the same conditions as above mentioned for those below 35

III. Pillar reform 2013

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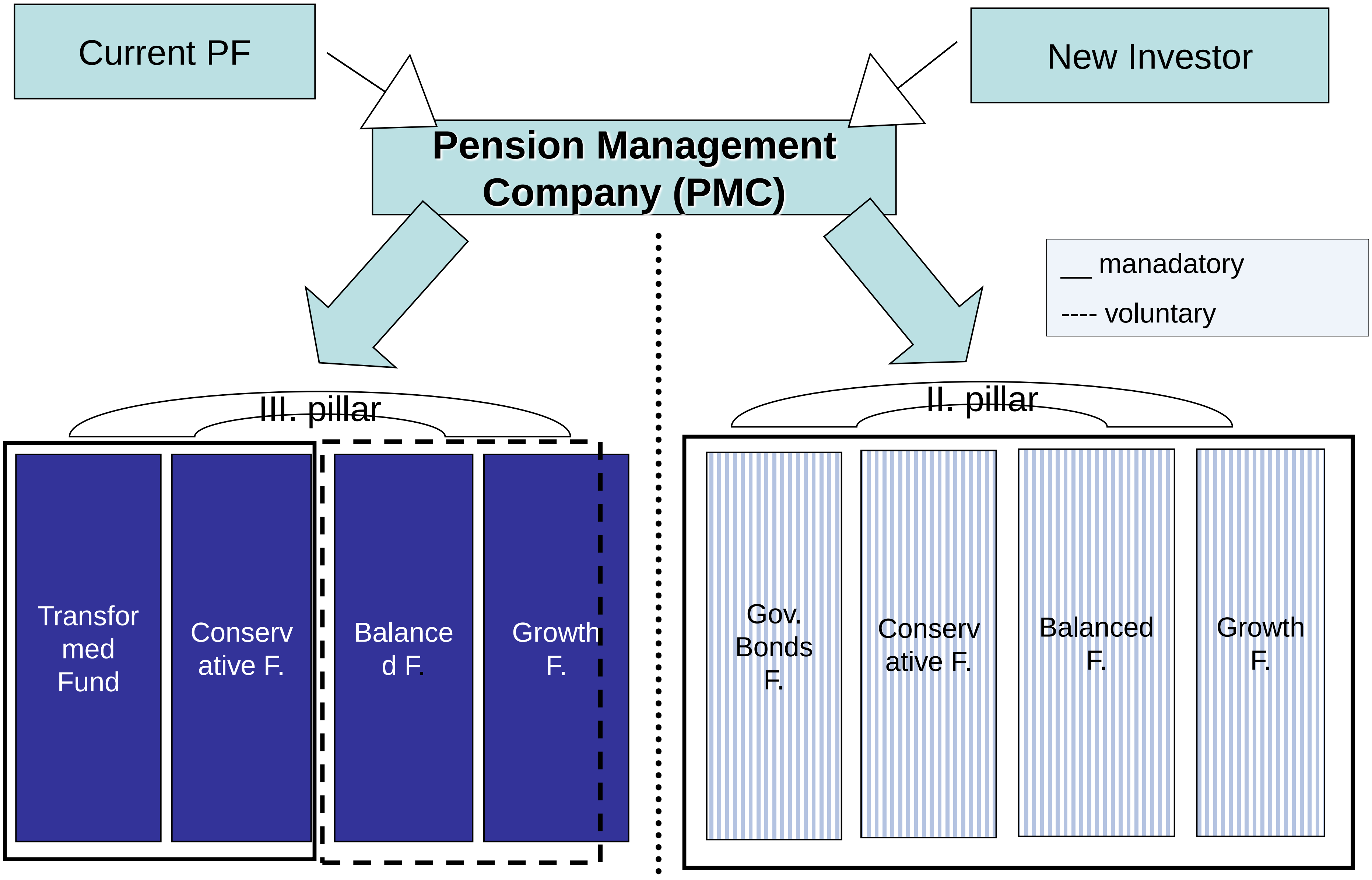
- – Former **pension funds** in III. Pillar were **transformed** into the **pension management companies** (PMC) and are eligible to manage both II. and III. Pillar funds
- – To obtain the license also for II. Pillar was to fulfill certain additional conditions – mainly **to increase** a seed (basic) **capital from former minimum 2 mil € up to 12 mil €**
- – To obtain the license for II. Pillar pension management companies were **open also new providers**
- – The **pension management companies** operating in II. Pillar **have to offer exactly 4 pension funds/investment strategies** – conservative, balanced and growth and one ultra-conservative investing only in Czech sovereign bonds, see the chart on the next slide

Architecture of Private Pensions



Financing of the transformation costs of I. and II. Pillar

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- **The VAT rates was unified in order to get an long-term source of financing transitory costs of the reform**
  - The gap which will occur in the I. pillar should be financed through the unification of currently two VAT rates /10% and 20%/ at 21% without any exemptions

Pension Market Development (II. a III. pillar)

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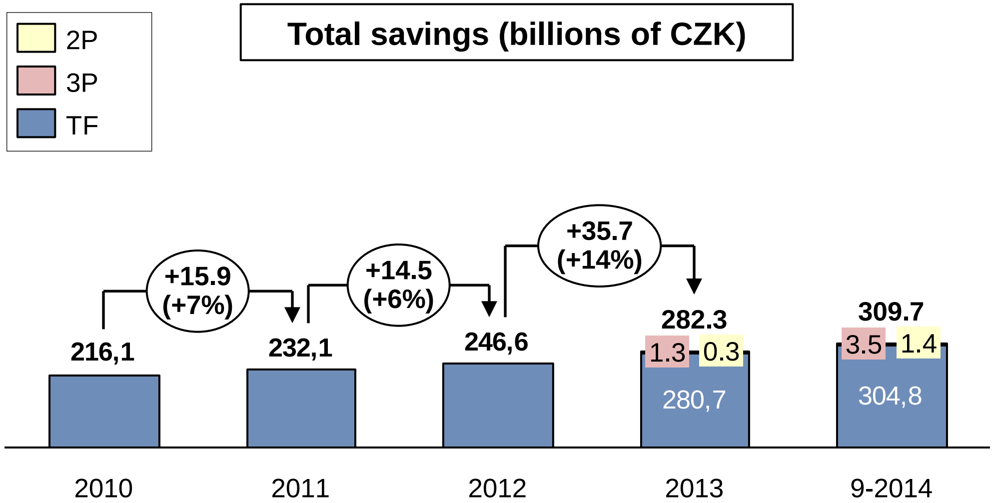
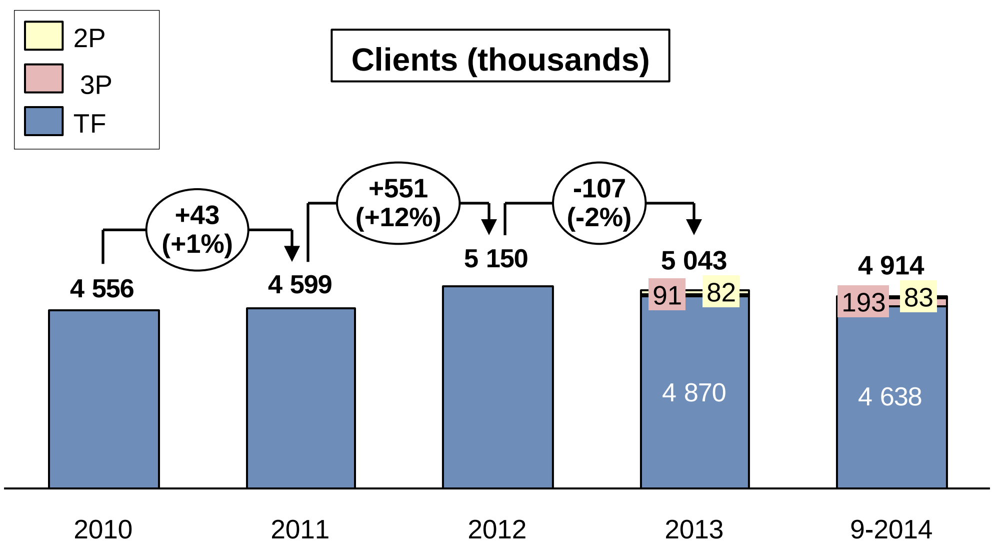


Saving development

- Dynamics of pensions savings, but
- The biggest part of savings remains in transformed funds (old III. Pillar)



Clients:

- Decline in 2013 because of
  - Growth of the new contracts in 2012
  - new strict regulation of selling , limits of fees and charges,
  - less flexible for clients.

Impact of „Non consensus scenario“

- **Political consensus with opposition** (CSSD - social democrats) **was not achieved:** *We will cancel your reform!*
- **Expert Group for pension reform set up in 2014** (politics, social partners, academics) to
  - discuss next steps of pension reform (statutory old age, indexation of pensions, reforms of II. and III. pillar), and to prepare policy recommendations for government
- **The new government** ruled by „yesterday's opposition“ **has decided to stop the II. Pillar as from 2016**
  - stop to redirect 3% of pay-a-roll social security tax into the II. Pillar
  - savings pay out to clients (lump sum) or to transfer them into III. Pillar
- **How to rise savings in the III. Pillar…?**
- **Role of employer´s contributions…!**
- **Impact of long-term working activities in hazardous or arduous working conditions …?**
- **Childless families…?**

Thank you for your attention

samek.vit@cmkos.cz