Czech Republic

Czech Republic: Pension system in 2012

The Czech pension system consists of a public pension scheme and a mandatory funded private scheme with voluntary entry.

The public pension scheme has a basic element and an earnings-related part calculated according to a progressive formula.

Key indicators

		Czech Republic	OECD
Average worker earnings (AW)	CZK	300 400	812 600
	USD	15 800	42 700
Public pension spending	% of GDP	8.3	7.8
Life expectancy	At birth	77.6	79.9
	At age 65	17.1	19.1
Population over age 65	% of working-age population	25.3	25.5

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Qualifying conditions

The standard retirement age is gradually increased by two months per birth cohort without any upper limit for men (and later on for women too). The pension eligibility age for women is increased by four months and from 2019 by six months to be unified with men (fully for individuals born in 1975 at the age 66 years and eight months). A minimum required 25 years' coverage will be gradually increased to 35 years, by one year per year from 2010. However people with 15 years' coverage (gradually increasing to 20 years) can receive a pension from the age five years higher than standard retirement age for males the same year of birth.

Benefit calculation

Basic

The value of the basic pension in 2012 is CZK 2 270 or 9% of the legislated average wage which was CZK 25 136 in 2012.

Earnings-related

The earnings-related pension gives 1.5% of earnings for each service year. The earnings measure currently averages across all years starting from 1986, but it will gradually reach lifetime average. Earlier years' earnings are indexed by the growth of economy-wide average earnings.

There is a progressive benefit formula, under which income thresholds are applied to reduce average career earnings into the calculation basis. In the final state the first threshold is 44% of average wage and second 400% of average wage.* The first reduction threshold is equal to CZK 11 061 and the second is CZK 100 548 in 2012. Up to first threshold the earning will be replaced by 100% and between first and second by 26%. Earnings over the second threshold will not be taken into account.

* Due to a five-year transition period, the figures effective in 2012 are different from those which apply to a future pensioner (after the transition period), but in terms of wages and prices of 2012.

There will be a statutory indexation requirement for the earnings-related pension component in payment to reach the state that the combined total average pension benefit (flat-rate and earnings-related components) is increased by 100% of price inflation (only one-third of price inflation in 2013-15) plus one-third of real wage growth.

Minimum

The total value of the minimum monthly newly granted public pension benefit is CZK 3 040, which is made up of a minimum earnings-related pension of CZK 770 plus the basic component of CZK 2 270. It is worth 12.1% of average earnings.

Social assistance

The living minimum is composed of one component and created by living minimum ensuring subsistence and other basic personal needs. The living minimum of individual (and therefore also living-alone pensioner) amounted to CZK 3 410 per month. The social protection in housing is solved within the framework of the state social benefit system, providing housing benefits and in the system of assistance in material need by surcharge for housing.

Voluntary private pensions

As of January 2013 every insured person can voluntarily opt into a privately managed funded define-contribution pension system. Participation in the funded system cannot be revoked. The mandatory fully funded scheme is financed by contributions of 5% of gross earnings. At the same time the individual's contribution rate to earnings-related public pension scheme is lowered by 3 percentage points (from 28% to 25%). As a result the total contribution rate for participants increases to 30% of gross earnings. The lower contribution rate to public pension scheme affects the accrual rate of the earnings-related component of public pensions. The accrual rate is decreased to 1.2% annually (instead of 1.5%) for each year the individual contributes to the funded scheme.

The contributions are accumulated in individual accounts managed by private pension companies and invested according to an individual investment strategy chosen by the participant as a combination of savings allocation in pension funds in time. Each pension company offers exactly four pension funds with different revenue-risk profiles.

After a pension from the public pension scheme is granted, the participant can start drawing his/her savings from the funded scheme. Three withdrawal options are available – a lifelong annuity, lifelong annuity with additional three year survivor pension or a temporary 20-year annuity.

There is an additional voluntary pension which is assumed to be defined contribution. The contribution rate is assumed to be 2.8%.

The voluntary private pension systems are not modelled in the base case.

Variant careers

Early retirement

It is possible to retire three years (increasing to five years, but no earlier than age 60) before the standard retirement ages subject to 25 years' coverage, increasing in line with general qualification conditions to 35 years. The total accrual factor (i.e. number of years of contributions multiplied by the accrual rate) is permanently reduced by 0.9% for each

90 days of the first 360 days of early retirement (3.6% per year), 1.2% for each 90 days between 361 and 720 days (4.8% per year) and 1.5% for each 90 days thereafter (6% per year). For a full-career worker, this is equivalent to a decrement in the pension level (rather than the replacement rate) for early retirement of 3.6/64.5 (1.5% times 43 years) = 5.6%.

Late retirement

It is possible to defer claiming the pension beyond the normal pension age. The total accrual factor is increased by 1.5% for each 90-day period of deferral (6% per year). There is no additional pension accrual for deferred retirement. It is also possible to combine pension receipt while continuing to work. If claiming the full pension it will increase by 0.4% for each 360 days of work, whilst if claiming only half the old-age pension it will increase by 1.5% for every 180 days of work.

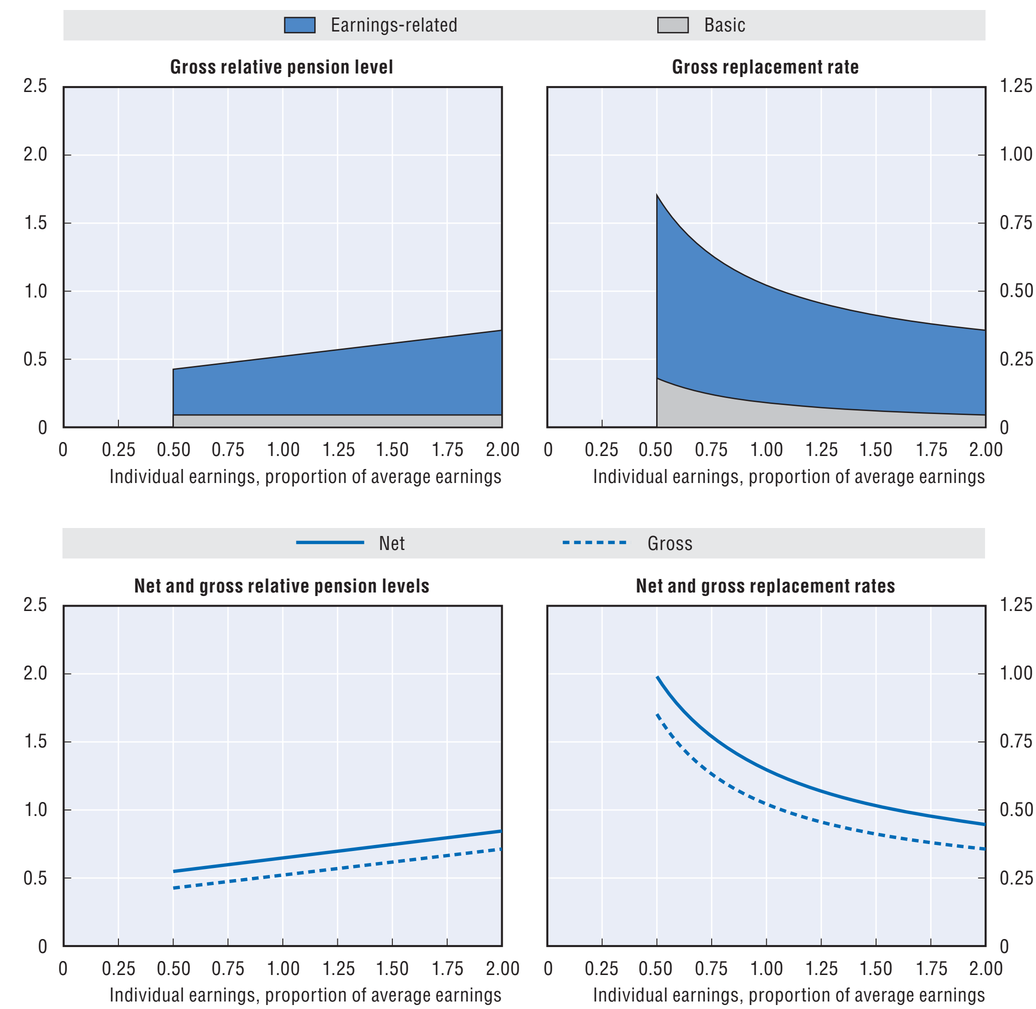
Childcare

There are credits for labour-market absences during periods caring for children up to four years old (or older in case of severe disability). These years are then ignored in the calculation of earnings for pension purposes so that these absences do not reduce the assessment base. (This approach is used for all non-contributory periods).

Unemployment

Periods on earnings-related unemployment insurance are credited in the pension system. The duration of unemployment insurance entitlement varies with age: five months up to age 50, eight months from 50 to 55 and 11 months for over 55s. In addition, up to three years spent unemployed without entitlement to unemployment insurance are also credited (but only one year of unemployment without benefits before the age of 55 is credited). The unemployment period used for the pension calculation is reduced to 80%, meaning that if an individual had five years' unemployment over the career, this would count as four years for pension purposes. If the unemployment period is in the decisive (reference) period for the average assessment base calculation, this period is excluded from the calculation and only the income from which the premium is paid is used.

Pension modelling results: Czech Republic



Men *Women (where different)*	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level	48.5	42.6	47.4	52.2	61.7	71.3
(% average gross earnings)						
Net relative pension level	61.0	54.8	59.8	64.7	74.6	84.5
(% net average earnings)						
Gross replacement rate	59.9	85.2	63.2	52.2	41.2	35.6
(% individual gross earnings)						
Net replacement rate	73.4	99.1	77.0	64.7	51.6	44.7
(% individual net earnings)						
Gross pension wealth	8.5	12.1	9.0	7.4	5.8	5.1
(multiple of individual gross earnings)	*10.4*	*14.7*	*10.9*	*9.0*	*7.1*	*6.2*
Net pension wealth	8.3	12.0	8.7	7.1	5.5	4.6
(multiple of individual gross earnings)	*10.0*	*14.6*	*10.6*	*8.6*	*6.6*	*5.6*

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