

Pensions in Austria, the Czech Republic, Germany and Poland

Agenda

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III	Germany	
IV	Poland	



DPE CEE Common Actuviev Presentation

Old Age Pensions in Europe

1. Introduction

- Selected Statistics
- Sketch of the Pillar System
- Distribution of old Age Income

3. Corporate and Private Pensions

- Introduction
- Past development
- Formula
- Level of benefits
- Effectiveness

2. Public and Compulsory System

- Overview
- Level of benefits
- Outlook
- Formula

Czech Republic



Czech Republic

Introduction

Czech Republic

Selected Statistics

1 Inhabitants in 2020: **10.7m**

2 **5.2m** people are **employed or self-employed** – of which 4.9 m are employed within the scope of the national insurance

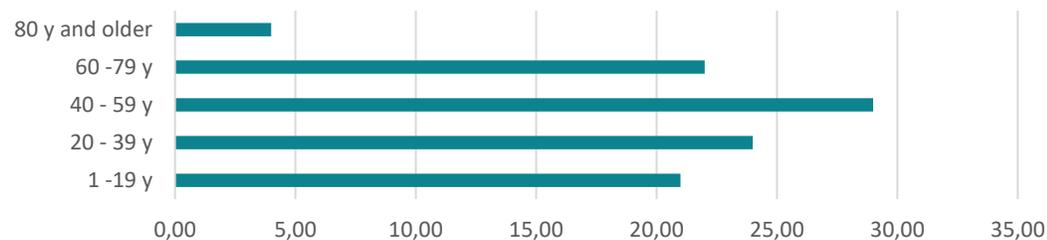
3 Unemployment rate: **3.3 %**

4 People aged 65 and older:

2020: **2.2m** ii. 2035: **2.4m** expected

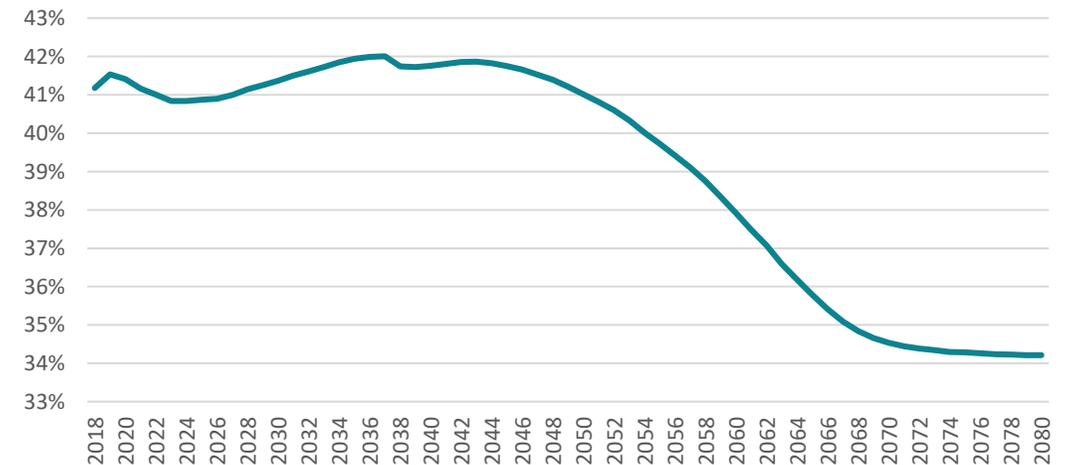
www.czso.cz 20220112

5 Distribution of ages in 2020 (total population)



www.czso.cz, 2021, Deloitte diagram

6 Pre-Tax Ratio of Average Pension* to Average Pay** in %



Deloitte diagram

Estimation based on unchanged conditions

* Minus social security contributions

** Minus social security contributions and minus average payments for private pensions

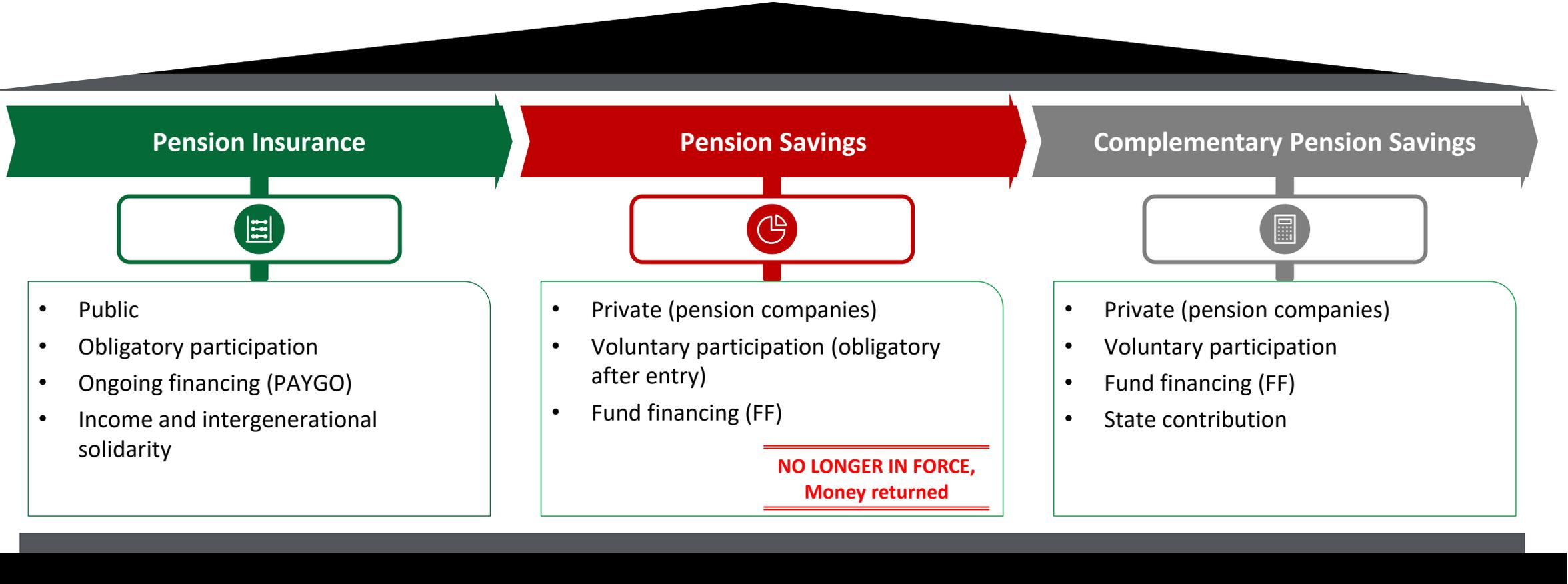
7 Average monthly pay of full-time employees in 2Q/2022:

40 086 CZK [1,603 EUR]

www.czso.cz, 2021, Deloitte diagram

Czech Republic – Currently 2 Pillar System

Pension Insurance & Complementary Pension Savings



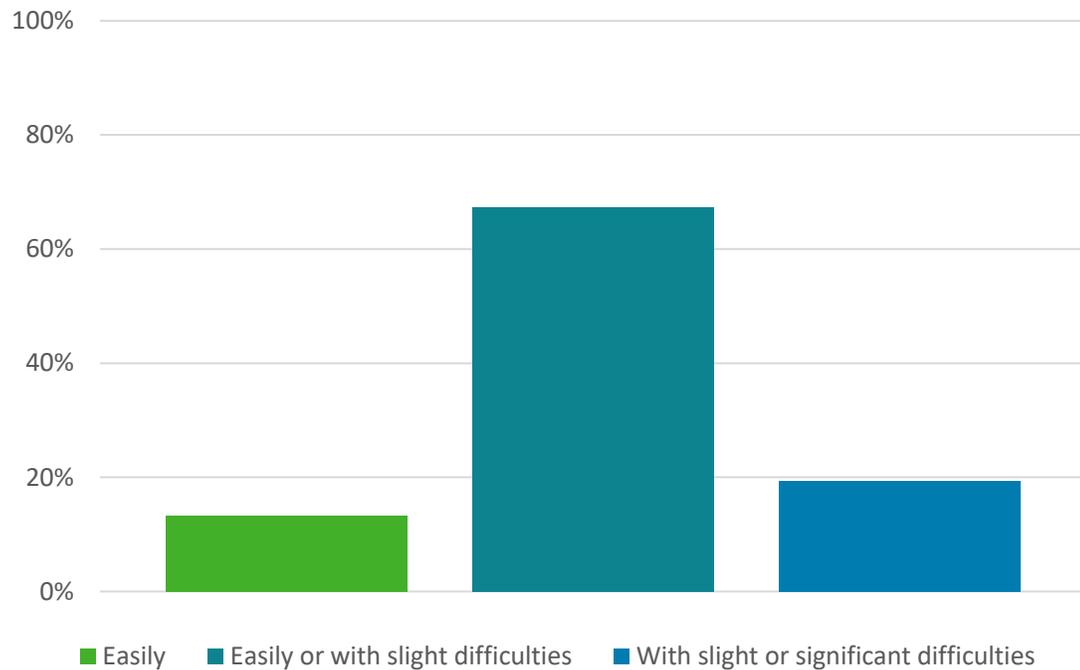
Czech Republic

Income of pensioners

1

Sufficiency of Income for Older People

Ability to support themselves with income of individuals above 65 years (in %)



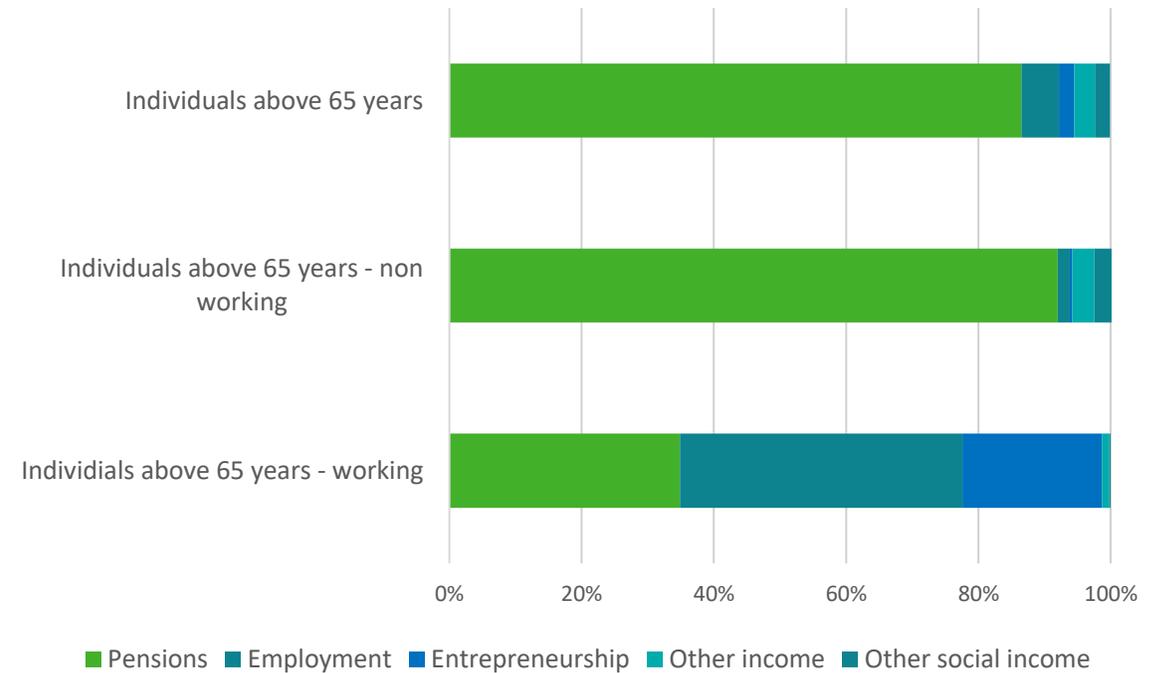
www.czso.cz, 2021, Deloitte diagram

Deloitte 2022

2

Structure of Income of Older People

Structure of income of individuals above 65 years (in %)



www.czso.cz, 2020, Deloitte diagram

Czech Republic

Public and Compulsory System

Czech Republic – Pension Insurance (1st pillar)

Overview



Pension Insurance

- Traditional social insurance system (part of social security).
- Based on paying contributions based on wage. The contributions are paid within social security insurance system (together with health insurance and contribution to the state employment policy).
- PAYGO (Pay As You Go) system
- Pension insurance is used as a replacement of income in the case of
 - Old age (old-age pension)
 - Disability - I., II. and III. degree (disability pension)
 - Loss of the breadwinner (widow's pension, widower's pension and orphan's pension)
- Pension benefit (direct or derived) is provided by the pension insurance.
- Professional assistance in the matters of pension insurance: Ministry of Labor and Social Affairs, Czech Social Security Administration.
- More than 99% of the population who reach the stipulated age have pensions from this basic pension insurance. High percentage of participants in the first pillar is specific attribute of the Czech pension system.



Premium

- The only mandatory pillar – persons participating in various activities (includes employment, study periods under certain conditions and more).
- The amount of insurance premium depends on the gross income.

Employees	Employers	Self-employed
6.5 %	21.5 %	28 %

- Administered by the state – part of state budget



Conditions for participants

- Reaching necessary time of pension insurance = 35 years
- Reaching retirement age (early or postponed retirement is possible, pension then permanently reduced or increased, respectively).

Entry Age Old Age Pension (statutory)					
Men			Women		
Born before 1936	Born in 1936 - 1971	Born after 1971	Born before 1936	Born in 1936 - 1971	Born after 1971
60 y	gradually increasing	65 y	53 – 57 y*	gradually increasing*	65 y

*influenced by the number of children

Czech Republic – Pension Insurance (1st pillar)

Level of pensions



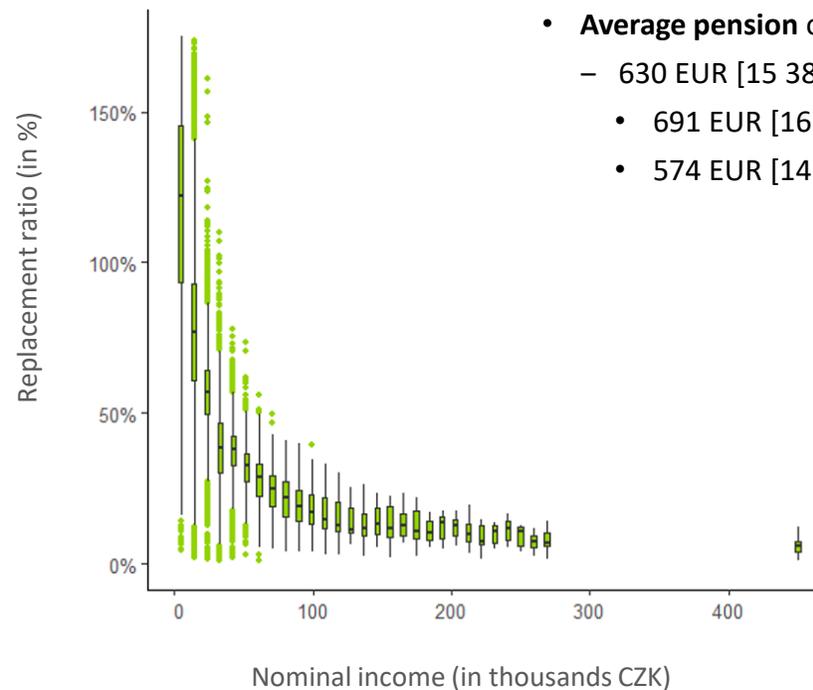
Level of pensions

- **Replacement ratio** is appr. 41 % of the average wage in 2020 – decreasing
- Replacement ratio in connection to nominal income in 2022:

www.unrr.cz 2019, Deloitte diagram

- The **poverty threshold** in 2021 amounted to:
 - 575 EUR [14 055 CZK] for singles
 - 1 207 EUR [29 515 CZK] for couples with 2 children below 14 years

- **Average pension** of standard retirement in June 2021
 - 630 EUR [15 385 CZK]
 - 691 EUR [16 871 CZK] for men
 - 574 EUR [14 022 CZK] for women



www.cssz.cz, Deloitte diagram

Czech Republic – Pension Insurance (1st pillar)

Statutory Pension – Outlook and Formula



Outlook:

- Due to the demographic development and higher share of the population being in the retirement age, the financial situation of the statutory pension system is becoming more and more tense.
- Percentage of the Czech population above 65 years of age:
 - 20,2 % in 2022
 - Est. 22,5 % in 2030
 - Est. 29 % in 2050
- A further increase is expected. Solution is yet to be found.

Major factors that are influencing the statutory annuity:

- Basic pension component (BP)
 - The minimum pension level is a guaranteed retirement pension payment based on average income in the country.
- Earnings-related pension component (ERP)
 - individual income
 - length of contribution
 - factors that reflect the start date of the pension (before or after the regular retirement age)
 - other factors

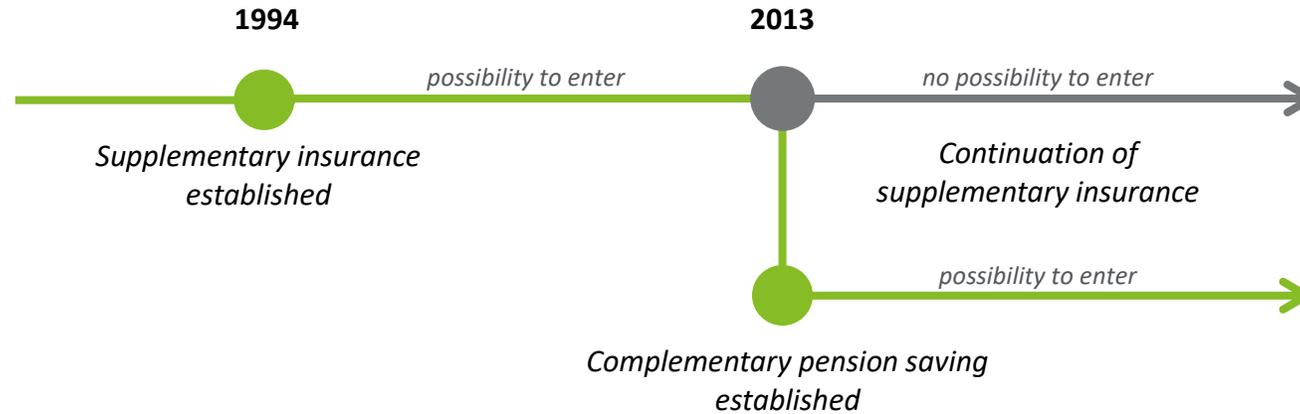
$$\text{monthly statutory pension} = BP + ERP$$

Czech Republic

Corporate & Private Pensions

Czech Republic – Complementary Pension Savings (3rd pillar)

Overview



Supplementary insurance: until 2012

- Still exists without the possibility to enter for new participants
- Voluntary participation with state contributions
- Made of mutual funds
- Non-negative yield is guaranteed
- Only conservative investment strategies
- After 15 years ½ can be withdrawn without penalty



Complementary pension saving: since 2013

- Voluntary participation with state contributions
- Made of mutual funds
- The risk of negative yield (dependence on the chosen strategy)
- Possibility to choose the investment strategy:
 - Conservative (each pension company is obliged to offer one)
 - Balanced
 - Dynamic
 - Life-cycle (start at dynamic, automatic gradual transfer to more conservative with increasing age)

Czech Republic – Complementary Pension Savings (3rd pillar)

Advantages

3rd pillar advantages

- State contribution is one of the most notable advantage of complementary pension savings.
 - The amount of state contribution gradually scales with the amount of the deposit within the minimum & maximum thresholds.
 - Supplementary insurance initially offered different amounts for the state contribution under different conditions, but these were unified in 2013.
 - Certain conditions & functionalities of the two systems remain differentiated even after 2013.
- Employer's contribution – the amount depends on the employer & represents tax deductible expenses for employer.
- Tax benefits – everything over 40 EUR [1,000 CZK] per month can be deducted from the tax basis, however, the maximum is 970 EUR [24,000 CZK].
- The effectiveness of the 3rd pillar is debatable. Although it has 4,4 million participants, it accounts for only a small part of the total income of pensioners.

State contribution calculation

- State contribution – for deposit min. 12 EUR [300 CZK] per month the state contribution is 3.5 EUR [90 CZK].
- However, maximum state contribution is 9.2 EUR [230 CZK] per month for the deposit of 40 EUR [1,000 CZK] and higher.

state contribution = 3.5 EUR + 20 % of the deposit above 12 EUR

Monthly deposit	State contribution
< 12 EUR [300 CZK]	0 EUR [0 CZK]
12 EUR [300 CZK]	3.5 EUR [90 CZK]
20 EUR [500 CZK]	5.2 EUR [130 CZK]
32 EUR [800 CZK]	7.5 EUR [190 CZK]
≥ 40 EUR [1,000 CZK]	9.2 EUR [230 CZK]

Czech Republic – Pension Savings (2nd pillar)

Overview

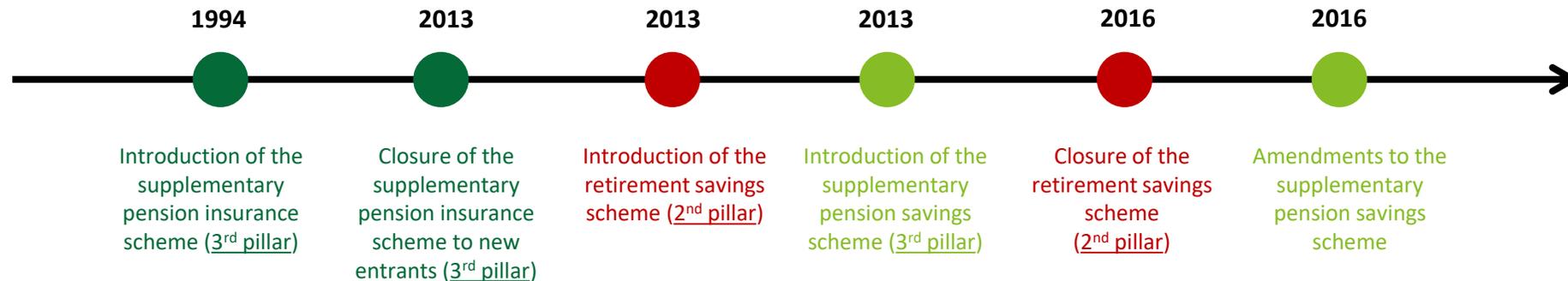
**NO LONGER IN FORCE,
Money returned**

Pension Savings

- Active during 2013 – 2015
- Voluntary participation, however, the participation in the II. pillar results in the obligation to pay premiums (during the period of gainful activity).
- The size of paid amounts depends on amount of income, in total 5% of the gross wage monthly. Finances are invested within the chosen pension fund and investment strategy.
- The amount of pension depends on paid amounts and their appreciation.

Why was 2nd pillar cancelled?

- Insufficient number of contracts – about 83,000 on the market
- Limited commissions – low incentive for brokers to sell
- Political situation – the opposition declared they will cancel the pillar at the earliest opportunity



Czech Republic

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