





## Pensions in Austria, the Czech Republic, Germany and Poland

# Agenda

I	Austria .....	
II	<b>Czech Republic</b> .....	
III	Germany .....	
IV	Poland .....	



# DPE CEE Common Actuvview Presentation

## Old Age Pensions in Europe

### 1. Introduction

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

### 3. Corporate and Private Pensions

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

### 2. Public and Compulsory System

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- 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

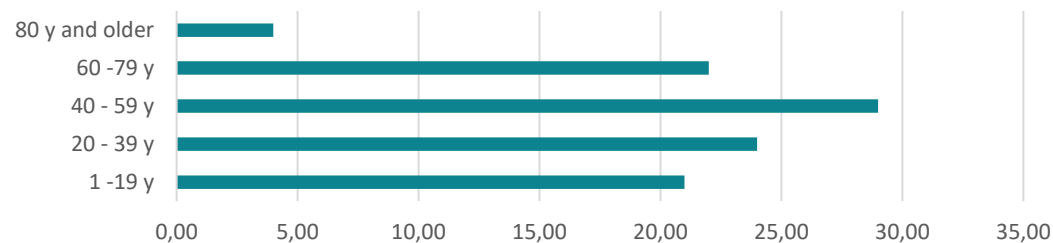
3 Unemployment rate: **3.3 %**

4 People aged 65 and older:

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

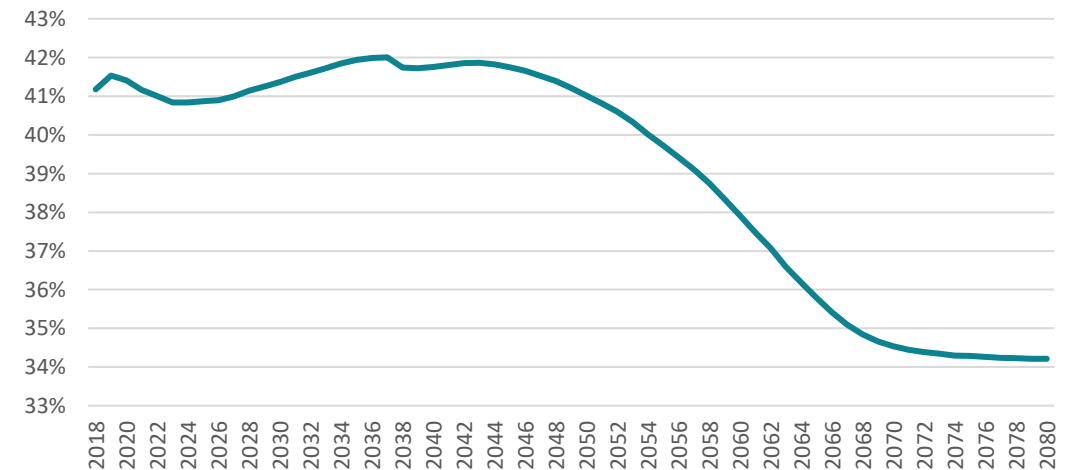
[www.czso.cz](http://www.czso.cz) 20220112

5 Distribution of ages in 2020 (total population)



[www.czso.cz](http://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

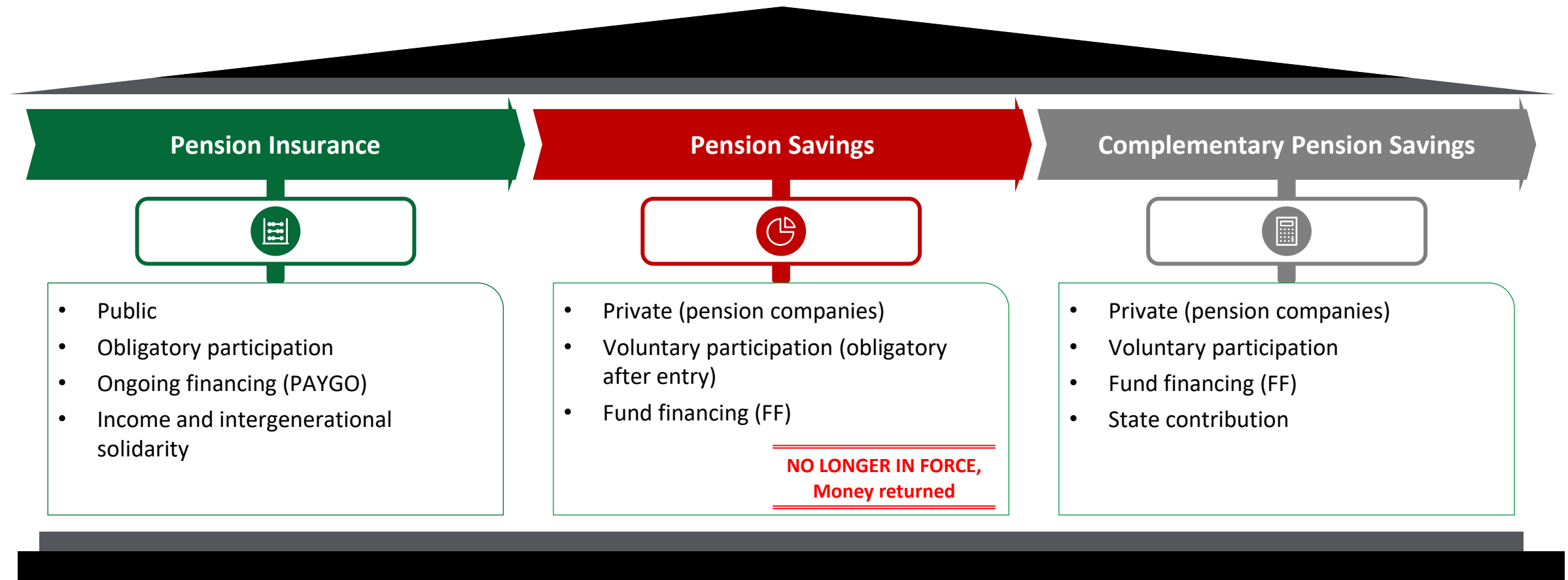
\*\* Minus social security contributions and minus average payments for private pensions

7 Average monthly pay of full-time employees in 2Q/2022:  
40 086 CZK [1,603 EUR]

[www.czso.cz](http://www.czso.cz), 2021, Deloitte diagram

# Czech Republic – Currently 2 Pillar System

## Pension Insurance & Complementary Pension Savings



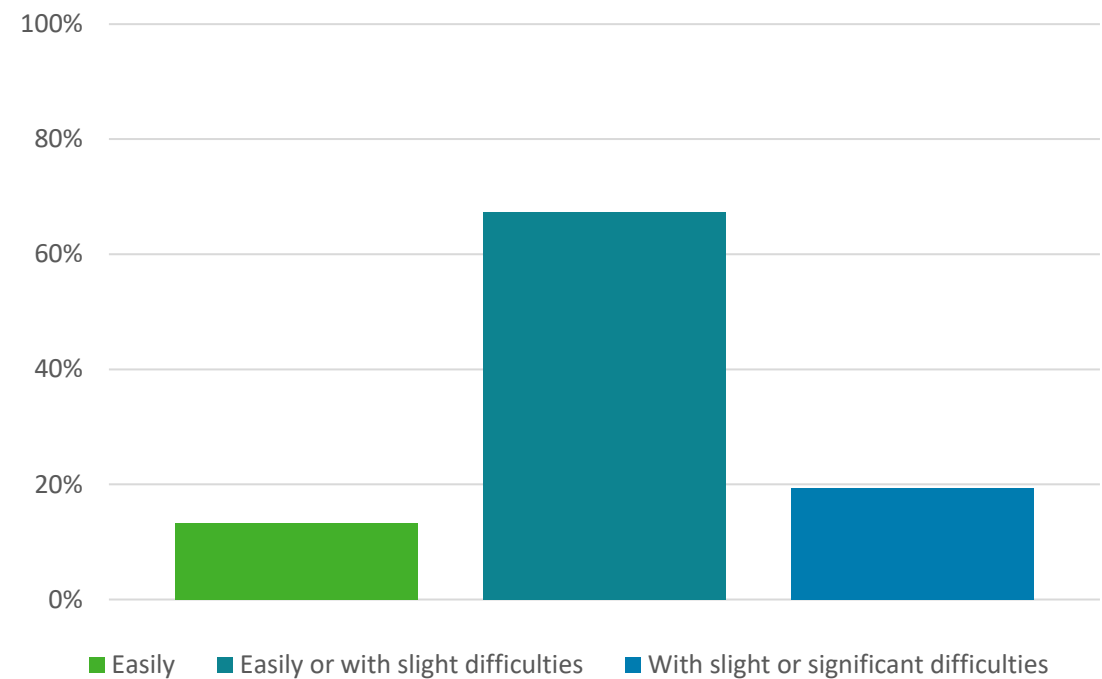
# Czech Republic

## Income of pensioners

1

Sufficiency of Income for Older People

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

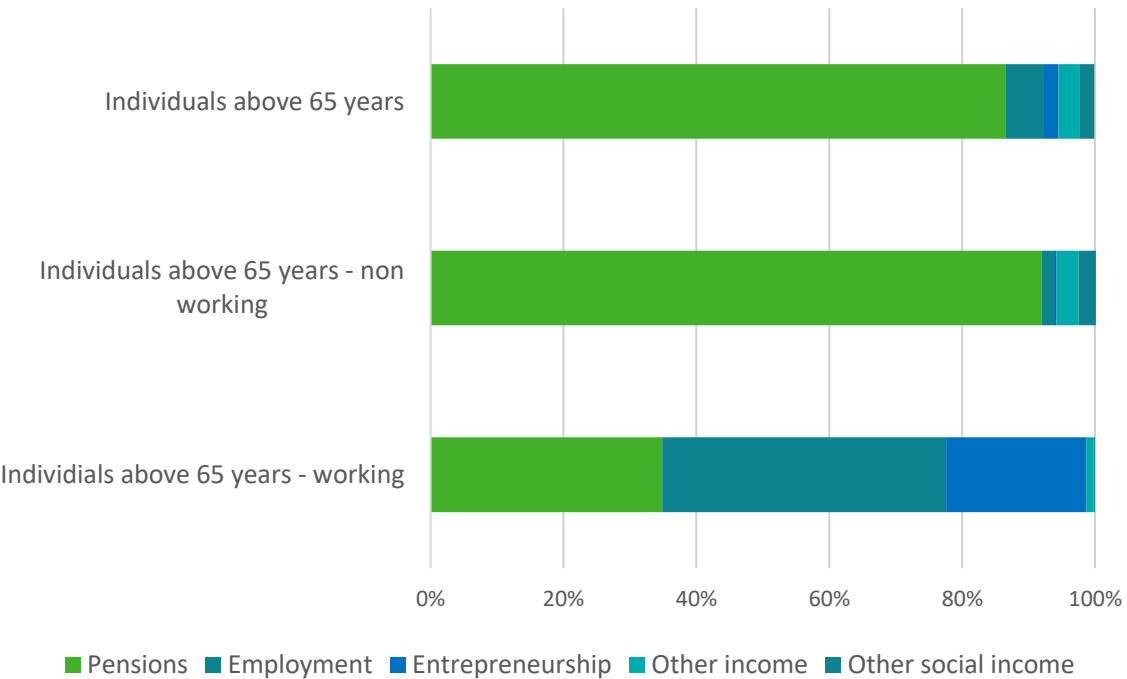


www.czso.cz, 2021, Deloitte diagram  
Deloitte 2022

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 (1<sup>st</sup> 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 (1<sup>st</sup> 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:

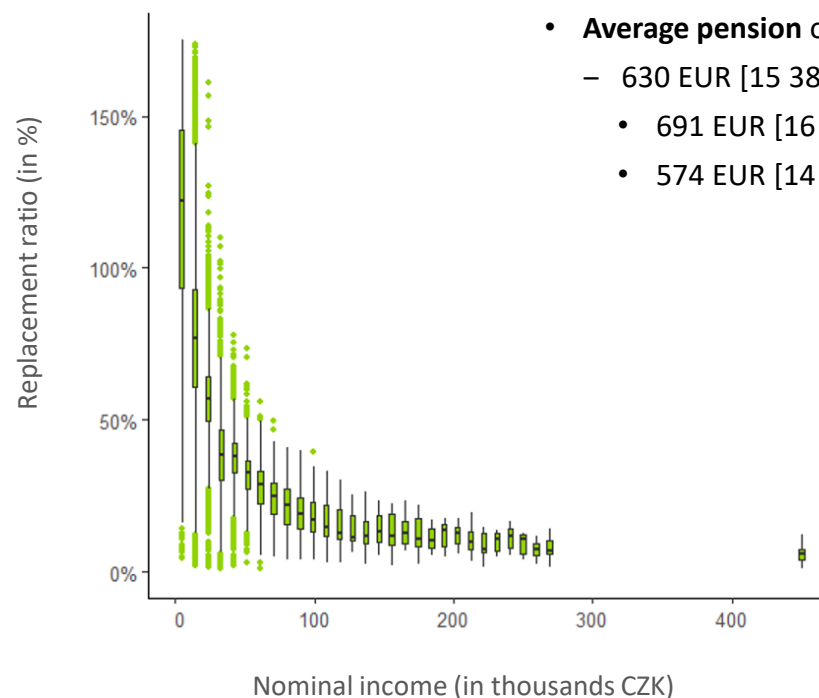
*www.unrr.cz 2019, Deloitte diagram*

- 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 (1<sup>st</sup> 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

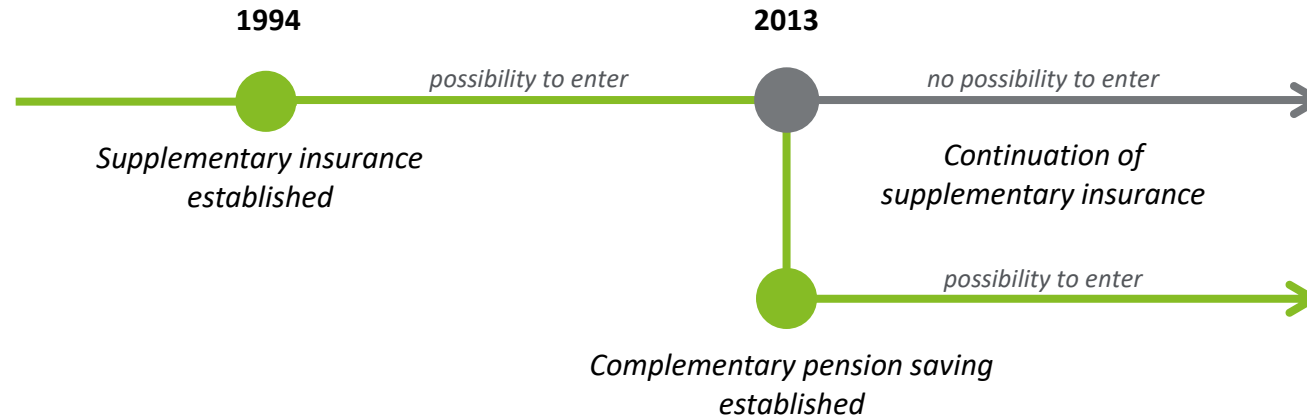
$$\text{monthly statutory pension} = BP + ERP$$

# Czech Republic

## Corporate & Private Pensions

# Czech Republic – Complementary Pension Savings (3<sup>rd</sup> 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 (3<sup>rd</sup> pillar)

## Advantages

### 3<sup>rd</sup> 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 (2<sup>nd</sup> pillar)

## Overview

**NO LONGER IN FORCE,  
Money returned**



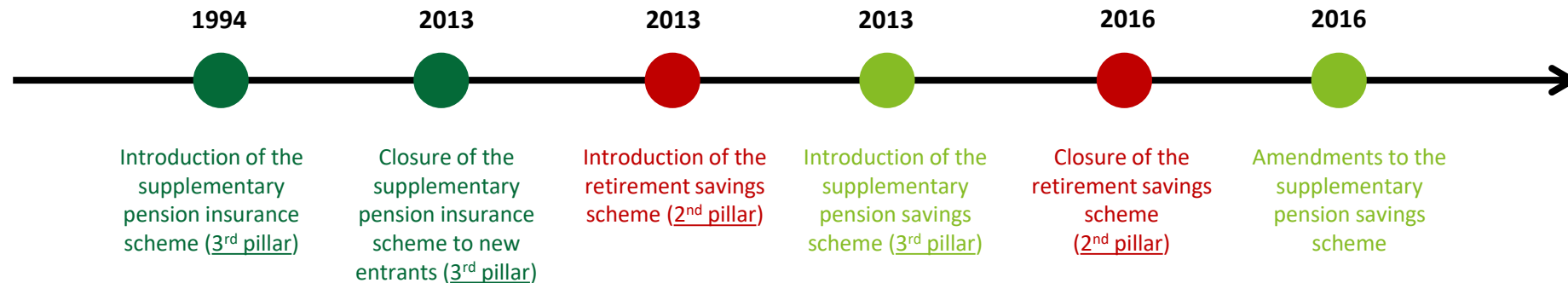
### Pension Savings

- 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 2<sup>nd</sup> 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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