

Czech Republic

Czech Republic: Pension system in 2016

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

		Czech Republic	OECD
Average worker earnings (AW)	CZK	330 072	940 549
	USD	12 852	36 622
Public pension spending	% of GDP	8.7	8.2
Life expectancy	at birth	78.9	80.9
	at age 65	17.9	19.7
Population over age 65	% of working- age population	28.8	27.9

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Qualifying conditions

The standard retirement age is currently 63 years for men and 62 years 4 months for women. The standard retirement age is gradually increasing by two months per birth cohort until reaching age 65. The pension age for women is increasing at a fast rate to equalise with that of men. The minimum years of required coverage will gradually increase from 25 years to 35 years (or 30 years without non-contributory periods). Individuals with 15 years of pension coverage (gradually increasing to 20 years or 15 years without non-contributory periods) can receive a pension benefit five years later than the standard retirement age for males of the same birth cohort.

Benefit calculation

Basic

The value of the basic pension is equal to 9% of the legislated average wage. In 2016 this translated into an annual benefit equal to CZK 29 280.

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. The first threshold is 44% of average wage and the second 400%. The first reduction threshold is equal to CZK 11 883 and the second is CZK 108 024 in 2016. Up to the first threshold the earnings will be replaced at 100% and between the first and second at 26%. Earnings over the second threshold will not be taken into account.

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 - 14) plus one-third of real wage growth.

Minimum

The total value of the minimum monthly newly granted public pension benefit is CZK 3 210, made up of a minimum earnings-related pension of CZK 770 plus the basic component of CZK 2 440.

Social assistance

The living minimum for individuals (and therefore also pensioners that live alone) 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 pension

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 (from 2010 granted pension (total accrual factor) has been increased by 0.4% for each 360 days of work while receiving full pension) and to receive half old-age pension. Combination of half old-age pension and work has increased the total accrual factor by 1.5% for each 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.

Personal income tax and social security contributions

Taxation of pensioners

Old-age pensions are not taxed up to a value of CZK 356 400 per annum.

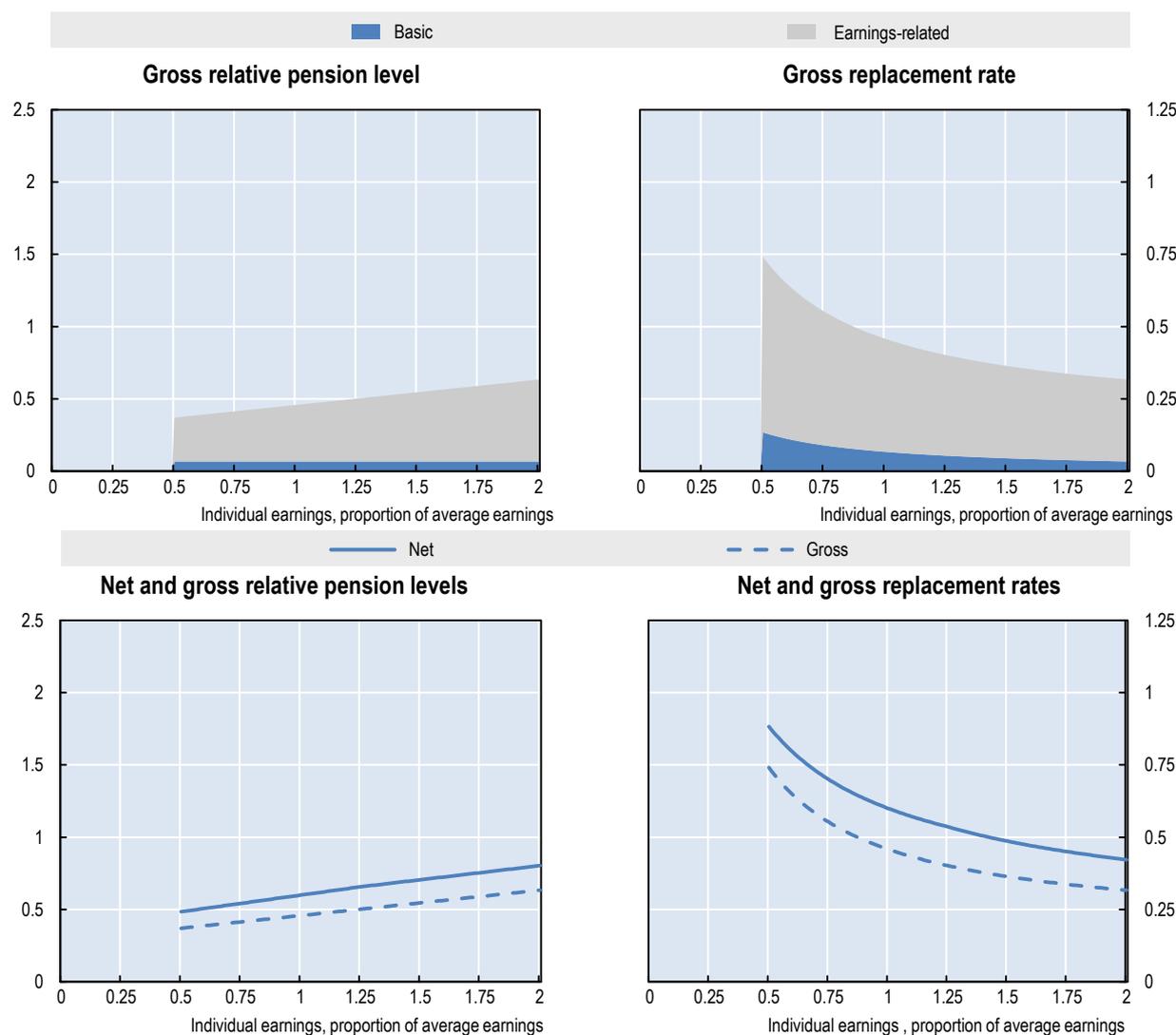
Taxation of pensions

Only part of the pension above the tax-free allowance is taxed by the rules for income from work. The tax rate is 15%.

Social security contributions paid by pensioners

Recipients of pensions do not pay social security contributions from their pensions, but they pay social security contributions for income from work.

Pension modelling results: Czech Republic in 2061 retirement at age 65



Men <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	37.1	41.5	45.8	54.6	63.4	80.9
Net relative pension level (% net average earnings)	48.5	54.2	60.0	70.6	80.4	99.9
Gross replacement rate (% individual gross earnings)	74.1	55.3	45.8	36.4	31.7	27.0
Net replacement rate (% individual net earnings)	88.3	70.0	60.0	48.7	42.3	35.6
Gross pension wealth (multiple of individual gross earnings)	13.8	10.3	8.5	6.8	5.9	5.0
Net pension wealth (multiple of individual net earnings)	16.4	13.0	11.1	9.0	7.8	6.6
	18.3	14.5	12.4	10.1	8.7	7.4

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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