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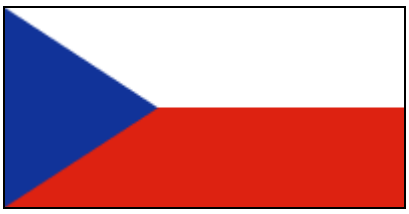
Study on the Social Protection Systems in the 13 Applicant Countries

Czech Republic
Country Study



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Authors:

Prof. Dr. Igor Tomeš, Personnel Consulting, Prague
Chapter 4: Dr. Kristina Koldinská
Chapter 5: Dr. Jiří Němec

Social Protection in the Czech Republic

1. INTRODUCTION: ECONOMIC, FINANCIAL, SOCIAL AND DEMOGRAPHIC INDICATORS

1.1 Main influencing factors for social protection

1.1.1 Economic and financial indicators

GDP. In 1993-1997, GDP in the Czech Republic grew by approx. 1% per year. Development in the Czech Republic was not steady, the peak was in 1995 (6,4% GDP growth) and the low was in 1998 (-1,2%). One reason for the great variations was the fluctuation of international investments in the country. Investments reached 16% of GDP in 1995 (5% direct investments, 2,7% portfolio investments and the rest short-term and long-term capital investments) and dropped to 2% in 1997. Now they are rapidly growing.

The recession at the end of the century was also due to slow restructuring, caused by the method of privatisation, poor rule of law, insufficient capital and large debt in enterprises. Problems connected with delay in effective radical restructuring massed. They had to be faced in May 1997 (government packages of short-term restrictions and mid-term restructuring). An "island of positive deviations" toned down the negative consequences. Industries with foreign capital participation increased productivity and economic growth.

Thirdly, the recession was triggered by external imbalance caused by monetary turbulence in 1997. The radical monetary, fiscal and income restrictions were extremely "overdosed" which led to a drop in internal demand. This radical drop could not be set-off by external demand, as result of the lasting boom experienced by main commercial partners and the devalued Czech Crown (CCr).

As from the second half of 1999 the Czech economy overcame the recession and after a period of stagnation started reviving. GDP growth continued in 2000 (2,9 % in real values). The latest prediction of the Ministry of Finance for 2001 3,5% GDP growth based on strengthened restructuring and modernisation of the industry. However, transformation of some of the largest factories in traditional branches is still ahead. Thus

segments of the economy with high growth rates mingle with others that stagnate or drop in output.

Inflation. Characteristics of the Czech economy include a low level of prices compared to many transitional economies with a lower real economic level. The great differences in the price levels compared to nearby countries of the EU contained from the beginning of the transition period the risk of a price shock, which could uproot the macroeconomic relations. After almost ten years of transition now, the Czech economy has been stabilised and the monetary policy has been successful so far:

In the transition period inflation was quickly mastered (by 1994) and did not exceed 10%, with one exception in 1998 when inflation did have a two-digit figure. In 1999, inflation dropped to 2,1%. This was the result of the fluctuation of world prices of oil and the gradual revival of the economy with real wages reflecting the real economic situation. However, in 2000 inflation grew by 3,9%. This development was influenced by the increase in prices of energy, of food and the drop-in-price of the US dollar.

In summary, the Czech economy belongs to the group of transition countries with a low inflation rate, comparable to those of EU countries.

Social expenditure. In the period 1997 (18,2% of GDP) to 2000 social expenditure grew by 1,3% percentage points to 19,5% of GDP (including the government subsidy to voluntary supplementary pensions).

The greatest expenses are on pensions (approx. 30% of the state budget), followed by health insurance (19% of the state budget). The remaining expenses together represent less than 10% of the state budget. The growth of the social expenditure was mostly due to the growth of pension expenditures, due to the growth state social allowances and the government employment policies (growth of unemployment and cost of unemployment benefits).

1.1.2 Demographic indicators

The development of the age structure in the Czech republic is mostly due to natality and mortality rates, migration has merely a marginal influence. In the last decade both natality and mortality rates dropped. The drop in mortality and the growing average age span develops gradually without radical changes thus increasing the average age of the population.

The only important interference into the ageing by migration was cause by the resettlement of Germans in 1946. The consequences are overcome by now. The exodus in 1948 and 1969 had no major influence of the ageing of the population. In the 1990ties the Czech republic is becoming an immigration country - the number of foreigners equals to some 2% of the

population, which is not significant and the foreigner, settled in the country, had no bearing upon the demographic development.

The most important factor causing irregularities in the demographic development were changes in natality rates caused by

- Radical drop in natality during World War I
- A compensatory natality boom after World War I
- Drop in natality during the Great crisis (1930ties)
- Increase in natality during the Nazi occupation, to avoid deportation,
- A natality boom after World War II
- Making artificial abortion legal (since 1958)
- Increased natality in the early 1960ties
- Drop in natality during 1965-1968
- Natality wave in the 1970ties as a reaction to pro-natal measures
- Radical change 1989/1990

Constant drop in natality to a minimal level in the second half of 1990ties.

At present natality is one of the lowest in the world. The drop in natality accelerated after 1990 due to both a radical change in lifestyle of young people, with parentship "dropping" in their value structures and unfavourable economic conditions for marriage, especially financial difficulties connected with acquiring housing.

Table 1.1: Fertility rate

	B	**DK**	**D**	**EL**	**E**	**F**	**IRL**	**IRL**	**L**	**NL**	**A**	**P**	**FIN**	**S**	**UK**	**EU**	**CR**
2000	1,5	1,8	1,4	1,3	1,2	1,7	1,9	1,2	1,7	1,7	1,3	1,5	1,7	1,5	1,7	1,5	1,1

Source: Eurostat, CSO

Fluctuations in natality rates caused irregularities in the age structure of the population with typical alternations of large and small age cohorts

In 1993 (the creation of the Czech Republic) the age structure was compatible with other central European countries in spite of these irregularities. Only Poland had a younger population. In neighbouring countries, Germany and Austria had great losses during World War II which drastically deformed the age structure of the population. In western European populations the baby boom of the 1960tied and natality rate drop in the 1970ties is evident. To the contrary in the Czech Republic a large generation of teenagers which was born in the 1970ties reached fertility in the 1990ties and entered into the labour market. The ratio of the 18, 19 and 20 years old was very high.

Table 1.2: Numbers of persons aged 18 to 20

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
488 210	526 408	553 168	559 416	548 085	535 156	521 240	492 656	459 900	430 777	414 889

Source: CSO

The most drastic development since 1993 was the drop in the portion of children up to 14 years age in the population. It dropped to its absolute minimum in all the historical period of human settlement in this territory.

To the contrary those aged over 60 and 65 kept constant, because these age cohorts were the weak ones. The oldest age cohorts grew in size, in contrast to the youngest age cohorts. In 2000 the portion of those over age 65 were the largest in all history of the country.

The drop in the number of children and increase of the number of people of post-productive age cause in the 1990ties the drop in the index of the number of dependent population upon 100 people in productive age.

Table 1.3: Ratio of persons aged up to 14 and over 60 to persons aged 15-59

1995	1996	1997	1998	1999	2000	2001
57,07	55,98	54,94	54,18	53,45	53,08	52,69

Source: own calculations

The ageing of the population is best visible in the following indicators: the average age of the living population in the last 7 years grew by 2 years (if extrapolated, the ageing will by 15 years in 2050). Also the median age of the population increased.

The population in the Czech Republic has become the oldest in all its history. The perspective of further ageing of the population is more evident than elsewhere in Europe.

The population is among the oldest in Europe with a very small representation of children. The ration of the population aged 0-14 to the whole population has decreased from more than 21% (1990) to about 16% (2000).

Table 1.4: Ratio of population aged 0 –14 to total population in %

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
21,2	20,6	20,0	19,4	18,9	18,3	17,9	17,4	17,0	16,6	16,2	15,9

Source: own calculations

The representation of people aged 65 and over is smaller than in Europe. However, the Czech Republic is speedily ”catching up” and will become the oldest country. Compared to the rest of Europe its basic disadvantage is that its average age is not being reduced by immigration. Moreover, natality is extremely low, comparable only to Spain and Italy.

The consequences of low natality are evident in the age cohort 15 to 19 years. In the period 1993 to 2000 the number of persons in this cohort in the CR has dropped by over 200 thousand, i.e. by almost 25%. The number of young people aged 20 to 24, including women in their highest fertility, was in the nineties very high and only at the end of this period the effects of the declining numbers showed. Typical for this period is that while the numbers in the age group 20 to 24 reached their peak, natality dropped to its lowest. Thus the influence of the favourable age structure was tuned down by changes in the natality behaviour of the young generation.

In the same period the number of people in the post-productive cohorts (over 65 years) grew only slowly and at the end of the decade they even dropped. Only smaller groups reached age 65. The number of those over age 80 reduced. Age 80 was survived by men and women born during the 1st World War, at the time natality dropped. In 1998 their number started gradually growing and more significant changes took place after 2000 when large post-war cohort born 1920 reached age 80. The increase in numbers may be expected even in the comings years.

Life expectancy at birth in the period 1995 to 2000 significantly grew, both for men and women. This indicator increased for men by approx. 1,5 years and reached 71,5 years; it is expected to grow to 75,2 by 2030 (the horizon of the present projection). It grew also for women by approx. 1,5 years to 78,4 years and is expected to grow to 81,5 years by 2030.

As already mentioned the immigration factor is insignificant. The immigrating people were counted in thousands, which represents fractions of a percentage point. The migration structures indicate that most migration (both emigration and immigration) takes place within Europe. The highest is from Slovakia, which is given by tradition and common history. The other important country is Ukraine, with the second highest numbers of immigrants to the Czech Republic. This is also due to history as Western Ukraine was part of Czechoslovakia till the 2nd World War. Exchange of migrants with the western neighbours is the highest with Germany. As for the non-European countries highest immigration is from Vietnam, which also has a historical background (workers from North Vietnam were imported in large numbers to meet the lack of manpower in the eighties.

1.1.3 Social indicators

Gender specific differences. There is a difference between economic activity of men and women. The employment of women is lower by approx. 20 percent points, which is comparable to the situation in other countries. The drop in economic activity during the transition was larger among men - nearly 1 percent points more than that of women. Regardless of this drop the economic activity is relatively high compared to other countries.

The employment rate for women is also influenced by lower pensionable age for women by 3 to 7 years (dependent upon the number of children). This will change with the gradually increased pensionable age.

Since 1998 the unemployment rate of women is higher than that of men - by 3 percentage points.

Regional and sectoral differences. The highest economic activity is in Kalrovy Vary. It surpasses the average by 5 percent points. Moravia and Slezia are deep under the average. The regions most vulnerable to unemployment are Ustí region (16%) and Moravskoslezsky region (14,3%), Olomouc region (12,8 %). The lowest unemployment rate is in Prague (4,2 %).

The largest drop in employment is in the primary sectors (esp. agriculture, where employment drop by 1 percent point since 1995). In the secondary sectors employment dropped by 1,5 percentage points. The development in construction differed - employment culminated in 1998 and then dropped. The drop in employment in the first and second sector was highly compensated by growth in the third sector (services), where employment rose by more than 3 percentage points. Today the third sector employs over 50% of the labour force.

Inequality in **income distribution** is growing**.** In mid 2001 the average wage was 13244 CCr (approx. 440 EUR) and the distribution of earnings was as follows:

Table 1.5: Distribution of earnings, Czech Republic

Earning span in Czech Crowns	**%**
Up to 8000	6,90
8-10 000	14,30
10-12 000	20,70
12 – 14 000	19,20
14 - 16 000	15,30
16 - 18 000	8,20
18-20 000	4,70
20-22 000	3,00
22-24 000	2,40
24-26 000	1,60
26,28 000	0,70
28 – 35 000	1,70
over 35 000	1,30

Source: *Hospodářské noviny* (Economic Newspaper)

It is evident that some three-quarters employees earn less than average wage.

In the period 1988 to 1996, the Gini-Coefficient grew from 0.29 to 0.33.[1]

Poverty. In the Czech Republic the first official poverty line – the minimum living standard – was defined in 1990. This became an important element of the social safety net. Before that the unofficial poverty line was defined by the minimum pension arrangement, provided the pension was the only source of income.

The minimum living standard is a socially recognised minimum income level. If incomes fall bellow that line the recipients are considered in material need. It defines the level of minimal income for a household to secure basic needs of life for its members at a very restricted level.

Two indicators define the minimum living standard:

[1] Source: Jiri Vecernik, Petr Mateju: Ten Years of Rebuilding Capitalism: Czech Society after 1989, (available in English) Academia1999: The conclusion of the analysis in Chapter 5 "Inequalities in earnings", page 136, reads: the income distribution range is widening and demographic factors are gradually replaced by economic factors…sign of the growing role of the free market…This is demonstrated on e.g. the growth of the Gini coefficient. (from 0.29 in 1988 to 0.33 in 1996, the Variation coefficient which grew in the same Micro-census period from 0,54 to 0,71.

The first indicator is connected with the needs of individual members of the household. This sum is to cover nourishment, clothing, shoes, other industrial goods for short-period use, essential services and personal development (information, education). The amounts for individual needs are differentiated in four scales according to age of dependent children and for adults.

The second indicator is connected with the household and is intended to cover common needs of the household, i.e. cost of running the household (rent, etc.) and connected services (e.g. energy, etc.). These include four levels of the living minimum depending upon the size of the household (defined by number of persons).

The minimum living standard is constructed in a manner to enable distinction between types of households. Total living minimum is the sum of all sums for individual members and the sum for the household.

The minimum living standard is uniform throughout the country.

Table 1.6: Development of the level of the minimum living standard

	Effectivity from									
	28.11. 1991	1.3. 1993	1.2. 1994	1.1. 1995	1.1. 1996	1.10. 1996	1.7. 1997	1.4. 1998	1.4. 2000	1.10. 2001
Sum needed to secure nourischment and other basic personal needs										
- child up to age 6	900	1020	1120	1230	1320	1410	1480	1560	1600	1690
- child from age 6 to 10	1000	1130	1240	1360	1460	1560	1640	1730	1780	1890
- child fromage 10 to 15	1200	1360	1500	1620	1730	1850	1940	2050	2110	2230
- child from age 15 to 26 [x)]	1300	1470	1620	1780	1900	2030	2130	2250	2310	2450
- Adult citizens	1200	1360	1500	1680	1800	1920	2020	2130	2190	2320
Sum needed to secure essential household expenses										
- single member household	500	600	660	760	860	970	1020	1300	1580	1780
- 2 member household	650	780	860	1000	1130	1270	1330	1700	2060	2320
- 3 or 4 membe houosehold	800	960	1060	1240	1400	1570	1650	2110	2560	2880
- 5 and more members	950	1140	1260	1400	1580	1770	1860	2370	2870	3230

[x)] dependent

Source: Ministry of Labour and Social Affairs

The number of persons (households), whose income does not reach the minimum living standard is not monitored regularly. Through the micro census, organised in 1996 it was discovered that approx. 80,5 thousand households have incomes under the minimum living standard, i.e. 2,1% of all households. These households had 270 thousand members. According to the OECD methodology there were 3,61% of poor households. At present the assumption is 120 to 130 thousand households, i.e. 3,1 to 3,4% of all households.

The micro census revealed that the poor households especially included households with children – 84% of all poor households (68 thousand). 30 thousand i.e. 44% of poor households, were households with lone parents.

As regards gender distribution the incidence of poverty was more frequent with women. They represent 61% (of the cohort) of those with poor income.

As regards age – if we accept the OECD definition of poverty as 60% of the national median of equivalent income per consumption unit – the most vulnerable are people of post-productive age - over 65 years. Their relative poverty risk is 1,87 (the poverty risk of all the population is 1,00)[2].

The second most vulnerable group is children under age 18. Their relative poverty risk is 1,22.

Of the working population the relative poverty risk is the highest for the age cohort 25 to 34. Its relative poverty risk is 0,92.

Unemployed are the most vulnerable of the working population. Their poverty risk is four times higher than the population as a whole.

Vulnerability is significant also with persons permanently in the household, the next are people receiving parental allowance, non-working pensioners and children under age 15. Economically active people have the lowest poverty risk in all the population.

Family structure. When analysing the structures of families in the Czech republic the changes in the life style are apparent. There is an evident deviation from the classical family (as mode of coexistence of people), which is manifested by drop in marriages and in the numbers of newly born children.

The number of children per family is declining because of the drop in natality rates. Smaller cohorts of the early nineties replace the large age cohorts of the seventies. The drop in natality rates coincides with the growing average age of mothers, which in the period 1995 to 1999 increase by more that 1,5 years.

In the number of one-person households the majority are households of pensioners (nearly 60%). Their rate did not change substantially in the period under review.

Labour market. The labour market undergoes changes connected with restructuring as well as with cyclic difficulties.

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[2] This does not define the rate of poverty of a given population group, but only the relation to the average of all population.

As from 1997 employment gradually dropped which is reflected in a drop in economic activity of the population. Partly it reflects the economic recession of the previous years. In spite of the economic revival further layoffs may be expected in the near future as a consequence of transfer of enterprises into the ownership of strategic partners and restructuring. Also bankrupts are expected in most of the industries, especially in the ineffective heavy and light industries.[3]

Unemployment rate grew since 1997 and by 1999 reached its peak – registered unemployment was 9.4%. In 2000 it dropped by 0.6 percentage point to 8.8% by the end of the year.[4] The highest unemployment was in Ostrava Region and North West region of Bohemia. It reached 15.1% in Ostrava and 13,8% in the North West Bohemia. With the exception of Prague the relation between unemployment in the least and most affected regions is (on the level of NUTS II) approx. 1:2. The differences between regions are largest due to the differences in the development potentials of the different areas, concentration of ineffective production and tuning down of economic activities in some areas.

Handicapped persons are gradually and consistently pushed out of the labour market. The scissors between employment of handicapped and average population are constantly opening. Further risk groups include especially young school-leavers, the cohort over age 50, women with small children, people with low qualification..

Especially increasing the minimum wage over the household living minimum gradually eliminates negative impact of the social benefit system on employment.. Gradually the weight of wage incomes increases in relation to social benefits, because the minimum wage is higher than the guaranteed minimum living level.

Another important aspect of employment in the Czech republic is the fact that the population ages and the rate of employment of the elderly population is decreasing. The very low rate of employment of the mentioned cohort is decreasing by the extensive use of early retirement provisions. This may cause serious turbulence in the future.

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3 Research organised by the Czech Statistical Office shows that employees in the non-enterprise sphere represent approx. 20% of all employees (approx. 850 thousand people). The ratio of women in this number is approx. 77%. There are major differences on the forecasts of the future numbers of civil servants due to the differences in evaluation of the consequences of the reform of public administration now being implemented.

4 Data from the Czech Statistical Office.

1.2 How does the described background affect social protection?

1.2.1 Forecasts and projections

Expected developments. The present development in the country is under the influence of the vision of an early entry into the EU. The date of expected accession determines all predictions of further economic development. The conclusions of the Summit in Göteborg and Laeken indicate the possibility of the accession in 2004. This motivates the efforts of the Czech Republic. It is expected to close the pre–accession negotiation in the course of 2002. 24 of the 36 chapters have been concluded. This indicates the progress reached in harmonisation of the legislation and the reshaping of the market environment to become compatible with the EU member states.

Economic development. The Czech economy in now in its growth phase of development. In the near future a stabilisation of the growth rate is expected in spite the gradual retarding impacts of globalisation. The main factor of economic growth which is expected to influence the economy in a positive manner will probably be the growth of fix capital due to foreign investments in the country and the performance of enterprises under the control of foreign capital.

The greatest risk factor for further economic growth is the sharp drop in world economy especially in the countries of our largest commercial partners. These impacts will probably be of short duration. In addition, eventual negative impact in the external relations could be toned down by drop in imports for intermediary consumption (including oil). Nevertheless the misbalance in public financing represents a mid-term risk factor in itself.

Demographic development. In 1999 the Czech Statistical Office published a demographic projection till 2030. The time span since did not change the inputs and the conditional ties. These were confirmed by the development in 2000, and remain valid in their prediction. According to this prediction the population will age and the rate of ageing will increase.

The average age in 2030 shall be approx. 46 years and half of the population will be over age 48. These are values that no country in the world reached. Further more the portion of child population will reduce and the number of the oldest people will dramatically increase. The changes in the demographic structure will dramatically reduce the children cohorts under age 14, increase the cohorts aged over 60 and over 65. The dependency ratio will grow.

UN Statistical Office issued in 2000 the population projection of the world. It rates the Czech Republic as one of the oldest populations in the world. According to the UN projection, 40% of the population in the Czech Republic will be over 60 years of age in the year 2050. The UN projection

uses a different methodology compared to the Czech Statistical Office. It extrapolates the present trends in the Czech Republics including the drastic drop in the birth rates, which provides a more pessimistic outlook. Nevertheless both forecasts indicate that ageing is a serious problem of the Czech Republic.

Employment market. Most of the measures that will have an impact of the employment market are described in the National Employment Plan. The measures are expected to slow down unemployment growth. Unemployment is expected to grow due to the continuous privatisation and consequent restructuring procedures, growing pressure upon productivity and low economic growth.

1.2.2 Influences of economic, demographic and social developments on the social protection system

The most important influences on the system of social protection may be expected to be the ageing of the population and changes in the participation in economic activities (employment and self-employment). Ageing and unemployment will increase costs of social protection, while increased employment and self-employment will improve financing of social protection, because more people will pay social contributions and taxes rather than draw benefits.

The government most probably will try to reduce the cost of old-age social protection by increasing pensionable age. This will increase the number of disabled and handicapped persons for women and men.[5] Growing employment (reduction of unemployment) will in turn reduce poverty.

The growth of GDP may be expected at a rate faster than that in EU countries – due to the ”catching-up effect”. This trend together with the growth of average real wages will increase the incomes of social protection systems. These trends will trigger an increase in the quality of life.

The growing social expenditure both in absolute and relative terms will lead to a ”rationalisation” of social protection and to more radical social reforms aimed to make the systems sustainable.

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[5] : According to structural statistics, the invalidity rate correlates with age - the number of invalids in the population grows with age. It is an assumption that with the increase of pensionable age the invalidity rate will continue to grow with age. Moreover people who would have been covered by old-age pensions will under the new system be protected by invalidity pensions. Evidently the number of disability pensions depends on more factors, not only on age (e.g. development of medical sciences).

ANNEX 1

Table 1.7: Selected Main Economic Indicators

Year	GDP per capita (PPS)	Total GDP in Billion Euro	GDP growth In %	Consumption rate	External deficit ratio	Inflation	Wage growth
1995	11 000	39,8	5,9	70,7	-2,6	9,1	19,8
1996	12 000	45,5	4,3	72,2	-7,4	8,8	11,9
1997	12 300	46,8	-0,8	73,4	-6,7	8,5	8,9
1998	12 200	50,6	-1,2	71,1	-2,2	10,7	8,5
1999	12 700	51,2	-0,4	73,2	-2,7	2,1	6,2
2000	13 500	55,0	2,9	73,7	-5,3	3,9	9,4
2001	n.a.	n.a.	3,5	72,8	-4,6	4,7	7,3

Source: Eurostat, CSO, MF

Table 1.8: Social Security Expenditures as % of GDP

	1995	1996	1997	1998	1999	2000	2001
Pension Insurance	7,9	8,1	8,8	8,9	9,3	9,4	9,1
Sickness Insurance	1,3	1,3	1,2	1,0	1,0	1,4	1,4
State Social Support	1,8	1,8	1,8	1,6	1,7	1,7	1,5
Social Care	0,3	0,2	0,3	0,4	0,5	0,6	0,7
Others[3]	5,8	5,9	6,1	6,1	6,3	6,4	6,9
Total[2]	17,2	17,4	18,2	18,1	18,8	19,5	19,6

Table 1.9: Social Security Expenditures as % of State Budget

	1995	1996	1997	1998	1999	2000	2001
Pension Insurance	25,4	27,3	28,8	29,6	29,8	29,1	29,2
Sickness Insurance	4,2	4,4	4,1	3,4	3,3	4,3	4,4
State Social Support	5,9	6,1	5,8	5,4	5,4	5,1	4,8
Social Care	0,9	0,8	0,9	1,2	1,6	1,8	2,3
Others[1]	18,6	19,9	20,1	20,3	20,3	19,9	22,1
Total[2]	55,0	58,5	59,7	59,9	60,4	60,2	62,8

Source: MoLSA

NOTES: Including private social expenditure on pension funds. The source of data on the total social expenditure is the Ministry of Labour and Social Security (Basic indicators of labour and social protection, 2001) and for the GDP we used the data of the Ministry of Finance (Predikce vývoje základních makroekonomických indikátorů = Forecast of development of macroeconomic indicators). This item includes expenditure on health care and employment policy.

Table 1.10: Demographic indicators

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Total population (in 1000)	10321,3	10309,2	10299,1	10289,6	10278,1	10266,5	10224,0
Male population (in 1000)	5016,5	5012,1	5 008,70	5005,4	5001,1	4996,7	4979
Female population (in 1000)	5304,8	5297,1	5290,4	5284,2	5277	5269,8	5245
Age structure – population under 15 years	18,9	18,3	17,9	17,4	17	16,2	15,9
Age structure – population over 65 years	13,1	13,3	13,5	13,6	13,7	13,9	13,9
Demographic dependency ratio[1] (in %)	19,3	19,4	19,7	19,7	19,8	19,9	19,7
Net population increase – natural[3]	-2,1	-2,1	-2,1	-1,8	-2	-1,8	-1,7
Net population increase – total[3]	-1,1	-1,2	-1	-0,9	-1,1	-1,1	-0,4
Emigration: - main trends total in 100 inhabitants	5,4	7,3	8,1	12,4	11,4	12,6	
- % of population	0,01	0,01	0,01	0,01	0,01	0,01	
- immigrants to Europe (numbers)	486	640	709	1078	980	1112	
- immigrants to USA (numbers)	21	21	40	57	54	57	
Immigration - main trends total in 100 inhabitants	105,4	108,6	128,8	107,3	99,1	78	
- % of population	0,1	0,11	0,13	0,1	0,1	0,08	
- immigrants from Europe (numbers)	8441	8376	9221	7886	7666	6202	
- immigrants from Asia (numbers)	763	1228	2407	1888	1393	652	
Fertility: - birth rate per 1000 inhabit.	9,3	8,8	8,8	8,8	8,7	8,9	8,8
Fertility rate	1,3	1,2	1,2	1,2	1,1	1,1	
Net reproduction rate	0,614	0,57	0,563	0,556	0,547	0,546	
Life expectancy at birth – male	69,7	70,4	70,5	71,1	71,4	71,5	72,1
Life expectancy at birth – female	76,6	77,3	77,5	78,1	78,1	78,2	78,5
Life expectancy at age 60 – male	15,9	16,3	16,4	16,7	16,9	17,0	17,4
Life expectancy at age 60 – female	20,0	20,4	20,7	21,0	21,0	21,2	21,3
Life expectancy at age 65 – male	12,7	13,1	13,2	13,3	13,6	13,7	14,0
Life expectancy at age 65 – female	16,0	16,4	16,6	16,6	16,9	17,0	17,1

Source: Eurostat

Notes: 1) Pop. 65+/Pop. 15- 64; 2) Data from CSO; 3) Per 1 000 of Pop.

Table 1.11: Social Indicators

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Unemployment rate – in % of LF	4,0	3,9	4,8	6,5	8,5	8,8	8,5
LFP men		70,0	71,1	69,8	69,3	69,7	
LFP women		51,9	52,1	52,3	52,2	51,6	
LFP age group 55-59		55,3	48,1	52,0	53,8	52,7	
LFP age group 60-64		21,7	21,9	19,7	19,4	17,4	
LF structure - % of employees		82,2	80,6	78,2	76,6	76,6	
LF structure - % of self employed		11,4	11,5	12,8	13,0	13,2	
- of which % women		27,0	26,6	27,5	27,1	27,6	
FS – number of children per household	-	0,8	0,9	0,8	0,7	0,7	
FS – average age of mother	25,3	25,6	26,5	26,6	26,9	-	
FS – divorce rate – per 1 000 of Pop.	3,0	3,2	3,2	3,1	2,3	-	
FS - % of one parent families	5,3	5,3	-	5,0	5,5	5,7	
FS - % OF SINGLE HOUSEHOLDS	23,8	23,3	-	24,8	25,7	25,0	

Source: Eurostat, CSO

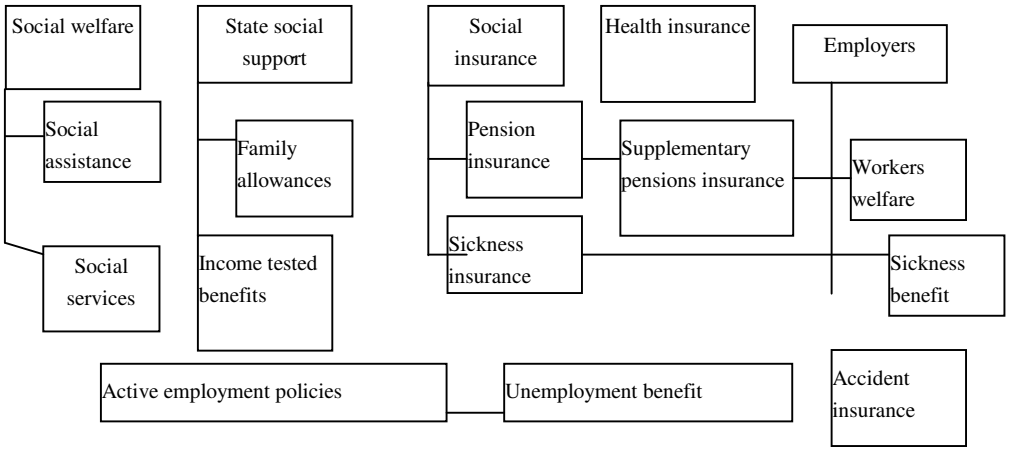
2. OVERVIEW ON THE SOCIAL PROTECTION SYSTEM

2.1 Organisational structure

2.1.1 Overview of the system

Social protection consists of five relatively independent systems, which cover all the contingencies under the ILO Minimum Standards Convention (no.102/1952), the Social Charter and the implementing international documents. The Czech social protection system is illustrated by Chart 1.

Chart 1 Social protection system



The systems are regulated by the following legislation:

Health insurance by acts, as amended: Health Insurance Act (no. 48/1997); Health Insurance Contributions Act (no.592/1992); General Health Insurance Agency Act (no.551/1991); Sectional Health Insurance Funds Act (no.280/1992); Health of the People Act (no.20/1966); Protection of Public Health Act (no.258/2000).

Social insurance by the acts, as amended: Social Insurance Contributions Act (no.589/1992); Sickness Insurance Act. (no.54/1956); Maternity Leave and Benefits Act (no.88/1968); Pension Insurance Act (no.155/1995) and Organisation of Social Security Act (no.582/1991).

Employment and unemployment support by acts, as amended: Employment Act (no.1/1991); Organisation of Employment Services Act (no.9/1991).

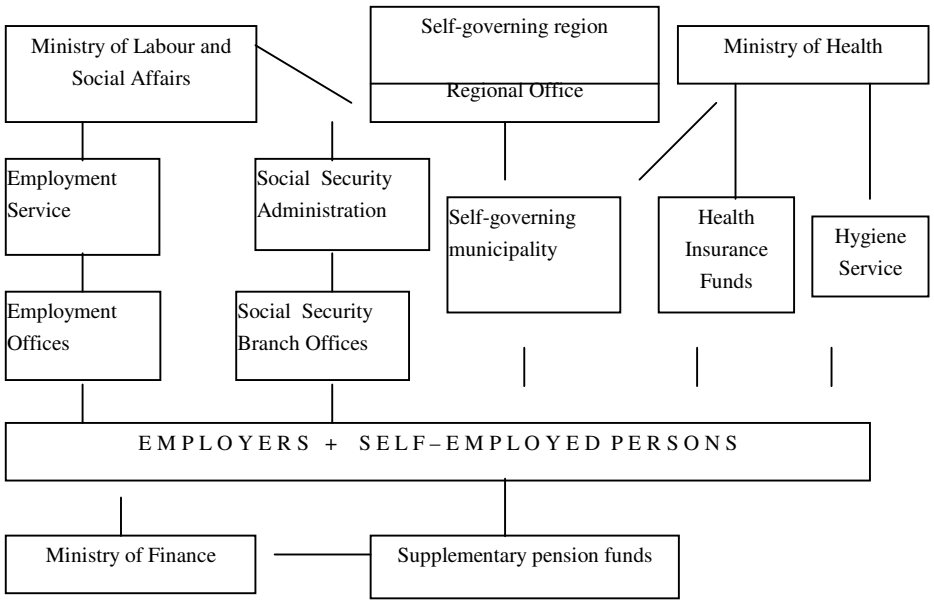
State social support by the acts, as amended: State Social Support Act (no.117/1995) .

Social assistance by the acts, as amended: Social Security Act (no 100/1988); Social Need Act (no.482/1991); Minimum Living Standard Act (no.463/1991); Social and Legal Protection of Children Act (no.359/1999).

Other (namely employers) social welfare measures are regulated by acts, as amended: Labour Code (Act no.65/1965); Supplementary Pensions Insurance Act (no.42/1994).

The Ministry of Labour and Social affairs and the Ministry of Health in principle, administer the systems. Chart 2 describes the mechanism.

Chart 2. Social administration and organisation:



The Ministry of Labour and Social Affairs (**MoLSA**) is responsible for the whole social sector. The MoLSA manages the state social support and social welfare systems through its Social Policy (state social support) and Social Welfare (social welfare) departments. It is assisted by two subordinated services

the Employment Service (**ES MoLSA**), responsible for employment policies and supporting employment offices,

The Czech Social Security Administration (**CSSA**), responsible for social insurance.

The Ministry of Health (**MoH**) is responsible for health policies. Health care is provided by health institutions, which are mostly privatised. Regions manage what has not been privatised (e.g. most hospitals and some clinics.). MoH also licenses and supervises health insurance funds.

2.1.2 Centralisation/De-centralisation of the system

The inherited (from the previous regime) social protection system was highly centralised. The regional, district and municipal administrations acted as branch offices of the central government. In the last 10 years much has changed. The process of decentralisation is under way. The public administration reform is still in the process of implementation.

Local social and health administration is performed by

District offices, as local administration of the state, have competencies in the state social support and social assistance systems. These offices will be abolished as from 1.1.2003 in accordance with the Act no. 147 of 2000. It has not yet been decided who shall take over their competencies in the social sector.

Employment offices administer employment programs at local level and report to ES MoLSA.

The CSSA administers pensions insurance and sickness (including maternity) insurance through branch offices, which also collect joint contributions.

Large employers (25 and more employees) administer sickness insurance. All employers are compelled to insure their employment injury liabilities (defined by the Labour Code) with the commercial insurance company Kooperativa. Moreover they have certain obligations under the Labour Code to provide social welfare to employees. They may conclude pension fund contracts with tax advantages for their employees.

Health insurance is operated by health insurance funds. The General Health Insurance (**GHI**) is a public agency providing services to those who have not taken up policies (opted for) with private health insurance funds. They operate under licences from the MoH, which also supervises their activities.

Under the newly implemented public administration system MoLSA will probably control the social welfare and state social support systems through self-governing regions and municipalities. The regions and to some extent also MoLSA operate most of the public social homes (in-patient institutions). Municipalities provide social welfare cash benefits. Social services are operated by both public and non-governmental organisations; the latter partly financed from public sources (subsidies and grant systems). Municipalities of large cities are recently developing their own homes. Municipalities are also responsible for the social and legal protection of children.

Employers are liable for employment injuries. Their liability is defined by the Labour Code (**LC**). The LC also obliges them to take up accident insurance with a private insurance company Kooperativa. Employers are also obliged to provide essential workers welfare, which generally includes meals and safety and hygiene at work. Recently they were enabled to support supplementary pension policies of their employees. There are special arrangements foreseen for women and youngsters.

Non-governmental organisations (**NGOs**) are playing an ever-increasing role in the delivery of social services. Their services are contracted by municipalities and regional authorities and are co-financed by MoLSA and district offices. The NGOs are non-profit and generally take the form of (i) civil societies, (ii) publicly useful societies and (iii) foundations.

2.1.3 Supervision

MoLSA supervises the CSSA and ES MoLSA. The CSSA supervises its branch offices and sickness insurance provided by large employers (with over 25 employees). The ES MoLSA supervises the employment offices and employers.

MoH supervises the health insurance agencies, the private medical services and public health authorities.

CSSA (branch offices), public health inspection and employment offices inspect employers and monitor how they meet their obligations entrusted by the LC, employment and social security legislation.

Ministry of Interior (**MoI**) supervises the regional and municipal offices (offices of the self-governing authorities). The self-governing regions and municipalities have a double role (i) their proper agenda, entrusted to them in their name by the Constitution and implementing legislation, (ii) delegated agendas, entrusted to them by law or decision. The supervision mainly relates to the latter.

Ministry of Finance (**MoF**) supervises the private supplementary pension funds as well as the financing of CSSA.

The National Control Office (**NCO**) supervises all public administration, including the health and social sector. The National Control Office has the right to supervise all public providers and administrations.

2.2 Financing of social protection

2.2.1 Financing sources

Sickness insurance and pensions insurance are financed from contributions of employer's, employees and self-employed persons. The contributions are

collected by the CSSA. The money is transferred to a special account of the state budget. The state budget covers any deficit.

Health insurance is financed through contributions by employees, self-employed and the state. These are collected by each and every fund in respect of the persons insured by it. The state pays contributions for the dependent children, citizen serving their compulsory military service, parents on parental leave and pensioners. The employment offices pay in respect of persons registered with the employment offices as searching for employment. Patients financially participate on cost of certain types of dental and ophthalmologic care and on cost of drugs.

The employment policies and support to the unemployed is financed from employers and employee contributions collected by the CSSA and transferred o the state budget. The state budget finances the active and passive employment policies.

Voluntary supplementary pension funds are financed by contributions (insurance premiums) supplemented by a state subsidy and funded.

Regional and municipal self-governing authorities have their own budget, which stems from state taxes (transfers from the state budget), duties and contributions, incomes from own economic activities, gifts and heritages. The state pays out of the state budget the expenses of government social activities, which were delegated to the regional and municipal authorities, e.g. the implementation of the state support system.

NGOs in principle have to rely on their own fund raising. They may receive (under certain rules and conditions) subsidies from local authorities of MoLSA or grants form the MoLSA. NGOs also benefit from tax advantages.

2.2.2 Financing principles

All the employment, social insurance, state social protection and social assistance systems, including public social services, are financed pay-as-you-go (state budget). The health insurance is financed pay-as-you-go (contributions by insured persons). Health insurance agencies pay the medical services and pharmacies. The collected funds are not part of the state budget. The Government regulates the cost of medical services (payments to hospitals on preceding ”average” expenditure, fees for performance for specialist and fees *per capita* for family doctors).

2.2.3 Financial administration

Table 2.1: Contribution rates (in % of assessment base):

	Employers	**Employees**	**Self-employed**	**State**
Sickness insurance	3,3	1,1	Voluntary 4,4	-
Pension insurance	19,5	6,5	26	-
Health insurance	9	4,5	13,5	-
Employment policies	3,2	0,4	3,6	-

Contribution base and tax bases (assessment bases) are defined differently for each branch of health and social insurance. In principle they include most incomes from economic activity (salaries and wages, in case of the self-employed: profit). Contributions and benefits are not taxed. Contributions are deductible from the tax base prior to taxation. The lower ceiling for the assessment base of full-time employed is the minimum wage, or less for part-time employed, the upper ceiling for self-employed is approx. half a million crowns per annum.

2.3 Overview of Allowances

2.3.1 Health care

Compulsory coverage is universal. The only qualifying condition is an insurance policy with an authorised insurance carrier. The benefit includes all services of preventive, family care and in- and out-patient services. Practically all the available services are financed by the insurance. Drugs are financed to a large extend, however in a differentiated manner. There are no limits to the benefit period. The medical services and pharmacies pay VAT and the doctors the income tax as any other economic activity.

2.3.2 Sickness

Coverage is compulsory for employed persons and other inhabitants economically active in a dependent position (precarious employment, etc.). Self-employed persons may insure voluntarily. Sickness benefit is granted if the insured person (i) is insured, (ii) has been certified by a doctor as incapable of work due to a disease or injury and (iii) has lost earnings (e.g. no benefit, if on unpaid leave). Sickness benefit amounts to 50% for the first three days and thereafter 69% of the assessment basis. The assessment basis is 100% of daily income up to 480 CzCr/day and 60% of the income over 480 to 690 CzCr. Income exceeding 690 CzCr/day is disregarded. The

benefit period is generally one year. It may be shortened if the person is considered disabled and extended to two years if the doctor deems that the insured person may fully recover within that period.

2.3.3 Maternity

Coverage under sickness insurance. A woman qualifies for benefit if (i) for at least 270 days in the last two years prior to confinement, (ii) gives birth to a child and (iii) does not earn remuneration from employment. The same benefit is awarded to a woman who adopts a child in the first 22 weeks of its life. The benefit amounts to 69% of the same assessment basis as sickness benefit. The benefit period is in principle 4 weeks prior to the date stated as date of confinement by the doctor and 22 weeks after confinement. It is 37 weeks in the case of twins or lonely mother. A lump-sum birth grant is payable under the state social support system.

2.3.4 Invalidity and long-term care

Invalidity, old-age and survivors benefits are under one scheme. Coverage is identical for all economically active persons and other categories as defined by law. Qualifying conditions: (i) minimum insurance period (without credited periods) of 5 years, reduced for age groups under 28, and (ii) recognised incapacity to work. The qualifying period waved in case of employment injury or disability from childhood (prior to age 18). Two types of pensions are granted: full and partial pension. The full invalidity pension is available at 66% incapacity. In cases of disability requiring nursing (100% disability) an increment under social assistance is available. Periods between actual date of invalidity and date of retirement are added to the period of insurance for assessing pension amount. Full invalidity pension is two-tier: (i) base flat-rate (1300 CzCr on 1.1.2002) and (ii) income related increments equal to 1,5% of assessment base per year of insurance. The minimum amount is 40% of the annual general assessment base (i.e. national average wage). Full invalidity pension is payable together with earnings from economic activity without any limitations. The partial invalidity pension is available at 33% incapacity and the same qualifying period of insurance. The partial invalidity pension is two-tier: (i) base flat-rate (630 CzCr on 1.1.2002) and (ii) income related increments equal to 0,75% of assessment base per year of insurance. Earnings from economic activity influence payment of this pension – if they exceed 66 % of the comparable assessment base[1)] the pension is reduced to half and if they exceed 80% the pension is discontinued.

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1) The comparable assessment base is determined through multiplying the personal assessment base from which the pension was calculated by a coefficient of the general assessment base increase for the particular period (i.e. for the period between the last but one year of the decisive period from which the earnings were indicated for calculation of the pension, and the year which precedes by two years the year in which earnings are checked).

There is no statutory long-term care insurance. Social services under the social welfare scheme provide home services to the elderly (food delivery, maintenance of household, etc) and residential care (old-age homes, pensionates (homes where one can bring his/her belongings, including furniture), houses (with small flats) with centred care (medical etc.), hospices and hospitals for log-term sick and incapable of movement. Home services are provided by municipalities (with state financial subsidies) and homes, etc. are provided and managed at all levels of public administration, as the case may be. There are certain co-payments of the beneficiaries.

2.3.5 Old-age

Coverage is the same as for invalidity pensions. Qualifying conditions: (i) full pension - minimum 25 years of insurance and attainment of retirement age or (ii) partial pension - minimum 15 years of insurance and age 65. Retirement age is 60 years, gradually increased to 62 for men and 53 to 57, gradually increased to 57-61 for women, depending on the number of children, by 31 December 2006. After 25 years of insurance early retirement is possible with a reduced pension, if the insured (i) has been unemployed at least 180 days in the last 2 years or (ii) up to 3 years prior to retirement. Benefit amount is calculated in same manner as the full invalidity pension, based on the last 20 years earnings, gradually increased to 30 years. The earnings taken into account are graded: (i) full amount up to 7100 CZK (ii) 30 % of 7100 to 16800 CZK, and (iii) 10% of earnings over 16.800 CZK10 %, with no cap. As from 2002 pensions are indexed regularly annually according to the rise in the costs of living, taking into account the wage growth as well. The indexation is as from January 1 of each year, based on data as on July 31 of the preceding year. The indexation was realised always after 5 % increase of prices till 2002.

2.3.6 Survivors

Coverage is the same as for old-age and invalidity. Qualifying conditions: (i) the deceased was (actual) or would have been entitled to a pension (anticipated) and (ii) relationship with the deceased. Survivor pension granted to all survivors for one year. Thereafter, if the **surviving spouse** is disabled or has attained age 55 (women) and 58 (men) or nurses r (i) a dependent child, (ii) a dependent disabled child, (iii) disabled parent or parent-in-law, living in the same household, (iv) partially disabled parent over age 80, with no limit to further economic activity. **Orphans** receive a pension if they are dependent at time of breadwinner's death. The pension amount for survivors: (i) base-amount same as old-age pensions (ii) increased by half of the percentage-increase the actual or anticipated pension of the deceased. If the survivor is eligible to more than pension she/he shall receive the highest one, increased by one half of the percentage increment of

the other pension. Orphans receive 40 % of the actual or anticipated pension of the deceased. There is no maximum amount to total survivors' pensions. A funeral lump-sum is granted universally.

2.3.7 Employment injuries and occupational diseases

There is no public accident insurance. Under the Labour Code employers are obliged to insure with with the commercial insurance company "Kooperativa".

2.3.8 Family benefits

Coverage: persons permanently residing in the country. The family benefits are: (i) children allowances for all dependent children, according to age and disability, if any, (ii) social allowance, (iii) parental allowance up to 4 years of child's age, (iv) foster parent allowances (v) social support to families of persons on compulsory military service, (vi) birth grant, (vii) housing allowance, and (viii) transportation allowance. The children, social, housing and transportation allowances are income-tested. Benefit amounts are minimum-living related and based on the family income and the age of the child. The standard child allowance for families in the lowest income range is the multiple of 0.28 and the amount for the child in the relevant age group (Act 463 of 1991 as amended), which corresponds to a range of 15 to 25 EUR dependent of the age of the child.

2.3.9 Unemployment

All economic active persons are covered (employed and self-employed are covered by the unemployment insurance. Unemployed persons, registered with the employment office as job seekers, receive after a waiting period of 7 days, a benefit, provided he/she (i) was insured for at least 12 months in the last 3 years prior to unemployment, (ii) is not eligible to other social benefits, (iii) does not refuse employment without valid reason. Unemployment benefit equals to 50% of the assessment base for the first 3 months and to 40% of the assessment base for the next 3 months. The total benefit period is 6 months or end of re-training, if any. Thereafter the unemployed may file a request for social assistance. Benefits are not taxed.

2.3.10 Minimum resources/social assistance

Coverage is universal. the qualifying condition is a family income which is below a level defined by law. Aggregated minimum incomes of family members differ by age, family size and whether a member is disabled or aged, needs constant care, etc. Social assistance benefit is assessed according to need and incomes.

2.4 Summary: Main principles and mechanisms of the social protection system

Social protection is universal and complex. Social insurance is employment-centred (including self-employment) and social support, social assistance and health insurance are citizen centred. Practically no one is totally excluded – all benefit from at least minimum income arrangements.

The underlying values are respect to human rights and dignity based on sustainable solidarity and social equity. The principles are (i) universality (accessible to all), (ii) equality (with no discrimination), (iii) uniformity (same rules for everybody, with no privileges).

Under the present budgetary constraints the scope of protection is becoming unsustainable in the mid- to long-term. Moreover, the population is quickly ageing and the income span is widening. More targeting of old-age and family benefits and of solidarity transfers between generations and rich and poor families will be needed.

3. PENSIONS

3.1 Evaluation of current structures

3.1.1 Public-private mix

As already mentioned in Chapter 2, the present basic protection in old age for economically active persons is provided by the mandatory pension scheme (Pension Insurance Act no.155/1995, as amended), which is supplemented by the voluntary supplementary pensions insurance schemes (Act no.42/1994, as amended). Voluntary systems are at present (June 2002) offered by 11 pension funds, authorised by the Ministry of Finance in co-ordination with the Ministry of Labour and Social Affairs and Security Commission. Their number was gradually falling from originally 44 in 1996. The government supports voluntary supplementary insurance funds by providing (i) a supplement to the contributions agreed upon with the insured person, subject to a maximum, and (ii) a tax advantage both to employers and employees, subject to a maximum.

The role of the public mandatory scheme is crucial. Most people depend on income security in old-age on the mandatory pension insurance scheme.

Table 3.1: Systems Dependency Ratio in the Czech Republic (after separation)

	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Pensioners	2 521	2 519	2 523	2 498	2 507	2 545	2 573	2 592	2 614
Contributors	5 052	5 290	5 132	5 186	4 944	4 925	4 728	4 661	4 694
%	49,9	47,6	49,1	48,2	50,7	51,7	54,4	55,6	55,7

Source: MoLSA

Note: Includes pension paid abroad

There are no occupational pension schemes. Those gradually created under the preceding arrangements of 1906 and 1929 were abolished in 1951. A political attempt to create new ones in the year 2001 was unsuccessful due to right wing opposition in the Parliament.

The voluntary supplementary pension funds do not as yet play an important role for income security in old age. Although over 2,5 million people have joined them by the end of 2001, the capital built-up of individual accounts is not that important. The government expects them to pay a 10 to 15% replacement rate to income security in old age.

In addition high-income groups take up various types of life and pension insurance with private insurance companies. The premiums are also tax deductible, subject to a maximum. The maximum is very low - 12 thousand crowns/year (approx. 400 EUR)

As mentioned above, there are also *tax incentives* to participate in voluntary supplementary pension funds. Employees and self-employed persons who join a supplementary pension fund receive a supplement from the government and in addition may deduct contributions to voluntary pension from the taxable income basis up to a maximum of 12 000 CzCr/annually (approx.400 EUR). The formula for the government subsidy is (in CzCr):

Table 3.2: Formula for government supplement

Premium by insured person	**100 - 199**	**200 - 299**	**300 - 399**	**400 - 499**	**500 +**
Government subsidy	50+40% in excess of 100	90+30% in excess of 200	120+20% in excess of 300	140+10% in excess of 400	150

In addition, the insured person receives a tax advantage on premiums paid over-and above the 6000 CzCr/annually on which subsidies are payable, subject to a maximum of 12000 CzCr. Moreover, an employee is liberated from paying income tax on the premiums paid by the employer to his/her account, provided the amount does not exceed 5% of the annual assessment basis for compulsory social insurance contributions.

There is no state subsidy to the premium paid by the employers, if any. Nevertheless the employer may contribute to the employees account with the voluntary supplementary pension fund up to a maximum 3% of the annual assessment basis for compulsory social insurance contributions of the employee concerned. This contribution is deductible from the tax assessment basis.

There is no universal pension system for the whole population. Persons who do not benefit from the mandatory pension scheme may benefit from social assistance and welfare, if in need, as defined by law (see Chapter 2). The mandatory pension system is for the economically active population as it provides benefit in return for compulsory insurance of incomes from gainful activities, as defined in the law.

There are no specific means/income-tested transfers especially for older people. Older people, if without means of living, may apply for social assistance as anyone else (see Chapter 2).

The mandatory pension scheme covers old-age, disability (invalidity) and survivors, under conditions prescribed by the legislation. The voluntary

supplementary pension funds must provide for old-age and may provide for invalidity and survivors if the insured person desires and contracts.

There are regular family income surveys of the statistical office, but no special statistical survey of income in old-age. The data from the last micro census are in the Table 3.1 in the statistical annex. The data relate only to households of non-economically active pensioners.

The family plays no role in the mandatory pensions system. It may contribute to the voluntary supplementary pension funds in favour of its member, if it so desires. Family income is the basis only for social assistance benefits.

The capital market has started to develop about ten years ago with a rapid restitution and privatisation effort and since then has made adequate progress. The stock exchange operates, although still being rather small in size and amount of business if compared to its partners in the EU countries. The banks and insurance companies have been privatised. Many foreign banks and insurance companies operate in the country. Foreign investment is growing substantially.

3.1.2 Benefits

Benefits are regulated by Act no. 155/1995, concerning pension insurance, in force since January 1, 1996. The Act, as amended, provides for (i) old-age pensions, (ii) early retirement old-age pensions (with permanent or temporary reduced pension amount), (iii) invalidity pension, (iv) partial invalidity pension, (v) surviving spouse (widow, widower) pension, (vi) surviving orphans (full and half orphans) pension.

The conditions for a pension are:

regular old-age pension - 25 years of insurance and attaining pensionable age, which was 60 (1995) for man and 53 to 57 (1995) for women depending on the number of children they brought up; it is gradually increased by 2 calendar month for men and four calendar months for women per year to reach 62 years age for men and 57 to 61 years age for women (depending on the number of children they brought up - 61 for childless and 57 for women with 5 and more children) by 31 December 2006; another condition is retirement from employment - the pensioner may not earn in the first two years more than twice the minimum living standard;

deferred retirement is honoured - the pension is increased by 1,3 % for

every 90 days of economic activity provided retirement is differed;

(iii) reduced old-age pension - **at age 65**, if not eligible to regular pension and with 15 years insurance;

2 years prior to retirement age, if accrued 25 years insurance and registered as unemployed for 180 days and does not take up any employment; invalidity pensioners may also become eligible to this pension under specified conditions); the pension amount is reduced temporarily till attainment of regular pensionable age by 1.3% of assessment basis per 90 days of earlier retirement; at attainment of regular retirement age the pension is reassessed (paid at full rates);

3 years prior to retirement age, if accrued 25 years insurance and retires from employment; the pension is permanently reduced by 0.9% of assessment basis per 90 years of earlier retirement and will not by increased on attaining retirement age; It will not be reassessed at reaching retirement age;

(iv) invalidity pension - 5 years insurance if over 28 years old (reduced depending on age, with no requirement of a period of insurance for those under 20 years age) and invalidity, which is defined as

reduced capacity to systematic economic activity by 66%

capable of economic activity only under exceptional circumstance due to health reasons;

The invalidity pension is not replaced by an old age pension; the higher old-age or invalidity pension is payable;

(v) partial invalidity pension - insurance as for invalidity pension and partial invalidity which is defined as

reduced capacity to systematic economic activity by 33% due to long-lasting unfavourable health condition

if the long-lasting unfavourable health condition deteriorates his/her general living conditions;

The pension is paid

in full, if earnings do not exceed 66% of comparable assessment basis (law provides methodology for calculation);

half, if earning exceed 66% but not 80%;

It is not paid if earnings exceed the 80% of the comparable assessment base;

(vi) surviving spouse pension - both widow and widower receive pension at same conditions, regardless of income from economic activity;

all receive a survivors pension for one year;

thereafter the conditions are : taking care of a dependent child; nursing a heavily disabled child that needs special care; nursing an adult child that is partially or fully immobile; nursing a parent or deceased person's parent, sharing household and immobile or partially immobile if over 80 years age; fully disabled; or widow over 55 years and widower over 58 or of pensionable age, whatever is less;

(vii) surviving child's pension - dependent child, if the deceased was its parent, adoptive parent, or caretaker, provided the deceased was eligible or would have been eligible to an old-age or invalidity pension.

The pensions under the mandatory scheme are two-tier. The base pension (1st tier) is flat rate, defined by law in nominal monetary terms. The graduated part of the pension (2nd tier) is based on individual contribution in terms of insurance period and contribution amount.

The base pension is presently 1310 CzCr. The individualised graduated element is calculated as percentage of an individual assessment basis. The assessment basis for calculation of pensions is averaged (last 30 years, but not preceding 1986) and indexed (the point system whereby individual contributions are divided by average wage for each contribution year and finally indexed accordingly).

The actual assessment basis for the calculation of a pension is fully taken into account up to 7100 CrCz per annum, thereafter only by 30% of the amount exceeding 7100 up to 16800 and 10% over 16800 CzCr (1.1.2002)

The percentage rate is calculated as 1,5% per year of insurance (with some period excluded and other periods credited, as defined in the law) for a regular old-age pension. It is increased to 1,5 % per every 90 days of deferred retirement (after attaining pensionable age) and reduced (with some exceptions) by 0,9/1,3% per every 90 days of early retirement (details are mentioned above).

As from 2002 pensions will be indexed regularly annually according to the rise in the costs of living, taking into account the wage growth as well. The indexation is as from January 1 of each year, based on data as on July 31 of the preceding year. The indexation was realised always after 5 % increase of prices till 2002.

To sum up, the coverage of the population by the present mandatory system is rather extensive. The following table illustrates the development:

Table 3.3: Percentage of population 60+ years or receiving an old-age pension

	1980	**1990**	**1995**	**1999**	**2000**
Male	84%	83%	83%	82%	82%
Female	69%	81%	86%	88%	89%
Total	75%	82%	84%	86%	86%

These numbers are considerable, in view of population ageing, see Table 3.4.

Table 3.4: Recipients of old-age pensions compared to total population (in total figures)

		1980	**1990**	**1995**	**1999**	**2000**
All persons in receipt of a retirement						
pension aged 60 and over						
	Male	581657	608505	616014	621914	632067
	Female	722074	895247	953004	987415	1001973
	Total	1303731	1503752	1569018	1609329	1634040
Total population aged 60 and over						
	Male	695000	729993	743208	754811	766712
	Female	1039000	1105695	1113899	1118147	1128507
	Total	1734000	1835688	1857107	1872958	1895219

The two-tier structure of the pension formula prevents pensioners from falling into the safety net. However, the actual distribution effects of the pension formula are to be questioned as: (i) all receive the flat base pension, (ii) the rules reducing the income taken account of for the calculation of the second tier[6] This substantially reduces incentives for middle class to participate and thus encourages abuses and evasion.

[6] Assessment base for pensions calculation 100% of monthly gross earnings up to 7100 CzCr (approx. 270 EURO), 30% o monthly gross earnings from 7100 to 16800 CzCr (approx. 560 EURO), and 10% of monthly gross earnings over 16800 CzCr.

Table 3.5: Replacement rate

Year	Average pension	Average wage		Replacement rate	
		gross	net	gross	net
1988	1 496	3 095	2 451	48,3	61,0
1989	1 598	3 170	2 504	50,4	63,8
1990	1 731	3 356	2 656	51,6	65,2
1991	2 176	3 932	3 092	55,3	70,4
1992	2 413	4 644	3 563	52,0	67,7
1993	2 734	5 817	4 551	47,0	60,1
1994	3 059	6 896	5 351	44,4	57,2
1995	3 578	8 172	6 318	43,8	56,6
1996	4 213	9 676	7 520	43,5	56,0
1997	4 840	10 696	8 308	45,3	58,3
1998	5 367	11 693	9 090	45,9	59,0
1999	5 724	12 655	9 842	45,2	58,2
2000	5 962	13 490	10 447	44,2	57,1
2001	6 352	14 642	11 326	43,4	56,1

Source: MLSA

For the distribution of pensions see Annex Tables 17 and 18., which are summarised in the following table:

Table 3.6: Distribution of pensions, pensioners and average pension amounts (in CzCr)

Pension	Expenditure	In %	Pensioners	In %	Average pension
Old-age	140 656 510	71,9	1 922 773	74,4	7 067
Full invalidity	27 970 174	14,3	376 455	14,6	6 759
Partial Invalidity	7 677 017	3,9	157 832	6,1	4 186
Survivors	18 310 187	9,3	72 996	2,8	4 783
orphans	1 199 823	0,6	53 958	2,1	3 289
Total	195 813 711	100,0	2 584 014	100,0	6 687

Source Yearbook of the Czech Social Security Administration

Pensions have been adjusted over the whole transition period. For details see Annex Table 12. There have also been certain special provisions to protect pensioners from poverty. Until 1995 a minimum pension was provided in

case the pensions were the only source of income. The respective income limits were:

Table 3.7: Limits of income, if only source, In CzCr (till 1995)

	3. 1993	**11. 1993**	**2. 1994**	**12. 1994**	**7. 1995**
- for single person	1 840	1 940	2 040	2 460	2 720
- for a couple	3 060	3 220	3 520	4 360	4 880
Increase for a single person	80	100	100	200	260
Increase for couple	140	160	300	400	520

Source MoLSA

In addition to these minimum limits each citizen received the State Equalisation Allowance granted between July 1990 and November 1994 to smoothen consequences of price liberalisation. The State Equalisation Allowance was integrated in the pension amount in November 1994. The minimum pension, if only source of income, was abandoned under the new scheme in 1 January 1996. The new pension formula together with regular indexation was expected to not allow the pensions to fall under the minimum living standard.

The legal pensionable age is gradually increased 2 month per year for men and 4 month for women up to 62 for men and up to 57 to 61 years of age (depending on the number of children) for women by December 31, 2006. The differentiation of pensionable age for women is 57 for women who have brought up 5 and more children and 61 for women with no children.

The actual effective retirement age is an estimate from December 2001 figures (see Annex Table 13). The estimates do not show how many people really retired and when (the effects of employment of pensioners, early retirements, etc.). It is difficult to make correct estimates as many people "retire" by claiming an invalidity pension. As the pensioners may draw invalidity pensions after reaching pensionable age, one would need to have exact figures at the time of retirement or claiming invalidity pension. These are not collected.

It is the authors opinion that the pension system is adequate with regard to income security in old age for the low-income groups, but not for the middle and upper income groups. The replacement rates of people earning an income over the average drop very rapidly due to the method of fixing the assessment basis (see above).

It is also the authors point of view that the intergenerational distribution is on European average but if sustainability of the system is to be maintained, it will grow out of any proportion (see Annex Table 15).

If the present two-tier formula is maintained, eventually further developed, it is and will be adequate for the reduction of poverty in old age. It should be, because if pensioners fall with their pension below the poverty line, they will have no incentive supporting their participation in a contributory pension system.

Finally, it is the authors point of view that the system might not be equitable with regard to gender equality. This is due to the reason that women retire earlier which is an arrangement that goes back to the communist times and has no present rationale. In fact women receive lower pensions by retiring earlier. In spite of this the differences in average pension amounts are smaller than in the differences in wages. If we consider the total amount of pension gained after attaining pensionable age, with women living considerably longer, the differences between men and women are smaller.

Financing of the pension system

Parametric reforms of the eligibility conditions and pension formula were implemented, however, there was no reform of the method of financing. Although as off January 1, 1993 a system of earmarked payroll taxes, labelled as social insurance contributions (pension, sickness and unemployment contributions), was introduced, it remained the income of the state budget and expenses remained a budgetary expenditure. Only in 1996 pension insurance contributions and expenditure were accounted for in a separate budgetary account.

The mandatory pension system is financed on a pay-as-you-go basis. It is benefit defined. Details were discussed in chapter 2.2.

Both these principles make the system vulnerable to unfavourable demographic developments (for Demography see Annex table 16). The following table reveals the trend:

Table 3.8: Income and expenditure on social insurance (without armed forces) (in Billion CzCr)

	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Total Incomes from Contributions	93,7	115	133,5	150,8	165,6	176,6	182,8	192,8	209,9
Of which:									
Pension insurance	79,6	97,9	113,9	129,8	142,2	151,9	157,0	165,5	180,2
Sickness insurance	14,1	17,1	19,6	21,0	23,4	24,7	25,8	27,3	29,7
Total expenditure on pensions	85,6	101,9	124,9	144,6	167,1	180,4	192,7	209,4	225,7
Of which:									
Pension insurance	73,6	85,7	106,9	124,2	147,3	161,9	173,4	182,2	196,1
Sickness insurance	12,0	16,2	18,0	20,4	19,8	18,5	19,3	27,2	29,6
Total administrative expenditure	1,8	2,4	2,7	3,2	3,0	3,1	3,9	3,4	3,8
Total difference incomes – expenditure	**6,3**	**10,7**	**5,9**	**3,0**	**-4,5**	**-6,9**	**-13,8**	**-20,0**	**-19,6**

Source: State Balance Sheet

The unfavourable development of the balance will most probably continue. Although the government in 1997 adopted a package of restrictive measures (tightened indexation, reduction of certain credited periods, parallel payment of pensions earnings for the first two years after award, tightened conditions for early retirement) the unfavourable development continued.

The present social-democratic government, supported by experts and consultants of the MLSA, is of the opinion that this could be remedied by separating the financing of social insurance from the state budget[7]. It presented a bill to this effect in 2000, but was rejected by the right-wing opposition. The principal problem is the scope of government guarantee of both the income of the mandatory social insurance system (i.e. contributions in respect of any credited periods) as well as the expenditure of the system than exceeds contributions. The tools that were selected to meet this goal (e.g. government to contribute to the fund for all credited period as defined by law and the creation of a reserve fund to cover seasonal discrepancies) were not considered as adequate guarantees by the Parliament. The Bill was therefore rejected.

[7] See statements by the Mr. Vladimir Špidla, the then Minister of Labour and Social Affairs in the press when presenting the bill on social insurance agency in Parliament.

3.1.3 Incentives

As from July 2001the mandatory pension system provides increased pension rates for deferred retirement of approx. 6% instead of 4% per year and reduced pension rates for early retirement (see above).

Income from gainful activity (employment) rules out (conflicts with) early retirement pensions. Pensioners up to 2 years above retirement age may earn wages up to twice the living minimum for a retired adult. An old-age pension is not payable for each month in which earnings exceed that limit as well as in cases when the pensioner receives earnings from economic activity abroad.

Under labour law regulation reaching the retirement age is not a valid reason for terminating an employment contract (but the contract can be only on a fixed term basis).

There are no special incentives in favour of employment of elderly persons. Termination of an employment contract due to age is classified as discriminatory and is forbidden.

3.1.4 Coverage of the system

The mandatory pensions system protects all persons that earn an income from an economic activity (wage and salary earners, self-employed persons, judges, prosecutors, members of constitutional and public elected bodies, soldiers and members of the armed forces, beneficiaries of sickness, unemployment and other compulsory benefits, disability pension, etc.,) as well as certain categories of other comparable activities (foster care, volunteer work, etc.). It also credits certain periods when the person is not insured for valid reasons (compulsory military service, parental care for a child up to 4 years of age). However, formally the system is not a universal one as some groups of the population without an income are left out, although not being explicitly excluded, such as e.g. housewives not caring for dependent children. Nevertheless, the system can be practically considered as universal due to very generous clauses for voluntary insurance, continuation in insurance and the option to purchase insurance for past uninsured periods.

There is no possibility of ‘opting out’. Opting out is not considered as a practice in line with the Czech social security tradition.

3.1.5 Public acceptance of the system

There is no explicit public concern regarding the transparency and efficiency of the pension insurance system. The system is functioning since 1907 for private white-collar workers and since 1926 for blue-collar workers.

There is public concern about the high rate of solidarity transfers making the system less attractive for higher income groups and more appreciable for low-income groups. The reform in 1995 reflected these concerns to some extent by changing the qualifying periods (insurance period instead of periods of employment) and tying the pension formula to paid contributions rather than to average wages.

Much solidarity transfers were retained especially in the pension assessment basis and consequently the higher income groups receive by far much lower replacement rates. The voluntary supplementary pension funds also, in practice, target low-income and average-income groups, because of the state subsidy system, which is advantageous only for people ready to pay low premiums (up to some 40 EUR a month).

Only recently the government opened up some space for private pension and life insurance arrangements by providing tax advantages (see above). However, the ceiling is very low (approx. 400 EUR annually) and thus not really attractive for medium income earners.

To sum up, the system seems to meet general acceptance in the population. However, due to demographic developments (population ageing) and increasing dependency ratio (due to unemployment and drop in employment in general as a consequence of privatisation) the system is in a growing deficit and thus raising concern of economists and government. The pension reform has become an issue frequently discussed in the press and has been addressed practically by all the political parties in their election programs for the June 2002 parliamentary elections.

3.2 Evaluation of future challenges

3.2.1 Main challenges

The main challenges are the consequences of the ageing population and transition of the economy to a free market economy (restitution and privatisation of properties, liberalisation of wages and prices, inflation) with high unemployment and growing poverty as a consequence. These trends were smoothened by the introduction of unemployment benefits and early retirement provisions, the creation of a social safety net and easier qualifying conditions for certain social welfare benefits. Consequently social security has become very generous and expensive.

Old-age pensions are the crucial part of social expenditure and therefore drawing large attention. In spite of regular indexation the real value of pensions dropped (in 2002 the pensions are still 3-4 % below their real value of 1989). There are too many old-age pensions - the dependency ratio is too high. The cost of the mandatory scheme came soaring up although the replacement rate is dropping.

Thus the main challenges to be addressed in the future are:

- too soft qualifying conditions
- a weak reflection of the paid contributions in the pension amounts
- pension amounts targeted to low-income groups with low replacement rates for the middle income groups

The low retirement age (compared to ageing of the population) and discriminatory arrangement in favour of women, especially of women with children, should be replaced by a uniform retirement age of 65 years. The current qualifying insurance period of 25 years for a regular pension and 15 years for a pension at age 65 is remarkably low in view of the average benefit (pension) period. If the system shall retain the defined-benefit approach the general qualifying period should be raised to make the system financially sustainable. The lower qualifying period of 15 years should be removed because people who do not qualify for a pension can draw a minimum living allowance under the state social support (non-contributory) system, which was not the case under the preceding arrangements.

The rules reducing the earned pension assessment basis (see 3.1.2) result in unnecessary redistribution, which in fact hinders the social insurance principle and encourages the "flat rate" approach.

There is growing general feeling among the middle income groups that additional arrangements have to be made to secure adequate incomes in old-age. The World Bank proposals for a contributions-defined and funded mandatory second pillar with tax advantages for the premiums paid seem to gain support in this segment of the population. However, for the social democratic government this is not acceptable. The positions were formulated in a parliamentary committee for pension reform (see above). The parties after a year of deliberations could not come up with a reform solution acceptable to all.

3.2.2 Financial sustainability

There are several pension finance projections for the future. The World Bank team made a forecast using its standard model and presented it on a conference in Prague in 2002. There have been differences on the assumptions (unemployment development, GDP growth, inflation)[8] of the forecast and thus on the results of the model at this conference. The MLSA is now preparing an actuarial study of the present system and a forecast of its

[8] The Czech experts pointed out that they expect the unemployment rate to decline in time, while the WB assumption was a constant rate. Further differences have been: the Czech experts expected the GDP to grow faster due to the growing foreign investments in new industrial plants as well as they expected the inflation rate to decline faster than the assumptions of the WB experts due to the stabilisation of the market.

possible development, as input into the general discussion on the future of the pension insurance system. The report is expected later this year.

It is difficult to assess the financial sustainability of the system. If the trends in Table 3.6 above are extrapolated, the future is very dim. However, the macroeconomic forecast prepared by the Ministry of Finance (see Annex Table 13) seems to provide more encouraging visions in GDP growth, reduced unemployment, etc. The demographic forecast prepared by the Czech Statistical Office (see Annex Table 16) on the contrary seems to be a warning signal for the future.

The assumptions and future developments are indicated in Annex Table 14, as well as in the Annex Table 15.

3.2.3 Pension policy and EU accession

No major problems with the EU accession in the field of pensions were addressed in the Memorandum[9]. The Regulation 1408/71 is fully applicable. The only major problem in the future will probably be the different retirement age for men and women.

In the beginning of 2002 the government prepared - together with the government of the Netherlands - a Memorandum on the Pension Reform (see Table 19) and sent it to Spanish Presidency of the EU as part of the preparations of the Barcelona Summit (15.3.2002). The Czech Government has hereby proclaimed acceptance to participate actively in the EU discussions on pension reforms. The Memorandum is available in English at the Ministry of Labour and Social Affairs. The Czech version is on the internet.

The relevant chapters of the Acquis Communautaire have been discussed and agreed[10]. The conditions of the regulations on social security co-ordination and equal opportunities for women and men are met. Apart from some technical details the major reform problem lies in the future - the equal retirement age for men and women.[11]

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9 See http://www.mpsv.cz/scripts/clanek.asp?lg=1&id=2689

10 See http://www.mpsv.cz/scripts/clanek.asp?lg=1&id=2689

11 A study on this issue was elaborated and details are on the internet: www.vláda.cz/1250/vrk/EU/dokumenty/souvislosti_integrace.pdf.

3.3 Evaluation of recent and planned reforms

3.3.1 Recent reforms and their objectives

The reform of the mandatory system started immediately in 1989. The Federal Government drafted and Parliament accepted a Scenario for social reform. The first steps were taken by the federal government in the period 1990-1992. Inequalities were removed (personal pensions of prominent communists, privileges for work categories, recalculation of pensions of self-employed under the same rule as for employed persons). It started regularly indexing pensions (i) to meet the consequences of inflation and liberalisation of prices and (ii) to remove differences between pension amounts of pensions awarded at different times. The Czech Government continued in this practice. By 1995 (the date the new pension insurance system was implemented) pensions were indexed ten times. The reform brought equity into the system, removed discrimination and prevented pensioners from falling under the poverty line.

After the separation of the Czech and Slovak Republics, the Czech Republic implemented the principle of social insurance contributions as a special earmarked tax to the state budget (1993). The reform was to ”teach” people to care for themselves by making them contribute to social insurance (a new practice in the former communist countries). This was effective, as evasion from social insurance is smaller than evasion from general taxation.

In 1994 the new voluntary supplementary pension insurance act was adopted. It was based on the following principles: (i) employers and insured persons received no tax advantage (the system was not conceived as occupational); (ii) a state subsidy in CzCr matching the insurance contributions was offered to insured persons (rather than tax advantages). At the start, 44 licenses were issued to private pension funds to implement the system. Their number was reduced to 11 by 2002 due to improper management. Nevertheless the system has met the expectations – over 2,5 million people are insured. By supplementing the mandatory pension system by a voluntary one the idea that people should take care of their future needs was successfully emphasised.

The system was amended in 1999[12] and introduced some limited tax advantage for insured persons (12 000 CrCz per annum, i.e. 400 EUR) and allowed employers to supplement the contributions with a tax advantage.

In 1995 the new pension insurance act was adopted and implemented as of 1.1.1996. The new act tied pensions to periods of insurance (rather than periods of employment), tightened eligibility conditions (gradually increased retirement age, provided tighter definitions of disability and survivorship), promoted gender equality by providing a widower’s pension under the same

[12] Act no.170 of 1999, amending the Act no.42 of 1994

conditions as widow's pensions, introduced a new two-tier pension formula (see 3.1.2), changed the pension assessment basis (from last best average earnings to earnings on which contribution were paid) and introduced regular indexation of pensions. The aim was to restructure the benefit system and to minimise the effects of the unfavourable demographic development. The aims were partly achieved. This was the first major reform effort in a post-communist country. Similar principles were adopted in the reform in Albania and Lithuania approx. at the same time. The reform brought the mandatory pension system closer to the EU best practices, fully respecting applicable EU directives, and made the system sustainable to conditions in the transition period.

As from 1996 the pension insurance contributions became a special state budget income, placed into a separate account, thus targeting this income exclusively to pension expenditure. Excess of contributions over expenditure on pensions was to be used only for increase of pensions or on expenses connected with pension insurance, including administrative expenditures. In November 2000 there was an attempt of the social democratic government to replace this budgetary practice by a fully functional public social insurance agency, managed by a tripartite body, elected by the Parliament. The aim was to prepare an institutional capacity able to implement any future pension reform (the idea was based on the experience from Poland). This was, however, refused by the liberal majority of the Parliament.

Several amendments to the pension insurance act introduced minor changes. In 1997 the indexation formula was tightened and the number of credited insurance periods reduced. The next important reform step was taken in 1999. The voluntary supplementary pension insurance act was substantially amended. Tax advantages both to employers, employees and self-employed persons were introduced to supplement the state subsidy (and in 2000 similarly to some products of life insurance). State supervision of investment policies was improved.

In 2001 legal amendments increased the disadvantages of early retirement (larger reduction of the pension amount) and increased the gains for deferred retirement (higher increments to the pension amount). These amendments increased sustainability of the pension system and encouraged employment of senior citizens.

3.3.2 Political directions of future reforms

There is no political consensus between parliamentary parties in the country about the future direction of pension policy.

In November 1999 the Senate (upper chamber of the Parliament) created a sub-council for the pension reform. After the election in 2000 a committee

for pension reform replaced it. However, no positive results have as yet been published.

In June 2000 the lower chamber of the Parliament created a temporary committee for pension reform with a similar aim as the committee in the Senate. The high-level committee included members of all the political parties present in the Parliament. Recently, prior to the elections, the parliamentary committee concluded its work (31.12.2001) by issuing a report. The report describes the positions of the different parties involved, with no sign of an attempt to a compromise.

There is an obvious left-right partition. The socialists (social democrats) call for an improvement of the present system, claiming that there should be no major difficulties in the coming 8 to 10 years, which gives sufficient time to make the system sustainable. They were in favour of introducing the occupational pension schemes as a supplement to the pensions from the mandatory system with the objective to strengthen the social welfare system while conserving the gained social rights of the population. This was refused by the Parliament.

The Liberals (Civil Democratic Party, Union of Liberty, Democratic Union) proposed a cutback of the present pension system (pay-as-you-go) and the introduction of second (funded) pillar of contribution-based pensions (Polish and Hungarian approaches). Such a reform is expected to make the pension system sustainable for the public finances and add savings to the capital market.

The social democratic minority government adopted in April 2001 a Concept for a Pension reform and submitted it to the parliament for discussion. In will be now on the agenda of the new Parliament.

In its Strategy paper the previous government expressed that "a deeper reform of retirement insurance in response to unfavourable demographic growth remains in the discussion phase, with the government's proposals still being evaluated. These ideas continue to place an emphasis on reform and modernisation of the existing system based on pay-as-you-go financing, together with further support of employee and commercial supplementary insurance systems, rather than a radical transition to fund management"[13].

In its program the present coalition government declared before parliament[14] that…

"/9/ Coalition partners shall prepare legislative basis for an overall pension reform in order to separate the pensions fund from the state budget

[13] See http://www.mpsv.cz/scripts/clanek.asp?lg=2&id=621#2.1

[14] See http://www.unie.cz

while preserving the pay-as-you-go financial system of old-age pension, with a state guarantee,

/10/ Coalition partners shall secure a viable development of the social insurance carrier and provide sufficient means for the pension reform from privatisation,.

/11/ Coalition partners shall support the development of the system of supplementary pensions including introduction of a suitable form of occupational pensions"…

3.3.3 Conclusions

The mandatory pension system has been improved in 1995 to a extent that there is no general public social pressure for its reform. There is political pressure especially from the liberal side of the political spectrum. The social democrats, that won the June 2002 elections, are in favour of a parametric reform, while the liberal opposition is in favour of a three-pillar system recommended by the World Bank along the same lines as in Poland and Hungary.

There is no doubt that the system needs to be reformed (see 3.2.1). The ageing of the population and the financial forecast indicate that the future generations would not be in a position to bear the burden.

The parametrical reform of both the mandatory and voluntary pension systems could relieve the burden upon the contributors provided they address

- the retirement age (increase to 65 for both men and women)
- the qualifying period (increase from 25 to 40 years insurance), with no credited periods
- the qualifying conditions for survivors pensions (total sum of survivors pensions should not exceed the pension or theoretical pension of the deceased)
- the conditions for an invalidity pension should be co-ordinated with sickness insurance benefits
- the pension insurance system should be separated from the state budget and entrusted to an autonomous public administration,
- the pensions are linked closer to paid contributions (reform of the assessment basis, which should be the same for calculation of contributions and pensions),
- the supplementary pension funds should be opened up to the middle income groups by enlarging the tax advantages, provided the state

supervision is substantially improved to protect the savings (to avoid the tunnelling of these funds).

The non-parametrical reform - introduction of a mandatory savings scheme as the second pillar may be a solution but does not seem to gain public support due to

- the recent experience with savings banks being tunnelled,
- the lack of an adequate capital market in the country; this encourages investments into bonds with low yield, which makes the system uninteresting (practice of the supplementary voluntary pension funds),
- unwillingness to invest the savings abroad because of prior bad experience,
- high participation in voluntary schemes.
- The argument that a mandatory funded pillar increases savings does not really convince in a country , where savings are growing anyway and the higher income groups take up life and private pension insurance. There is a private insurance and private savings tradition in the country.

The parametrical reform could be a solution for a transition period. It seems that in the near future a new concept will have to be introduced bringing pensions closer to paid contributions e.g. by replacing the defined-benefit approach by the defined -contributions approach. This would leave sufficient space for solidarity and yet make the system economically sustainable.

Annex to Chapter 3

Table 3.9: Income of households of unemployed pensioners (without children) in %

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Average no. of household members	1,41	1,4	1,4	1,39	1,39	1,49	1,49	1,5	1,49	1,47	1,48	1,48
Brut incomes, TOTAL	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Income tax	0,0	0,0	0,0	0,0	0,4	0,5	0,4	0,5	0,5	0,5	0,5	0,5
Social Insurance contributions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net incomes, TOTAL	100,0	100,0	100,0	100,0	99,6	99,5	99,6	99,4	99,5	99,5	99,5	99,4
1.Incomes from dependent activities	3,1	3,3	3,3	3,9	4,3	3,7	3,0	3,5	3,1	3,3	3,2	3,4
Incomes from main employment	0,1	0,0	0,0	0,0	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other incomes from employment	3,0	3,3	3,3	3,9	4,1	3,7	3,0	3,5	3,1	3,3	3,2	3,4
2.Income from enterprising	0,3	0,3	0,2	0,1	0,2	0,2	0,1	0,1	0,1	0,2	0,1	0,1
Income from main business	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Income from other business	0,0	0,0	0,0	0,0	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Sale of agricultural products	0,3	0,3	0,2	0,1	0,2	0,2	0,1	0,1	0,1	0,2	0,1	0,1
3.Social Incomes	93,1	93,4	92,5	92,1	91,9	92,0	93,2	93,3	93,9	93,7	94,3	93,2
Pensions	88,7	84,7	83,5	84,1	85,2	91,6	92,8	93,0	93,5	93,2	93,9	92,8
Sickness insurance benefits	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Unemployment benefit	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
State social support allowances	4,3	8,6	8,8	7,5	6,1	0,0	0,1	0,1	0,1	0,2	0,2	0,2
Other social benefits	0,1	0,1	0,2	0,5	0,5	0,4	0,3	0,3	0,2	0,3	0,2	0,2
4.Other incomes	3,4	3,0	4,0	3,9	3,6	4,1	3,7	3,0	2,9	2,7	2,4	3,3
Income from capital	0,0	0,1	0,3	0,8	1,0	1,0	1,3	0,7	0,6	0,4	0,3	0,7
Other incomes	3,4	2,9	3,7	3,1	2,6	3,1	2,4	2,4	2,3	2,4	2,2	2,6

Source : ČSÚ , Czech Statistical Office

Chart 3.1: Supplementary Pension Insurance in the Czech Republic, 1994-2001

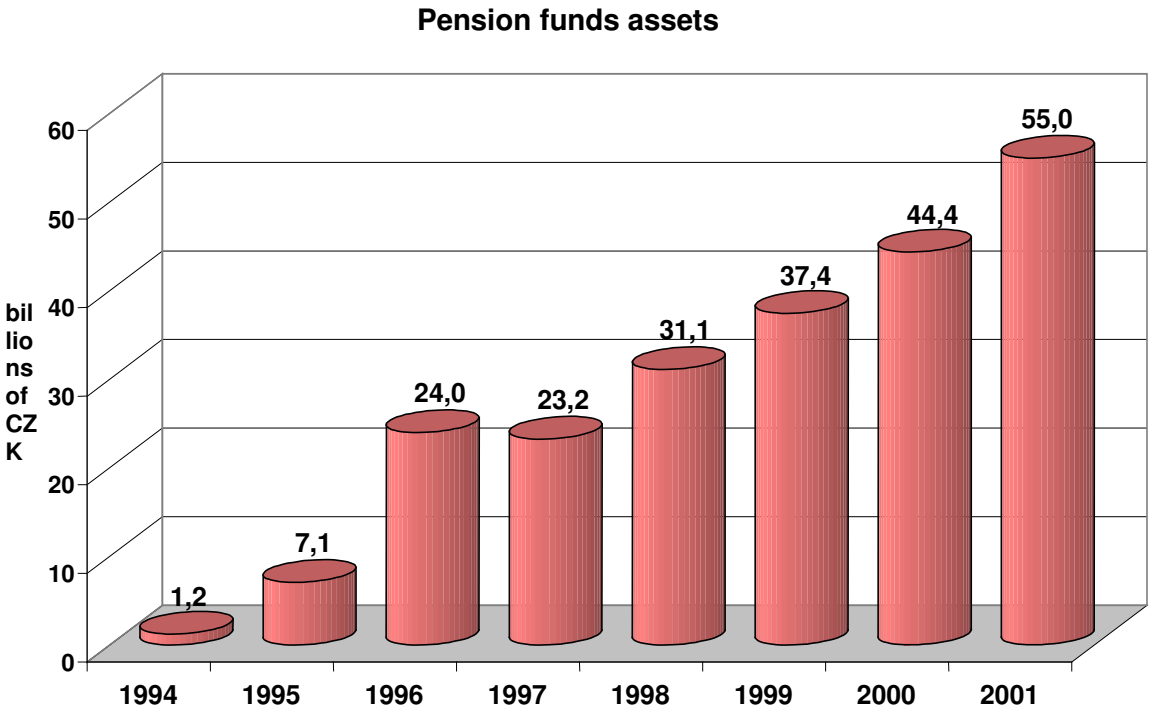


Chart 3.2 Number of participants (in thousands)

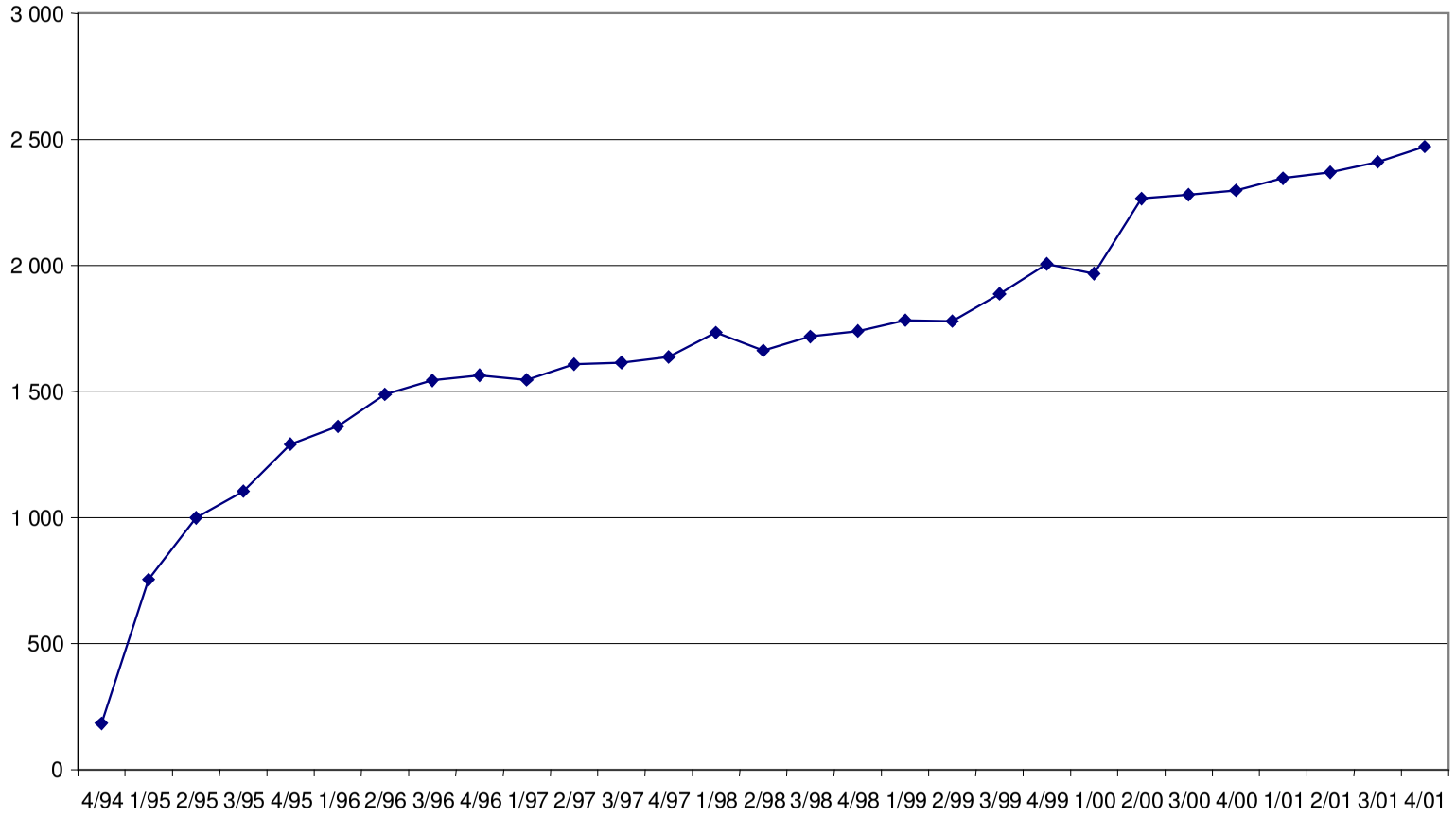
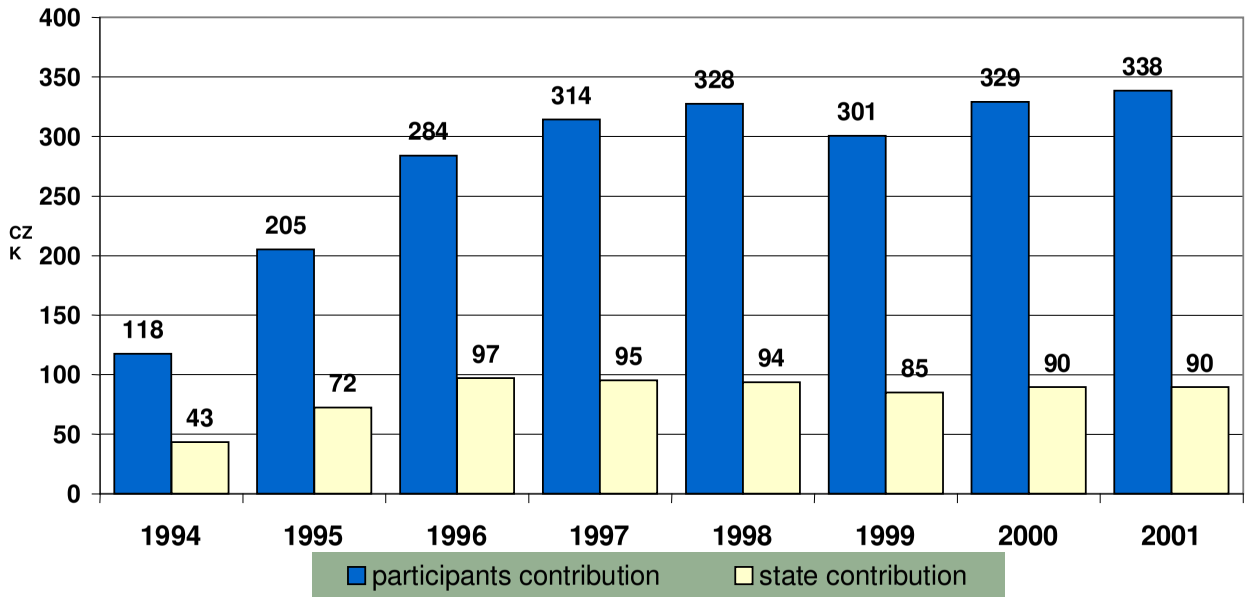


Chart 3.3 Development of average monthly

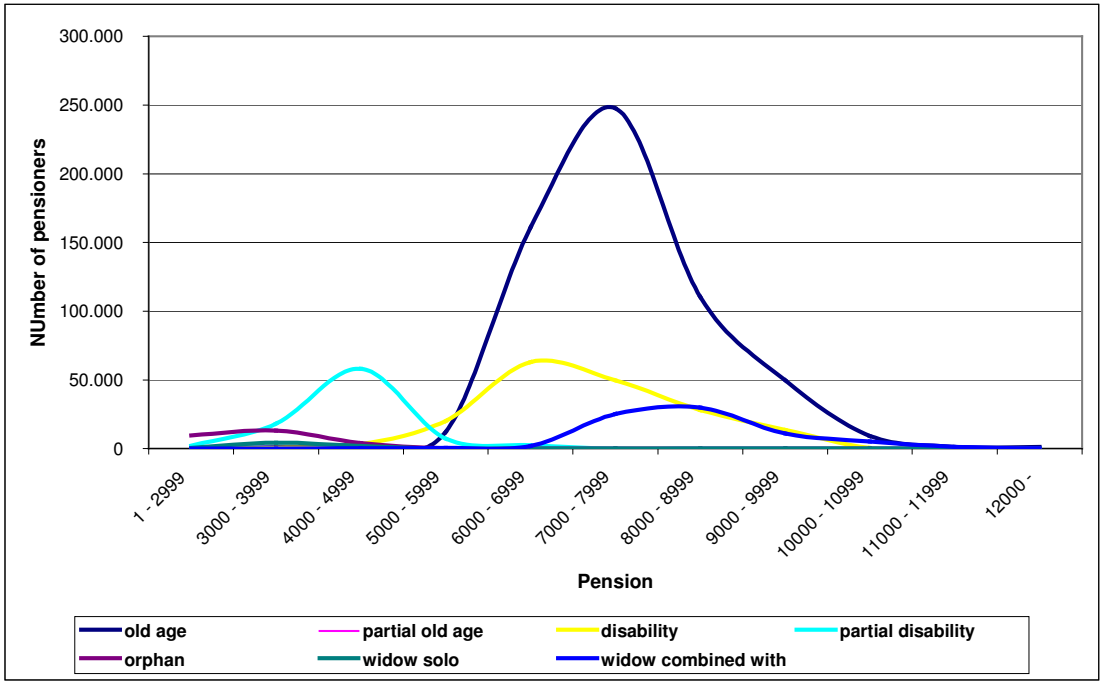


contribution

Source: J.Kral, director of Social Insurance department, Ministry of labour and Social Affairs, presentation at OECD meeting

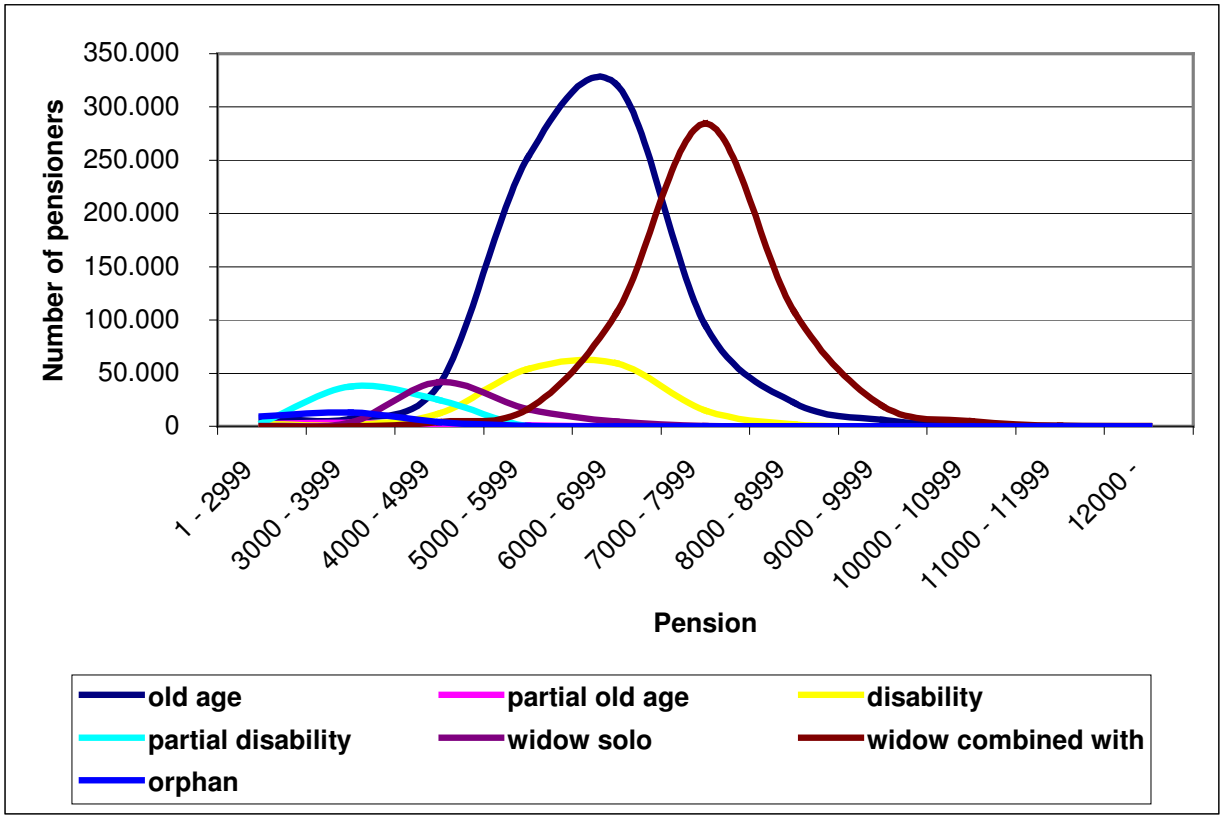
Chart 3.4: Distribution of pensions by income (in CzCR), December 2001

a) Male



Source: CSSS table no. 90311

b) Female



Source: CSSS table no. 90311

Table 3.10: Indexation of pensions since year 1993 (in CzCr. and %, where applicable)

Month and year of coming into force											
3. 1993	11. 1993	2. 1994	12. 1994	7. 1995	4. 1996	10. 1996	8. 1997	7. 1998	8. 1999	12. 2000	12. 2001
Increase by flat amount for all pensioners											
			200	260	240	140	200	50			
Increase by amount differed by pension amount and year of penion award											
Year of pension award											
Prior to 1993	10 %	300		5 %	5 %	8 %	6 %	8 %	9 %	7,5%	9%	11%
1993	22 %	300		5 %	5 %	8 %	6 %	8 %	9 %	7,5%	9%	11%
1994		30 %		5 %	5 %	8 %	6 %	8 %	9 %	7,5%	9%	11%
1995				32 %	5 %	8 %	6 %	8 %	9 %	7,5%	9%	11%
1996						8 %	6 %	8 %	5 %	5 %	5 %	8%
1997								8 %	5 %	5 %	5 %	8%
1998									5 %	5 %	5 %	8%
1999										5 %	5 %	8%
2000											5 %	8%
2001												8%
Flat amount	220	220	220	420	680	920	1060	1260	1310	1310	1310	1310

Note : The flat amount for all pensioners in the period July 1990 to November 1994 was granted to all pensioners in the form of the State Equalisation Allowance.

Table 3.11: Real retirement age

Estimate based on figures of CSSZ (Social Security Administration) data: number of paid pensions in December 2001, distributed by year of pension award. There are no actual data on age of pensioners at time of pension award.

(A) Male

Year of pension award	Old age pension sole	Old age Permanent reduction	Old age Temporary reduction	Total	Invalidity pension sole	Widower pension sole	Old age and invalidity pensions sole	Old-age and invalidity pension sole + half widower pension x)	Old-age, invalidity and widower pension sole and with half widower pension
1989-1993	60	0	0	60	46	38	57	57	57
1994	60	0	0	60	45	39	56	56	56
1995	60	0	0	60	45	41	56	56	56
1996	60	59	58	60	46	44	57	57	57
1997	60	59	58	60	46	45	57	57	57
1998	60	59	59	60	46	46	57	57	56
1999	61	59	58	60	47	48	57	57	57
2000	61	59	59	60	48	50	57	57	57
2001	61	59	59	60	49	52	57	57	57

(B) Female

Year of pension award	Old age pension sole	Old age Permanent reduction	Old age Temporary reduction	Total	Invalidity pension sole	Widower pension sole	Old age and invalidity pensions sole	Old-age and invalidity pension sole + half widower pension x)	Old-age, invalidity and widower pension sole and with half widower pension
1989-1993	55	0	0	55	43	49	53	53	53
1994	55	0	0	55	43	48	53	53	53
1995	55	0	0	55	42	49	53	53	53
1996	59[xx)]	54	54	58[xx)]	47	42	56	57	57
1997	56	54	54	55	43	42	54	54	54
1998	56	54	54	55	43	43	54	54	53
1999	56	55	54	56	43	44	54	54	54
2000	57	54	55	55	44	48	54	54	54
2001	57	55	55	56	45	49	54	54	54

Data on concurrence of widowers pensions with old-age and invalidity pensions not available by type of pension.

Increase age of retirement in this year is due to the transformation of wives pensions and social pensions into old-age pensions (Act no.155/1995)

Table 3.12: Macroeconomic projection

		GDP Constant prices ***Billion CzCr in 1995***	**GDP Constant prices** ***Preceding year = 100***	**Deflator of GDP** ***1995=100 %***	**Deflator of GDP** ***Preceding year = 100%***	**Inflation** ***(%)***	**GDP Current prices** ***Billion CzCr***	**GDP Constant prices** ***Preceding year = 100%***	**Employment** ***´000 persons***	**Employment** ***Preceding year = 100%***	**Productivity** ***in ´000 CzCr 1995 per person***	**Productivity** ***Preceding year = 100%***	**Unemployment rate** **research** ***(%)***	**Unemployment rate** **(MLSA)** ***(%)***
1995		1381,0	*105,9*	100,0		9,1	1381,0	116,8	4962,6		278,3		4,0	3,0
1996		1440,4	*104,3*	108,8	108,8	8,8	1567,0	113,5	4972,0	100,2	289,7	104,1	3,9	3,1
1997	*Assess..*	1429,3	*99,2*	117,5	108,0	8,5	1679,9	107,2	4936,5	99,3	289,5	99,9	4,8	4,3
1998	*Assess.*	1412,2	*98,8*	130,1	110,7	10,7	1837,1	109,4	4865,7	98,6	290,2	100,2	6,5	6,0
1999	*Assess.*	1406,7	*99,6*	134,2	103,1	2,1	1887,3	102,7	4764,1	97,9	295,3	101,7	8,7	8,5
2000	*Assess*	1447,4	*102,9*	135,4	100,9	3,9	1959,6	103,8	4732,1	99,3	305,9	103,6	8,8	9,0
2001	*Assess.*	1499,2	*103,6*	143,2	105,7	4,7	2146,1	109,5	4750,2	100,4	315,6	103,2	8,1	8,5
2002	*Prognosis*	1550	*103,4*	150,0	104,8	3,3	2325	108,3	4734,6	99,7	327,3	103,7	8,5	8,9
2003	*Prognosis*	1605	*103,6*	154,9	103,2	3,4	2485	106,9	4731,8	99,9	339,2	103,6	8,8	9,2
2004	*Expected*	1669	*104,0*	159,5	103,0	3,6	2662	107,1	4731,6	100,0	352,7	104,0	8,8	9,3
2005	*Expected*	1739	*104,2*	164,3	103,0	4,0	2857	107,3	4736,3	100,1	367,2	104,1	8,8	9,1
2006	*Expected*	1813	*104,3*	169,2	103,0	4,0	3068	107,4	4747,4	100,2	381,9	104,02	8,7	8,9
2007	*Expected*	1890	*104,3*	175,1	103,5	4,0	3311	107,9	4758,4	100,2	397,3	104,02	8,6	8,7
2008	*Expected*	1971	*104,3*	181,3	103,5	4,0	3573	107,9	4769,5	100,2	413,2	104,02	8,5	8,6
2009	*Expected*	2055	*104,3*	187,6	103,5	4,0	3855	107,9	4780,7	100,2	429,9	104,02	8,4	8,4
2010	*Expected*	2143	*104,3*	193,2	103,0	3,7	4140	107,4	4791,8	100,2	447,1	104,02	8,4	8,4
2011	*Expected*	2224	*103,8*	198,6	102,8	2,8	4419	106,7	4793,2	100,0	464,1	103,79	8,0	8,0

2012	*Expected*	2309	*103,8*	203,4	102,4	2,4	4698	106,3	4794,6	100,0	481,7	103,79	7,6	7,6
2013	*Expected*	2398	*103,8*	208,3	102,4	2,4	4994	106,3	4796,0	100,0	499,9	103,79	7,2	7,2
2014	*Expected*	2489	*103,8*	213,3	102,4	2,4	5309	106,3	4797,3	100,0	518,9	103,79	6,8	6,8
2015	*Expected*	2584	*103,8*	218,4	102,4	2,4	5644	106,3	4798,7	100,0	538,5	103,79	6,5	6,5
2016	*Expected*	2642	*102,2*	223,4	102,3	2,3	5902	104,6	4762,4	99,2	554,7	103,00	6,5	6,5
2017	*Expected*	2700	*102,2*	228,6	102,3	2,3	6172	104,6	4726,3	99,2	571,3	103,00	6,5	6,5
2018	*Expected*	2760	*102,2*	233,8	102,3	2,3	6454	104,6	4690,5	99,2	588,5	103,00	6,5	6,5
2019	*Expected*	2822	*102,2*	239,2	102,3	2,3	6749	104,6	4655,0	99,2	606,1	103,00	6,5	6,5
2020	*Expected*	2884	*102,2*	244,7	102,3	2,3	7058	104,6	4619,8	99,2	624,3	103,00	6,5	6,5
2021	*Expected*	2930	*101,6*	249,6	102,0	2,0	7313	103,6	4594,4	99,5	637,7	102,14	6,5	6,5
2022	*Expected*	2976	*101,6*	254,6	102,0	2,0	7577	103,6	4569,2	99,5	651,3	102,14	6,5	6,5
2023	*Expected*	3023	*101,6*	259,7	102,0	2,0	7851	103,6	4544,1	99,5	665,3	102,14	6,5	6,5
2024	*Expected*	3071	*101,6*	264,9	102,0	2,0	8134	103,6	4519,2	99,5	679,5	102,14	6,5	6,5
2025	*Expected*	3119	*101,6*	270,2	102,0	2,0	8428	103,6	4494,4	99,5	694,0	102,14	6,5	6,5
2026	*Expected*	3149	*100,9*	275,6	102,0	2,0	8678	103,0	4458,9	99,2	706,2	101,75	6,5	6,5
2027	*Expected*	3179	*100,9*	281,1	102,0	2,0	8935	103,0	4423,7	99,2	718,5	101,75	6,5	6,5
2028	*Expected*	3209	*100,9*	286,7	102,0	2,0	9200	103,0	4388,8	99,2	731,1	101,75	6,5	6,5
2029	*Expected*	3239	*100,9*	292,5	102,0	2,0	9473	103,0	4354,2	99,2	743,9	101,75	6,5	6,5
2030	*Expected*	3270	*100,9*	298,3	102,0	2,0	9754	103,0	4319,8	99,2	756,9	101,75	6,5	6,5

Source: Ministry of Finance

Note : Deflator is an economic indicator measuring the development of price levels. It is used to recalculate the nominal GDP to a real GDP (constant prices). It seems to be a more complex indicator than the currently applied indicator of consumer prices (CPI), which is commonly applied to measure inflation

Table 3.13: Anticipated development of income and expenses of pension insurance and the necessary contribution rate, if balance is to be maintained

Year	**Incomes of Pension insurance**	**Expenditure of pension insurance**	**Contribution rate necessary to maintain balance**
2002	8,0	9,2	30,0
2003	7,9	9,4	31,0
2004	7,9	9,6	31,7
2005	7,9	9,8	32,0
2006	8,0	10,0	32,2
2007	8,1	10,1	32,5
2008	8,1	10,3	33,1
2009	8,1	10,5	33,7
2010	8,2	10,8	34,2
2011	8,2	11,0	34,8
2012	8,2	11,1	35,3
2013	8,2	11,3	35,8
2014	8,2	11,5	36,3
2015	8,2	11,6	36,7
2020	8,2	12,5	39,9
2030	8,1	14,2	45,5

Note: Incomes and expenditure are in % of GDP and contribution rates are in % of gross incomes
Source: MOLSA

Table 3.14: Demography

	1980	1990	1995	1999	2000	2010 (proj.- medium variant)	2020
Total population							
Male	4 997 000	5 036 872	5 016 515	5 001 062	4 996 731	4 991 254	4 925 691
Female	5 293 000	5 327 252	5 304 829	5 277 036	5 269 815	5 252 276	5 172 337
Total	10 290 000	10 364 124	10 321 344	10 278 098	10 266 546	10 243 530	10 098 028
Fertility rate		1,893	1,278	1,133	1,144	1,32	1,44
Age structure							
Male -14	24,67	22,29	19,33	17,50	17,09	14,41	14,40
15 - 64	64,70	67,98	70,28	71,60	71,95	72,33	66,92
65 +	10,63	9,73	10,39	10,90	10,96	13,27	18,68
Female -14	22,24	20,10	17,41	15,77	15,38	12,97	12,98
15 - 64	61,95	64,65	66,55	67,69	68,01	68,13	62,62
65 +	15,81	15,25	16,05	16,55	16,61	18,91	24,40
Proportion of population aged over 80							
Male	1,14	1,51	1,64	1,41	1,50	2,57	3,13
Female	2,63	3,43	3,67	3,16	3,32	5,30	5,69
Support ratio for pensioners (The rate number of pensioners and number of insured persons)							
Old-age pensioners	28,4	31,3	33,8	37,9	39,2	N/A	N/A
All pensioners	43,7	44,0	47,9	53,9	55,4	N/A	N/A

- **Percentage of people aged 65 and over live with adult children: N/A**

Table 3.15: . Structure of paid pensions (for December 2001)

Type of pension		Old-age				Partial Old-age	Invalidity		Widows And widower	Orphans	Total
		Total	regular	Permanently reduced	Temporary reduced		Full	Partial			
No. of pensioners (persons)											
sole	Men	597 414	515 149	75 551	6 714	920	179 390	88 272	6 708	25 409	898 113
	Women	752 397	633 752	110 962	7 683	8 623	145 003	65 840	66 288	28 549	1 066 700
	Total	1 349 811	1 148 901	186 513	14 397	9 543	324 393	154 112	72 996	53 958	1 964 813
With	Men	66 678	64 198	2 256	224	37	7 868	424			75 007
survivor	Women	480 007	468 124	10 760	1 123	16 697	44 194	3 296			544 194
pension	Total	546 685	532 322	13 016	1 347	16 734	52 062	3 720			619 201
Total	Men	664 092	579 347	77 807	6 938	957	187 258	88 696	6 708	25 409	973 120
	Women	1 232 404	1 101 876	121 722	8 806	25 320	189 197	69 136	66 288	28 549	1 610 894
	Total	1 896 496	1 681 223	199 529	15 744	26 277	376 455	157 832	72 996	53 958	2 584 014
Average amount of pension in CzCr.											
sole	Men	7 594	7 682	7 074	6 743	3 609	7 172	4 399	3 620	3 274	7 040
	Women	6 195	6 278	5 778	5 372	3 829	5 977	3 809	4 901	3 303	5 841
	Total	6 814	6 908	6 303	6 011	3 808	6 638	4 147	4 783	3 289	6 389
With	Men	8 459	8 472	8 138	7 857	5 580	8 400	5 506			8 434
survivor	Women	7 586	7 591	7 425	7 131	6 449	7 355	5 849			7 522
pension	Total	7 693	7 697	7 549	7 252	6 447	7 513	5 810			7 632
Total	Men	7 681	7 770	7 105	6 779	3 685	7 224	4 404	3 620	3 274	7 148
	Women	6 737	6 836	5 924	5 596	5 557	6 299	3 906	4 901	3 303	6 409
	Total	7 067	7 158	6 384	6 117	5 489	6 759	4 186	4 783	3 289	6 687

Table 3.15 continued: . Structure of paid pensions (for December 2001)

Type of pension		Old-age				Partial Old-age	Invalidity		Widows And widower	Orphans	Total
		Total	regular	Permanently reduced	Temporary reduced		Full	Partial			
Average age of pensioners		**years**									
sole	Men	69	70	56	59	72	55	48	49	15	62
	Women	65	66	58	55	74	54	46	61	16	61
	Total	67	68	57	57	74	54	47	60	16	61
With	Men	75	76	61	60	80	69	53			74
survivor	Women	74	74	56	56	81	70	60			73
pension	Total	74	74	57	57	81	70	59			73
Total	Men	70	71	56	59	72	56	48	49	15	63
	Women	68	69	58	55	78	58	47	61	16	65
	Total	69	70	57	57	78	57	47	60	16	64

Notes: The data are taken from the statistical reports of districts, without pensions paid abroad.

Sole = pensions paid alone, without concurrence with survivors pension

With survivor pension = old-age or invalidity pension is paid together with concurring survivors pension

Permanently reduced old-age pension is for early retirement on request of the pensioner, in accordance with Art. 15 of the Act

Temporarily reduced old-age pension is for early retirement for those unemployed for more than 190 days according to art.30 of the Act.

Table 3.16: Expenditure on pension security/insurance (in ´000 CzCr)

Pension	1993	1994	1995	1996	1997	1998	1999	2000	2001
Old-age	50 178 203	56 995 113	71 018 172	83 794 581	104 198 248	114 605 484	123 666 158	130 932 093	140 656 510
Partial old-age	685 810	763 556	1 016 352	1 268 589					
Full invalidity	11 504 762	13 507 129	17 036 969	19 887 045	22 362 802	24 578 475	25 557 253	26 412 135	27 970 174
Partial Invalidity	1 941 874	2 122 055	2 966 343	3 967 054	5 188 313	6 161 761	6 668 879	7 012 405	7 677 017
Widows	8 467 160	9 274 254	10 118 802	11 681 359	13 127 402	13 747 074	14 268 364	14 534 215	15 937 617
Orphans	634 128	723 976	1 149 734	1 431 856	1 794 254	1 881 546	1 886 803	1 055 392	1 199 823
Widower	47 674	61 811	105 866	329 674	608 285	830 723	966 676	1 975 021	2 372 570
Wife	59 911	58 763	135 886						
Long-term	9 257	11 597	14 249						
social	104 655	107 804	125 238	36					
other [1)]	1 409	1 014	808	1 238					
Allowances from JZD	967	830	723	1 413					
Supplementary funds	1 845	1 999	1 930	1 847	1 804				
Total[2)]	73 637 655	83 629 901	103 691 072	122 364 692	147 281 108	161 805 063	173 014 133	181 921 261	195 813 711
Advance payments									
- from last year						3 970 000	4 100 000	4 530 000	4 800 000
- for next year						4 100 000	4 530 000	4 800 000	5 100 000
Total [3)]						161 935 063	173 444 133	182 191 261	196 113 711

Notes: Source statistical yearbook of CSSZCzech Social security Administration) As from 1999 without helplessness, up to then including helplessness.

Other (1) - according to legislation on accidents insurance and act of war veterans

Total (2) - net expenditure without Advances

Total (3) - net expenditure including advances

JZD = co-operative agricultural farms

JOINT MEMORANDUM ON PENSION REFORM

INTRODUCTION

In February 2001 , the Netherlands and Spain presented a joint Declaration on Pension Reform for the Stockholm European Council Meeting that brought to attention the challenges that our pension schemes will face in the future because of demographic ageing.
Since the Stockholm Council Meeting important progress has been made in developing the method of open co-ordination in the field of pension policies. The report *Quality and viability of pensions - Joint report on objectives and working methods in the area of pensions*, welcomed by the Laeken Council forms a steady base for implementing a process of mutual learning and stimulating each other between the 15 Member States of the European Union. This will allow for more transparency in relation to the national reform strategies aimed on making our pension systems socially and financially sustainable in the future when more people will depend on pension income for even a longer period. It will thereby inspire the confidence and trust that forms the basis for the necessary reforms of the pension systems in the Member States.
Demographic changes are not only a challenge for the current Member States. The Candidate States will also have to cope with these changes as well. Comprehensive strategies to address these demographic changes are needed in both the current Member States and the Candidate States. The Czech Republic and the Netherlands agree that with a view to accession we should jointly confront these challenges in a combined and o-ordinated manner.

COMMON OBJECTIVES AND PREMISES

The Czech Republic and the Netherlands agree that pension reforms should aim at:

- Guaranteeing the financial sustainability of our pension systems and maintaining the stability of public finances ;
- Safeguarding and enhancing the capacity of our pension systems to make sure that during retirement older people are not placed at risk of poverty and can enjoy a decent standard of living;
- Modernising pension systems in response to the changing needs of the economy, society and individuals.

The following basic premises must prevail in pension reforms:

- The reforms necessary to meet these objectives must be carried out with as wide as possible social consensus. Experience has shown that the where there is a consensus between all the social and political actors and where there is an involvement in debating the issues at stake the public acceptance of new proposals is more easily realised.
- The pension systems must be adapted in an environment of sound public finances. Reduction of the public debt, leading to lower debt services (servicing), can greatly assist in creating the capacity for offsetting the budgetary implications of demographic ageing.
- The financial and social sustainability of our pension systems depends on a high degree of labour market participation, improving productivity and sustainable economic growth. Concrete efforts have to be made to increase the participation, especially of older people and women, in the Labour Market of our countries. There must also be sustained efforts to achieve higher levels of productivity.

Preparing for the future is a responsibility for all. Pension systems which reflect a shared responsibility between the Government, the social partners and individuals are generally more robust. As a result of improving the balance between the three pillars it may be necessary to develop a more suitable framework for supplementary schemes in order to guarantee those now in employment an adequate standard of living in their retirement. We must protect the rights of people receiving supplementary pensions by adopting precautions, at national and Community level, to ensure that financial resources are managed safely and efficiently. Pension funds must be well supervised. As occupational pensions are regarded as an integral part of the terms of employment, the social partners (employers and employees) are primarily responsible for the occupational pension schemes.

We would like to encourage the work of the Commission and the Council with regard to the regulation of the various pension schemes operating in the Member States, so that obstacles to worker and capital mobility will disappear. Pensioner mobility and the taxation consequences should also be taken into account in the reforms of the pension systems in the Member States.

As was agreed at the European Council in Stockholm, the influence of ageing on long-term financial sustainability has become a part of the budgetary co-ordination under the Stability- and Growth Pact. This important result will ensure more transparency in this area . Additionally, the Member States will be encouraged to take measures in time to resolve the long-term problems related to ageing.

VIEW TO ENLARGEMENT AND THE CZECH SITUATION

The issue of ageing is an even greater problem for some of the Candidate States to deal with than it is for some of the Member States. The Candidate States will have to cope with these changes as well. Comprehensive strategies to address these demographic changes are needed in both the current Member States and the future Member States.

The process of reforming the pension scheme commenced in the Czech Republic immediately after the political changes in 1989. Although many changes have already taken place, there is still the need for further changes in the public first pillar scheme and for further improvement of voluntary private supplementary schemes. These targets have been included in the Governmental Concept of Continuation of Pension Reform prepared in 2001. Although the main political actors agree that it is necessary to continue with the reform of the pension system, overall consensus has not yet been achieved concerning the future structure of the pension system. This lack of consensus has been recently reflected by rejection of several draft laws by the Czech Parliament which concerned the financial and organisational changes of the first pillar scheme, introduction of the second pillar - occupational pension scheme and improvement of the third pillar. The discussions aimed at reaching a broad political and social consensus on the necessity and content of further changes, which cannot be achieved instantaneously, are still going on..

The Government of the Czech Republic fully agrees with the broad common objectives and working methods in the area of pensions indicated in the SPC/EPC-report *Quality and viability of pensions - Joint report on objectives and working methods in the area of pensions*, and which can be summarized as follows:

- In full respect of the principle of subsidiarity and of Member States competence to define national pension policies, the open method of co-ordination will be used in the area of pensions to help the Member States to progressively develop their own policies so as to safeguard the adequacy of pensions whilst maintaining their financial sustainability and facing the challenges of changing social needs.
- In this respect, the Member States should ensure that pension systems support broad social and economic goals, including greater social cohesion and integrated labour and capital markets. Within this framework the following broad common objectives are recognised to safeguard the capacity of pension systems to meet their social objectives; to follow a multi-faceted strategy to place pension systems on a sound financial footing; the Modernisation of pension systems in response to changing needs of the economy, society and individuals.

The Czech Republic also fully agrees with the approach by the Social Protection Committee and the Economic Policy Committee, and endorsed by the Laeken European Council, in which the Member States are invited to develop their policies and priorities for reform of pension systems taking into account these overall objectives. The Czech Republic is ready to become quickly involved in this activity. The Czech Republic is very interested to hear the opinions of other countries on the proposals that were recently discussed in the Czech Parliament.

CONCLUSIONS

Given the demographic challenges and the need for reform, it is very important to maintain the momentum of the Pension Reform discussions in Europe.

- The Member States should now prepare their first national strategy reports for pension in which they will describe their policies and priorities for reform of pension systems given the objectives in the report *Quality and viability of pensions.*

- The Member States and the Commission should put emphasis to their work to develop common approaches and compatibility in regard to indicators in order to underpin the open method of co-ordination relating to the future of pensions.

The Candidate States should be invited as soon as possible to take part in these discussions, as the close co-operation between the Member States and the Candidate States of the EU in the field of pension reform will make it possible to share experiences, learn from each other and motivate each other in developing pension systems for the future. Early involvement in the ongoing process of open co-ordination of pension policies will help Candidate countries to prepare for accession efficiently and more so to formulate the necessary reforms in line with the principles set out by the European Council.

The Czech Republic and the Netherlands have agreed to work more closely together and promote joint deliberations on pension reform and social protection for older people, while respecting the principles of social consensus, financial soundness, and the co-ordination of economic, social and employment policies.

We invite our partners in the EU and the Candidate Countries to join us in this exercise so that the Heads of State and Government can discuss the future direction of pension systems at the next European Council in Barcelona.

4. POVERTY AND SOCIAL EXCLUSION

4.1 Evaluation of current poverty profiles and social exclusion

4.1.1 Social exclusion and poverty within the overall social protection system

Under central planning employment was universal and the wage structure was extremely flat. The result was a very narrow income distribution.15

The first post-communist government expected the growth of poverty due to liberalisation of prices and privatisation[16] and therefore introduced the Special Equalisation Allowance paid to all population to remedy growth of prices due to their deregulation (liberalisation of prices). All the political parties supported the idea of a social safety net. Thus the legislation concerning the minimal living standard and corresponding allowances, was adopted by the Federal Government (prior to the separation of Czech and Slovaks in 1993). This encompassed:

- A guarantee of living minimum,
- An introduction of a social price-adjustment allowance and
- A regular indexation of pensions by price increase

Privatisation gradually launched unemployment and allowances for the unemployed were introduced. Finally, after the separation, a state social support system was introduced in the Czech Republic (1995), which, among other issues, also provides benefits to low-income families to support their housing. Thus a system providing reasonable social protection (safety net) was created.

The development of the social safety net is connected with growing social need in the transition country during the 90ties. The development of the Czech economy could be characterised as two-faced. On one hand there was quite a speedy restitution of property confiscated by the communist regime and "small" privatisation (shops and services) and partial restructuring of the economy, on the other hand a two-phased "formal" privatisation through coupons and investment funds, which led to some problems of non-transparent economy. One of the biggest problems connected with the mentioned "formal" privatisation was the growth of the unemployment, which in the first 5 years of the transition seemed to avoid the Czech Republic. Nevertheless, since the middle 90ties there was a permanent growth of the unemployment, which rose up to 9% in 1999 and has not

15 OECD (1998): The Battle against Exclusion, p. 22

16 For details see Scenario of Social reform, developed by the government and adopted by the Parliament in September 1990.

dropped since. Therefore, since the 1998, Czech Republic aims to develop an efficient active employment policy (see chapter 4.2.1.) [17].

Already in the beginning of the 90ties the government implemented the National strategy of the fight against poverty.[18] The more important instruments of this struggle were defined as:

Support of the active labour policy – support to all citizens to earn their living from work.

Systems of social allowances to support during the short-time lost of income (illness, motherhood)

System of old age pensions, with a replacement rate of 59% of net-earnings.

System of invalidity pensions and other pensions (widow and widower and orphans pension) covering different life-risks

System of state social support – subsidies for families, especially low-income families.

System of means and income tested social assistance for the citizens with health or social handicap.

Social insurance provides benefits at levels that prevent beneficiaries to fall bellow the official poverty line. State social support benefit amounts are minimum-living related and are sets as multiples of minimum living level (see 2.7.4). The children, social, housing and transportation allowances are income-tested. Those who are not eligible under the social insurance or state social support systems may receive means tested social assistance allowances related to the minimum income level.

There are many problems of the system of social services. Some of them are mentioned by the MLSA in a document titled "The Structure of Social Services – current status in the Czech Republic".[19] The main inadequacies of the system are as follows:

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17 UNDP (1999): Human development report – Czech Republic. We searched the Internet sites of UNDP and World Bank for other information but did not find adequate reports on changing incidence and patterns of poverty and social exclusion. Also, when trying to search for information about the poverty level in the Czech Republic on the WB site, no results were available. Where the Czech Republic in mentioned there are no data but only dots.

18 MLSA (2002): The Report on the Implementation of the Copenhagen Protocols from the Part of the Czech Republic (aviable on the internet site of MLSA - http://www.mpsv.cz/scripts/clanek.asp?lg=1&id=623)

19 See http://www.mpsv.cz/files/clanky/2646/2646.doc

- existing law governing the social assistance and, in particular, social services is out-dated, neither match current developments in practice nor reflect recent overall changes
- effective instruments have not been developed to implement social policies of the state and the responsibility and powers of individual entities have not been clearly defined
- the current system completely lacks a consistent set of tools to implement social policies of municipalities and regions. Individual regions are not fit to meet the requirements (neither in terms of the types of social services nor in terms of capacity) and differ considerably in their ability to meet demand. expertise and skills of social workers in the public administration are inadequate in some areas as there is no system of continuous life-long training responding to new trends and problem areas in the field.
- the financing of governmental and non-governmental entities providing social services is separated and providers do not have equal access to funding. The financing of social services depends on capacity rather than requirements.
- the quality of the provided services is not adequately checked and the effectiveness of the spending is not controlled at all
- there do not exist comprehensive data on social services and quality analyses are not performed
- users have very small participation in the decision making about the manner and form of social services provided and play almost no part in the control
- institutional – closed services still continue to prevail over community – open services, and a de-institutionalisation process is not taking place
- there is no consistent information system for social services

To improve the system the present government is preparing draft bills to reform both the social assistance system and social services. However, being a minority, the social democratic government currently does not have the strength to have the drafts adopted in a parliament because of a strong liberal opposition.

During the 1990s, when the Czech Republic was undergoing the transition from a totalitarian regime to a democratic society based on a market economy, the risk of the rise and reproduction of poverty and social exclusion became stronger, especially among certain specific population groups. Therefore, the Czech government had already drawn up a strategy for fighting poverty[20] at the beginning of the Nineties.

[20] See http://www.mpsv.cz/scripts/clanek.asp?lg=2&id=621#2.1

The set of methods used in the fight against poverty combine traditional means which have been evolving in the CR since the 1920s with methods and mechanisms created under the influence of actual, newly arising socio-economic conditions. They include the following in particular:

Support for citizens' active use of their abilities on the labour market and their acquirement of sources of subsistence from earned income.

Systems of social benefits compensating for a temporary loss of earned income (monetary benefits during sickness, maternity leave or parental leave).

The system of old-age pensions, whose basic component is based on pay-as-you-go financing (obligatory contributions from employees, employers and private entrepreneurs), covers practically the entire population of retired people. an average old-age pension represents 45% of gross average wages (59% net), and protects elderly people against living in poverty. The state contributes to volunteer supplementary pension insurance on a civic basis, involving more than a third of the active population.

The disability pension system (and pensions intended to reduce other risks - widow's, widower's and orphans' pensions).

The system of state social support, consisting of a system of benefits for specific problem situations in families (predominantly families with children), was brought to completion in 1995-96.

The social welfare system for citizens with substantial health or social handicaps and severe income deficiencies resulting from these handicaps, or from other serious, objective causes or their way of life.

Traditionally there is a strong social feeling among the public.[21] Thousands of NGOs, both religious and laic, are operating in the social sector with the objective to alleviate poverty. The government has a system of grants and subsidies to support the NGOs.

Each year the NGOs can apply for the government support by the MLSA, presenting their project of activities in the social sector. There is a specialised commission of the MLSA, which evaluates all the projects of NGOs and proposes how to distribute governmental grants to selected NGOs for their projects. The minister takes the final decision on the distribution of the amount available in any one year. Detailed conditions of project proposal are available on the MLSA internet sites.

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[21] STEM, the Czech institute for research of public opinion, provides the information, that 71% of population means, that it´s necessary to support families with children and the elderly, although this support reduces the incomes of the rest of population. 30-40% people agree with the growth of taxation in order to improve the social security.

Active employment and social policies of the government, together with economic stabilisation and growth and improving living standards have been given higher priority than poverty. Nevertheless poverty alleviation was an issue addressed by all the political parties in their election programs. All the political parties before the last elections (2002) have emphasised employment as the best method to alleviate poverty. Policy is, therefore, focusing on unemployment-linked poverty[22] in certain regions and on ethnic-linked poverty of certain segments of the population (e.g. the Roma)[23]. These issues are discussed in public.

The coalition parties[24] stress employment and social peace as the major tools for social cohesion, and to focus upon family development, housing support and health care as the main issues for the next 4 years.

The parlamentary opposition parties in their pre-election programs stressed on the following:

the Civil democratic Party[25] warns that too much solidarity and welfare will create social traps for citizens,

the Czecho-Moravian Communist Party[26] asks for more social welfare for senior and handicapped citizens, more government involvement in housing and family care. The state cannot retreat from its obligations.

4.1.2 National definitions of poverty and social exclusion

There is no explicit definition of poverty and social exclusion in the legislation. There is a law on social need (No. 482/1991 Col.), which defines a person in social need as "a person, whose income is lower than minimum living standard". If someone is in that situation, he/she has access to means-tested state income support; the local authorities have to examine, if the claimant has no other possibilities to gain income.

During the 1990s the MLSA developed two proposals - bill on social assistance and bill on social services. These include efforts to define social exclusion and to identify adequate tools to limit is. However, the bills were not adopted by parliament (see 4.1.1.).

There is an indicator for the minimum living standard (MLS), which implicitly sets the poverty line (see chapter 2). The indicator is family-income based. The MLS for a family is computed two fold: (i) income by family size (scaled) to cover housing costs, and (ii) by age (progressive scale) of family members. Advantage is granted to families with disabled

22 See Government program declared before parliament in August 2002
23 Socioklub, Romové ve městě (Romas in town), Prague 2002
24 See www.unie.cz
25 See www.ods.cz
26 See http://www.kscm.cz/show.php?leve_menu/aktuality/volby_2002/vp_2002.htm

and aged persons (descendants and ascendants, sharing the household) with no gender discrimination. Single parent families have an implicit advantage.

The minimum living standard is calculated for 2002 as follows:

Table 4.1: Minimum living level (in CzCr and EURO)

Amounts needed for sustenance and other personal need		**Amounts needed to assure household:**	
for dependent children: CZCr			CzCr
to the age 6 years	1690 (51 EUR)	Individuals	1780 (54 EUR)
from 6 to 10 years	1890 (57 EUR)	2 members	2230 (70 EUR)
from 10 to 15 years	2230 (67 EUR)	3 or 4 members	2880 (87 EUR)
from 15 to 26 years	2450 (74 EUR)	5 and more	3230 (97 EUR)
for other persons	2320 (70 EUR)		As on 1.1.2002

Benefits are automatically increased when revaluation (indexation) of the statutory minimum living standard is made.

This minimal living standard is higher (approx. 70 EUR for single adult living alone – see table) than absolute poverty lines applied by international organisations.[27]

4.1.3 18 EU Indicators of Social Exclusion

Data available in the country match most of the 18 social exclusion indicators. The tables indicate the indicators, for which data is available, and the respective source. The year in brackets indicates the year for which most recent data is available according to the competent person of the Czech Statistical Office.[28]

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[27] The World Bank, World Development Indicators 1999

[28] The Czech Statistical Office was damaged substantially by the floods in the summer 2002 - this is why no recent data have been processed so far.

Table 4.2: Primary Indicators

	Indicator	Definition	Source and date [1)]
1a	Low income rate after transfers with breakdowns by age and gender	Percentage of individuals living in households where the total equalised household income is below 60% national equalised median income. Age groups are: 1.0-15, 2.16-24, 3.25-49, 4.50-64, 5.65+. Gender breakdown for all age groups + total	CSU [2)] MC[3)] (1996) P[6)]
1b	Low income rate after transfers with breakdowns by most frequent activity status	Percentage of individuals aged 16+ living in households where the total equalised household income is below 60% national equalised median income. Most frequent activity status: 1.employed, 2.self-employed, 3.unemployed, 4.retired, 5.inactives-other. Gender breakdown for all categories + total	CSU [2)] MC[3)] (1996) P[6)]
1c	Low income rate after transfers with breakdowns by household type	Percentage of individuals living in households where the total equalised household income is below 60% national equalised median income. 1. 1 person household, under 30 yrs old 2. 1 person household, 30-64 3. 1 person household, 65+ 4. 2 adults without dependent child; with one person 65+ 5. 2 adults without dep. Child; both under 65 6. other households without dep. Children 7. single parents, dependent child 1+ 8. 2 adults, 1 dependent child 9. 2 adults, 2 dependent children 10. 2 adults, 3+ dependent children 11. other households with dependent children 12. Total	CSU [2)] MC[3)] (1996) P[6)]
1d	Low income rate after transfers with breakdowns by tenure status	Percentage of individuals living in households where the total equivalised household income is below 60% national equivalised median income. 1. Owner or rent free 2. Tenant 3. Total	CSU [2)] MC[3)] (1996) P[6)]

Table 4.2 continued: Primary Indicators

1e	Low income threshold (illustrative values)	The value of the low income threshold (60% median national equivalised income) in PPS, Euro and national currency for: 1. Single person household 2. Household with 2 adults, two children	CSU [2] MC[3] (1996) P[6]
2.	Distribution of income	S80/S20: Ratio between the national equivalised income of the top 20% of the income distribution to bottom 20%.	CSU [2] MC[3] (1996) P[6]
3.	Persistence of low income	Persons living in households where the total equivalised household income was below 60% median national equivalised income in year n and (at least) two years of years n-1, n-2, n-3. Gender breakdown + total	Not currently available
4.	Relative median low income gap	Difference between the median income of persons below the low income threshold and the low income threshold, expressed as a percentage of the low income threshold. Gender breakdown + total	CSU [2] MC[3] (1996) P[6]
5.	Regional cohesion	Coefficient of employment rate variation - NUTS2 level	CSU SRLF[4] (2000) R[7]
6.	Long term unemployment rate	Total long-term unemployed population (=12 months; ILO definition) as proportion of total active population; Gender breakdown + total	CSU SRLF[4] (2000) R[7]
7.	Persons living in jobless households	Persons aged 0-65 (0-60) living in households where none is working out of the persons living in eligible households. Eligible households are all except those where everybody falls in one of these categories: - aged less than 18 years old - aged 18-24 in education and inactive - aged 65 (60) and over and not working	CSU SRLF[4] (2000) R[7]
8.	Early school leavers not in education or training	Share of total population of 18-24-year olds having achieved ISCED level 2 or less and not attending education or training. Gender breakdown + total	CSU SRLF[4] (2000) R[7]
9.	Life expectancy at birth	Number of years a person may be expected to live, starting at age 0, for Males and Females	CSU, Demography (2000), R
10.	Self defined health status by income level	Ratio of the proportions in the bottom and top quintile groups (by equivalised income) of the population aged 16 and over who classify themselves as in a bad or very bad state of health on the WHO definition Gender breakdown + total	CSU RLC [5] (2001), AC [8] (available at end 2002)

Table 4.2. continued: Secondary Indicators

11.	Dispersion around the low income threshold	Persons living in households where the total equivalised household income was below 40, 50 and 70% median national equivalised income	CSU [2)] MC[3)] (1996) P[6)]
12.	Low income rate anchored at a moment in time	Base year ECHP 1995. 1. Relative low income rate in 1997 (=indicator 1) 2. Relative low income rate in 1995 multiplied by the inflation factor of 1994/96	Not currently available
13.	Low income rate before transfers	Relative low income rate where income is calculated as follows: 1. Income excluding all social transfers 2. Income including retirement and survivors pensions. 3. Income after all social transfers (=indicator 1) Gender breakdown + total	CSU [2)] MC[3)] (1996) P[6)]
14.	Gini coefficient	The relationship of cumulative shares of the population arranged according to the level of income, to the cumulative share of the total amount received by them	CSU [2)] MC[3)] (1996) P[6)]
15.	Persistence of low income (below 50% of median income)	Persons living in households where the total equivalised household income was below 50% median national equivalised income in year n and (at least) two years of years n-1, n-2, n-3. Gender breakdown + total	Not currently available
16.	Long term unemployment share	Total long-term unemployed population (=12 months; ILO definition) as proportion of total unemployed population; Gender breakdown + total	CSU SRLF[4)] (2000) R[7)]
17.	Very long term unemployment rate	Total very long-term unemployed population (=24 month; ILO definition) as proportion of total active population; Gender breakdown + total	CSU SRLF[4)] (2000) R[7)]
18.	Persons with low educational attainment	Educational attainment rate of ISCED level 2 or less for adult education by age groups (25-34, 35-44, 45-54, 55-64). Gender breakdown + total	CSU SRLF[4)] (2000) R[7)]

Notes: 1) The year for which most recent data are available 2) The Czech Statistical Office; 3) Micro-census; 4) Selective Research of the Labour Force;5) Research of Living Conditions; 6) Periodically; 7) Regularly; 8) Occasionally, ad hoc

The definitions of indicators relating to employment and unemployment are relevant to the current political debate on national employment policies.

The proposed EU Social Indicators on household incomes are also relevant for the current political debate on minimum living levels. Some income indicators are not currently used in the country. Poverty rates for individuals are not used as the Czech system is based on household incomes (see above). The Czech Statistical Office does not follow indicators of persistence of low income (primary Indicator 3 and secondary indicators 12 and 15). These are based on panels, a method not regularly and fully applied in the Czech Republic.

4.2 Evaluation of Policy Challenges and Responses

4.2.1 Inclusive Labour Markets

As indicated in the following table, the unemployment-rate was growing constantly in the last ten years:

Table 4.3: Rate of unemployed in the labour force (in%).

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
3,0	3,0	3,3	3,0	3,1	4,3	6,0	8,5	9,0	8,5

Source: Hospodarske noviny 21st May 2002

Note: Unemployed are people who want to work and are registered with the employment office.

Unemployment as such does not seem to have caused poverty in the early stages of the transition - according to the figures in the table, it became more a problem in the last three years.

The unemployed receive unemployment benefit for an initial period of up to 6 months. Thereafter the unemployed could apply for social assistance (minimum living level). For details see chapter 2.

A research in 1999[29] revealed that the large majority of the poor on social assistance benefits are unemployed people (80 %, are those registered by employment offices). Long-term unemployed (over one year registered with the employment office as job seekers) represent 42% of the people filing a claim for social assistance. About 60 % of the poor long-term unemployed are women. 10% of the poor families have two or more unemployed persons. Half of the unemployed claimants for social assistance suffer repeated unemployment.

[29] In: Vavrečková,J., Michalička,L., Severová, S.: Postavení domácností s minimálními příjmy a jejich sociální ochrana (Situation of families with minimal incomes and their social protection), VÚPSV, Praha 1999.

The net income of the unemployed four-member family was (1999) 10200 CzCr and six-member family 14520 CzCr. The net wage of comparable people (by indictors of education, qualification, health status, age) their income from social assistance was higher than that from adequate employment. About 60% of applicants for social assistance applied for social assistance repeatedly.

Long-term unemployment is illustrated by the following figures:

Table 4.4: Structure of unemployment according to the duration of unemployment,2001

Period	Up to 3 months	3 to 6 months	6 months to 1yr	1 to 2 years	2 years +
3 Q 2000	17,0	11,3	21,0	25,0	25,7
3 Q 2001	16,7	10,7	20,3	21,0	31,3

Source: Czech statistical office (cited by Hospodarske Noviny on 4 April 2002)

Unemployment over 2 years is evidently growing and causing poverty. A research of unemployment revealed that long-term unemployment is connected more with uneducated and unqualified people[30]. Only about half of the unemployed find a job within 1 year.

Table 4.5: Unemployment rate by gender and age in 2001(in %)

Age group	15-19	20-24	25-29	30-39	40-49	50-59
Men	36,9	13,9	6,8,	5,2	5,7	5,1
Women	52,4	13,6	13,8	10,9	6,7	5,6

Source: Czech statistical office (cited by Hospodarske Noviny on 4 April 2002)

The gender problem was studied by the Czech Union of Women[31]. It identified young women with children and elderly women as vulnerable groups with difficulties to be employed, i.e. get an employment contract. They have the same chance (no discrimination), but they are less flexible mostly because of their family responsibilities. They do not want to spend too much time travelling to work and are generally unhappy if they have to leave the family on mission. The tolerance of partners to wife's employment is also an important factor especially in better off families. Although there is no explicit evidence that employers are discouraged by the labour code to recruit women, implicitly some women have manifested such a conviction.

30 See Sirovátka, T., *Měnící se trh práce: problémy a priority*, (The Changing Employment Market: problems and priorities), in Socialní politikaVol.27 (1) 2001

31 See report by Hajna Z., Šance na pracovním trhu (Chances on the Labour Market), a summary given in Socialna politika vol.27 (6, 7-8), 2001

Gender evidently has an impact on employment. The numbers could be higher, but women with children are partly off the labour market, because they are eligible to maternity benefit and parental allowances (up to 4 years of the child). Eligibility is conditional upon leaving the labour market. Only minor jobs (up to 2 hours a day or a salary of 30 EUR a month) are permissible.

Under the latest Labour Code amendment discrimination of women in recruitment because of their family responsibilities or otherwise, is punished either by heavy fines (under the Labour Code) or by jail sentences (under the Penal Code). Even mere questioning of women during the recruitment procedure whether they are married, are pregnant or have children is unlawful. Unlawful are also advertisements limiting recruitment only to men under 35 years of age.

The age problem is two-fold. On the one hand it is connected with difficulties for school leavers to find employment due to lack of experience, on the other hand it is connected with seniority due to higher wages of elderly people[32].

To improve the employability of school leavers the government passed a resolution (no.325 of 2000) to introduce a new instrument of active employment policies – the re-qualification stage of up to one year. Employment offices pay an allowance to young school leavers who – on the basis of a contract – enter employment without pay. This seems to have good effect on reducing unemployment of school leavers and increase of their employability[33]. The newly nominated minister of labour and social affairs has recently proposed a program for state subsidised employment of school leavers for the first six months. The project needs parliamentary approval.

The most private employers prefer young people with 3 to 5 years experience, i.e. about 30 to 35 years of age. Also young people with university education are offered employment more frequently than secondary school leavers or people without a qualification [34]. In the period 1996-1999 the number of unemployed unqualified young workers doubled[35]

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[32] See Benes, S.: *Zlepšování perspektivy starších lidi na trhu práce* (Perspectives of older people on the labour market), in Socialni politika vol. 28(4). The author explains that higher wages and health problems often discourage employers to employ older people.

[33] Evidence of good experience in the region with one of the highest unemployment rates was published by Germot O. of the Ostrava employment office– see Zkušenosti s rekvalifikacemi-staženi (Experience with re-qualification stages), in Sociální politika vol. 28(3)

[34] See Dušánková, O. and N. Ptáčníková, *K situaci na trhu práce v roce 2000*, (Situation on the Labour Market in 2000), vol. 29 (6), 2001

[35] See a three year survey by T. Sirovatko, reported on in an article by him: *Měnící se trh práce: problémy a priority*, (The Changing Employment Market: problems and priorities), in Socialní politikaVol.27 (1) 2001

Old people are entitled to early retirement (up to 2 years prior to the statutory retirement age) if unemployed for 180 days(see chapter 3).

The current policies intended to increase employment opportunities of unemployed and other socially excluded people are

- labour law provisions against discrimination, sanctioned by penalties and jail,
- rules for the employment of handicapped have been strengthened,
- national employment action plan

The government has recently adopted new rules for the employment of handicapped people. As from 1.1.2002 the regulation concerning the employment of handicapped persons has changed. Employers with more than 25 employees are obliged to employ 4% of their staff from among handicapped persons or buy goods and services from sheltered workshops. For every handicapped person, the employer fails to employ, he/she shall pay 1,5 times annual average wage as penalty. In 2001 the penalty was only 14144 CCr (approx.445 EUR).

By the end of 2001 there are approx. 66 thousand handicapped persons registered (approx. 14% of all registered unemployed) by the employment offices, of which only 3300 (5%) have been employed. Improvement is expected to follow new legislation (Act no.474 of 2001) providing new tax advantages and subsidies to employers that employ handicapped persons, tightening the rules for employment of handicapped, and fining employers that evade the rules with higher fines[36].

A systematic government pro-employment policy dates back to 1990, when – in anticipation of mass unemployment connected with the breakdown of the Comecon and with rapid privatisation – the government (with support of the German government) created a system of employment offices, trained their personnel and passed the Employment Act. Since then there was systematic effort to promote employment and reduce unemployment. This effort was effective and kept unemployment at approx.3% of the labour force till 1996. The main tools included fast privatisation of services that provided opportunities of self-employment for some 800 thousand people. Also support to create employment for school leavers was offered. Women could stay home with their babies till 4 years of age. Thus there was a large movement of people, but unemployment rates were kept low, because the unemployment periods were short.

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[36] For details see Posoldova V. and J. Majerova: Změny v oblasti zaměstnavaní občanů se zmeněnou pracovní schopností (Changes oin the field of empoloyment of handicapped people), in Socialni politika vol.28(2)

In 1996-1997 the recession in the economy triggered a souring growth of the unemployment rate. The government reacted by developing a National Employment Plan for 1999. This practice is repeated annually[37].

The national employment action plan focuses active employment upon
1. retraining for all who are more than 12 months unemployed,
2. support to small and medium business
3. support of investment
4. development of industrial zones
5. equal chances for men and women

As yet there is little evidence of their success, due to the shortness of time after their implementation, there has been no evaluation carried out so far.

On May 11, 2000 the European Commission and the Czech Government within the frame of the Accession procedures adopted a joint assessment of employment policies (here-in-after referred to as JAP). The JAP identified a number of challenges where progress is still needed and where monitoring should be carried out

a) Wage developments. During the previous era, average wages tended to increase faster than the productivity of labour. At the start of the 1990s, due to the inflation shock the real wage declined sharply. However, from 1992-1996, real wages outstripped productivity by up to 2.5 times. However, over the period 1998-1999 the gap between real wages and productivity seems to have re-emerged, which may have contributed to the decline in employment.

Since the beginning of the transition period important changes have been underway in the wage structure and it is increasingly adapting to market needs, which is also reflected in the increasing returns to education. Wages have grown particularly in the finance and insurance sectors, data processing sector, communication, commerce (particularly wholesale activities and sale and maintenance of cars) and car manufacturing sectors. Wages in the public sector, which were kept under strict control over the period 1995-97, have more recently seen a substantial increase in public administration.

Therefore, the Government recognised the importance of maintaining appropriate wage developments in line with productivity growth and undertook to work closely with the social partners towards reinforcing the key role of the social partners in agreeing responsible developments of relative wages that reflect scarcity and productivity of labour.

b) Providing incentives to work. In terms of the incentive effect of wage levels on the labour market, regulated wage setting was replaced after 1997

[37] For details see Národní plán zaměstnanosti (National Employment Plan), in Socialní politika vol.25 (6), 1999

by more collective wage bargaining. Nevertheless, there still remained a group of employees, representing up to 5% of the workforce, whose minimum wage was set by a government institute of minimum wages.

The level of the minimum wage was not evaluated for a long period. This led to a situation where social benefits, determined by minimum subsistence levels, were higher than the minimum wage, which reduced work incentives for low-skilled workers at low earnings.

In response, the Czech Government has increased the minimum wage and has committed to evaluate and make step-by-step adjustments to the minimum wage to maintain it above minimum subsistence levels. In order to improve work incentives, this needs to be accompanied by a review of claims for individual allowances, particularly for social assistance and the strengthening of incentive elements in the allowance system.

In terms of labour taxation, the Czech Republic has a relatively high level of taxation on labour. The total wage costs include 35 percentage of gross wages, as an obligatory social insurance payment for employers.

The Government should review and refocus its benefit and tax system and provide incentives for unemployed or inactive people to seek and take up work or measures to enhance their employability and for employers to create new jobs.

c) Mobility. Geographical mobility in the Czech Republic is closely connected with the housing and transports policies, in particular the improvement of the housing stock. Commuting is a very common trend, while permanent relocation is not. A partial solution to problems of geographical mobility is contained within the support programmes of the active employment policy of the Ministry of Labour and Social Affairs and in additional regeneration projects.

Measures in support of mobility should be underpinned by reforms to the vocational and education systems in terms of promoting occupational mobility and to the tax-benefit system in terms of incentives to seek employment.

Efforts need to be stepped up to increase policy development and management capacities at regional/local levels, including in the context of ESF planning and implementation.

The Government should monitor carefully the development of regional mobility in order to reduce structural imbalances across regions

d) Pensions - Encouraging employment for all ages. An important employment issue in the Czech Republic is the fact that the population is growing older and employment rates for older workers are declining. This

strongly reflects the changes in skill requirements brought about by restructuring. Low employment rates for older workers, exacerbated by the extensive use of early retirement as a response to the strong decline in employment in the transition period, will be unsustainable in the context of demographic projections for the first decades of the next century. In response to the emerging trends, the Government is examining ways to reform the pension system, drawing on the experiences among EU Member States.

Pension system should be reformed with the aim of closely linking pensions to other supporting measures that promote employment for all ages, including for example measures to promote flexible working and access to training and lifelong learning for older workers to allow people to stay longer in the labour market.

In connection to all above-mentioned fields, the Government should intensify efforts to develop preventive and employability-oriented strategies, building on early identification of individual needs. The first and ultimate objective should always be to place people on the open labour market. The Government should also strengthen the preventive approach within its labour market policies. The first steps taken by the Government in its National Employment Plan, with individually designed sets of activities to encourage individuals to return to the market, should therefore be encouraged and supported.

The Czech Republic needs also to step up its policy response to the shift towards a knowledge based-economy. This requires a re-evaluation of the way in which education and training systems should adapt to the demands of the knowledge society. Investment in higher education is also crucial to widen the base of highly skilled people on the labour market.

The preparations for the implementation of the European Employment Strategy, including the Luxembourg Process, must be underpinned by appropriate development and modernisation in the Public Employment Services, in particular at local level.

A further improvement of the employment services is needed, especially in individual services in order to ensure the early identification of job seekers' need and to strengthen the importance of job brokerage within employment services. In order to strengthen its role in tackling unemployment, Public Employment Services should endeavour to reach a significant market share of vacancies.[38]

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[38] Joint Assessment of the Employment Policy Priorities of the Czech Republic, 2000

4.2.2 Guaranteeing Adequate Incomes/Resources

There was practically no impact of low wages on poverty. A research in 1999 revealed that only 4% of those who applied for social assistance were employed or self-employed[39].

In the Czech Republic a minimum wage fixing mechanism is in place[40]. It is negotiated by social partners and monitored by employment offices. In the Joint Report the Government undertook to monitor closely the impact of such a minimum wage level in co-ordination with efforts to remove disincentives in the social allowance system. The Government recently increased the minimum wage. It is now above the minimum subsistence living level. The liberal and conservative parties have a feeling that the minimum wage is too high. The new minister of labour and social affairs intends to increase it to 60% of the average wage.

Table 4.6: Development of the minimal wage

Minimal amount as from	**Februar y 1991**	**January 1992**	**January 1996**	**January 1998**	**Januar y 2002**
Minimal amount CzCr/hour	10,80	12,00	13,60	14,80	31,80
Minimal amount CzCr/month	2000	2200	2500	2650	5700[41]
Average wage CzCr/month	3792	4644	9676	11693	14204

Source: MoLSA, Eva Holanova (1999) and Czech Statisticl Office (2002)

There seems to be no difficulty with the guaranteed incomes. If income falls below the minimum living standard of a household systems of social support and social assistance, as described above (see Chapters 1 and 2), are available to all persons permanently residing in the country. These allowances are not accessible to short-term visitors and those living and working in the country without authorisation. The social protection system has developed a fair safety-net to guarantee adequate resources to households. Approx. 4% of households in the Czech Republic is registered as beneficiaries. There seem to be no major gaps in coverage.

All social insurance benefits meet the minimal standards set by the ILO Convention no. 102 of 1952 and ratified Council of Europe charters. The insured persons with low benefits due to incomplete periods of coverage may draw benefits under the minimum living level arrangements. Thus adequate resources are fully guaranteed (see above).

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39 Vavrečková,J., Michalička,L., Severová, S.: *Postavení domácností s minimálními příjmy a jejich sociální ochrana* (The situation of families with minimal incomes and their social protection), VÚPSV, Praha 1999.

40 See Holanova, Eva*, Is the Minimal Wage a protection against poverty or a danger to employment*, in Sociální politika Vol.25(1), 1999

41 The new Minister of Labour and Social Affairs proposes to increase it to 8550, i.e. to 60% of average wage.

In the JAP it was pointed out that the Czech Republic has a high level of taxation on labour. The total wage costs include 35% of gross wages as a social insurance payment. Excessive taxation seems to lower the demand for labour and encourages tax evasion. Therefore the government was invited to review and refocus its benefit and tax system and provide incentives for unemployed to enhance their employability.

The tax system has little social advantages. Traditionally social allowances in the country are more frequent than tax advantages.

4.2.3 Combating Education Disadvantage[42]

The educational system has a long tradition. Compulsory education was introduced in the 18th century. There are practically no illiterate citizens in the country.

Main aims of contemporary educational policy were declared by the Ministry of Education, Youth and Sports (**MEYS**) in 1999[43]. The government adopted the principles and declared its policy in 2001 in a White Book[44]. The document emphasise free access to education with due consideration to persons disadvantaged both socially and physically[45].

Low education and early school leaving is considered a great risk of social exclusion. Low education is a barrier to social integration into a high tech society.

These efforts aim to reduce disadvantages that are mainly

1. Economic and social due to ongoing transformation of the educational system, to decentralisation of management and financing of schools. Many advantages like free school meals, free provision of text books, etc.

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42 Information in this part of the report is based on studies of Ms M. Kotýnková, namely (i) Human Dignity and Social Exclusion in the Czech Republic, Council of Europe, Strasbourg 1997, 60 pages, (ii) "Fenomén sociálního vyloučení v kontextu české společnosti". Published by Česká společnost na konci tisíciletí
Praha, Universita Karlova, 1999, part 2pages.73 - 84, (iii) "Fenomén sociálního vyloučení v kontextu české společnosti" (1) in Sociální politika, 24, 1998, č. 12, pages. 11-12, (iv) "Fenomén sociálního vyloučení v kontextu české společnosti (2)" in Sociální politika, 25, 1999, č. 1, str. 10-12.

43 See "Koncepce vzdělávání a rozvoje vzdělávací soustavy" (Concept of education and development of the educational system, Ministry of Education, youth and sports, 1999

44 See "Národní program rozvoje vzdělávání v České republice" – tzv. "Bílá kniha" (National program of Development of Education - the so-called White Book), MEYS, 2001.

45 "The educational system is considered as one of the most important integrating driving forces in society because it transfers values and traditions and especially because by securing an equal access to education society enhances coherence of all people including socially and physically disadvantaged…, see the cited National Program, page 14

were abolished. These measures especially effected children from socially disadvantages groups of society like unemployed; Ms. Kotýnková in her study claims that their number is growing. At present the children come to school with a very different social and cultural background that motivates them in different ways and directions and provides with different choices (e.g. public versus private schools). Children from low-income groups are disadvantages by having to pay for books and meals, with out-of-school activities, etc. There are new acts regulating compulsory primary and selective secondary education and universities. These have opened the system to private schools, with high fees so that although co-financed by the government, they are not accessible to low-income groups.

2. Ethnic disadvantages. There is an long-lasting effort to maintain schools for minorities. Polish, Slovak and Jewish minorities have their proper schools. The problem is that of schools for the Roma minority[46]. Roma children enter Czech schools with disadvantages namely due to a different social and cultural background.

3. Physical and mental health disadvantages. Much has been done and achieved to reduce the disadvantages, namely by moving from emphasis on their inability to emphasis on their remaining abilities. This group also includes children with problems of their behaviour and attitudes. The aim is to remove the segregation of these children and to integrate them into normal schools. However, schools are not prepared (personnel-wise, space-wise, professional-wise) to enhance this approach. E.g. there are few schools without barriers accessible to paraplegic children.

Public policy responds to these problems in various ways:

MEYS introduced the concept of all-life education accessible for all as part of the Nation Program (se above). The idea is to enable disadvantages persons to education by joining efforts of employment policy, social policy and educational policy, which will enable flexible transitions And ways how to achieve higher education (education outside the standard system, in the work place, etc)[47]. Evening classes and external education (with 2 days a month of instruction at the relevant teaching institution, supported by employers) for employed adults have a tradition in the country. Adults traditionally have access (evening classes) to vocational education. Recently some universities have introduced education by correspondence.

Integrated classes for both non-handicapped and handicapped children are enhanced. Special educational assistants in the integrated classes are to help teachers with "retarded" children, if any. If such schools are not available in

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[46] It is difficult to identify a specific "Roma" problem in this context as - according to official assessments - there are some 300 thousand Romas living in the Czech Republic, but only 30 thousand of them claim to be Romas in the latest census (2001), the rest claim to be Czechs or Slovaks.

[47] See National Program … page 17

the community, low income families could apply for a transportation allowances as well.

The state and municipalities are supporting in some ways low-income families to reduce the disadvantages. Low-income families may apply for a transportation allowance, if the primary school is outside the boundaries of the municipality in which they permanently reside. Families that meet the income test (some 5-90% of all families) receive children's allowances for students till the age 26. High school and university students may in addition apply for a scholarship, provided they meet the criteria.

There is a general opinion that the efforts are viable but need more financing. The expenditure should grow from present 4,5% to 6% GDP to cover the cost of the transition. The work of the teachers should be valued with proper salaries; at present they are heavily under the average wage in the country.

There seems to be no problem of access to education at any time and age, provided the person concerned is prepared to make the effort. Under the Labour Code there are rules obliging employers to support such efforts (by various provisions), provided the education improves the qualification of the employed person in the interest of the employer. There are also generous provisions of the employment legislation supporting training programs under the national employment plan.

Sex has no bearing on access to education. All schools offer co-education. Boys and girls enjoy the same education and treatment.

4.2.4 Family Solidarity and Protection of Children

Like in other Central and east European countries in the Czech Republic prior to 1989 people married and had children young (age of women at first childbirth dropped from 28 in 1946 to 22 years in 1985)[48] and had in the average 2,0 children per woman[49]. This was due to the "sandwich effect"[50] typical for the then welfare regime in force. This changed after 1989 – natality dropped in 1992-1996 by 37% (in 1989-1999 by 40%. At present the Czech republic is among the countries with the lowest natality ratio to

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48 See study by Heberlova V., Česká rodina: hodnoty, zájmy, strategie, STEM 2002, reporting on an extensive research financed by the Ministry of Labour and Social Affairs

49 See study by Kučera Z. and L. Fialova, Demografická chování obyvatelstva České republiky během přeměny společnosti po roce 1989, Sociologicky ustav, Praha 1996

50 A term introduced by Ivo Mozny (see Sociologie rodiny, Sociologické nakladatelství, Praha 1999, by which he described practice of young couples who, having children, had an easier access to housing, to services, support of family and young grandmothers, who could care for the children while both the parents work.

1,16 per 16 per woman (1998)[51]. Age of women at first childbirth grew to 26 years (1996).

Table 4.7: Birth rate in 1990-1999

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Live births per ´000 inhabitants	12,7	12,6	11,8	11,8	10,3	9,3	8,8	8,8	8,8	8,7
Total Fertility	1,89	1,86	1,72	1,67	1,44	1,28	1,18	1,17	1,16	1,13

Source: Pavlik, Z., Kucera M. and others, Populacni vyvoj Ceske republiky 2000, Praha 2001

Public policies support natality. In 1991 the parental allowance was introduced allowing mothers (or fathers) to stay with their children up to 4 years of their age (See Chapter 2). In 2000 268 thousand families received this allowance[52]. Thus, implicitly, only some 50 thousand families with children up to 4 years did not apply for this benefit. However, the benefit seems not to be sufficient as mothers on extended maternity leave represent 10% of poor people receiving social assistance[53].

The newly elected government (June 2002) in its policy declaration placed family support among its highest priorities. It intends to introduce children allowances to all families[54]. The new minister of labour and social security declared that he would encourage especially financial support to new families and to childbirth.

The Family Act and the Civil Code regulate solidarity inside the family. The obligations are mostly confined to the liability of parents to support their dependent children. There are liabilities in respect of divorced disabled spouses and divorced spouses caring for dependent children.

Solidarity in favour of low-income families with children is organised by the state under a state social support scheme (see Chapter 2). It is a centralised system financed by the state budget and distributed through local governments. The newly elected government aims to make the system accessible to all families (reintroduce family allowances for all).

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51 See study by Kučera Z. and L. Fialova, Demografická chování obyvatelstva České republiky během přeměny společnosti po roce 1989, Sociologicky ustav, Praha 1996

52 See Hiršl, M. Hiršl, M.: O vývoji sociální situace v roce 2000 (On social development in 2000), unpublished document

53 In: Vavrečková,J., Michalička,L., Severová, S.: Postavení domácností s minimálními příjmy a jejich sociální ochrana (Situation of families with minimal incomes and their social protection), VÚPSV, Praha 1999.

54 See Hospodarske noviny of 6th August 2002.

Recently (2000) the Parliament passed an Act on Legal and Social Protection of Children (no. 359 of 2000). Public protection of children has a long tradition (since late 19th Century). It was first administered by children's departments of local courts, later by municipalities. The recent legislation improved the system and provided new powers to municipalities. The system also encouraged alternative family care and leaves children (orphans and abandoned children) homes as a measure of last resort. It aims to protect children against the family (abuse, bad treatment, etc.) and the family against bad behaved and criminal children, abandoning the family or causing it damage and the parents are incapable of mastering the problem.

The process of breaking-down family ties is rapidly progressing. Studies[55] claim that only half of the families live in the first wedlock and the number of families from second and third marriages is increasing. The number of single parents is increasing and this group is among the socially excluded and vulnerable population[56]. In this respect the Czech Republic is currently experiencing processes similar to those in many of the Western EU members[57].

Lone parents are most vulnerable to poverty. The other vulnerable groups are large families with more children, pensioners with dependent children, certain ethnic families and families of long-term unemployed with dependent children. Thus evidently the major indicators of poverty in the families are the number of incomes, their quality (employment, self-employment, social benefits) and quantity (amount) and the number of dependent children (dependent relatives living in the same household). Therefore evidently the family breakdown is important in identifying risks of poverty and social exclusion.

The other vulnerable group are families with dependent children. By end 2001 there were about 2327 thousand children dependent on their families. The average number of children per family is 1,66. 85 % of the families received a children allowance, i.e. families with income below 1.6 life minimum (see above) (the exact numbers shall be available in the latest census and micro-census, which is now inaccessible doe to floods).

Table 4.8: Children allowance paid in 2001

Families with	**One child**	**Two children**	**Three children**	**Four children**	**Five and more**

55 Ivo Mozny , Sociologie rodiny, Sociologické nakladatelství, Praha 1999

56 See study of Kotynkova M., *Fenomén sociální vyloučenosti v kontextu české společnosti* (Phenomena of social exclusion in the context of the Czech Society), in Socialni politika vol.25(1), 1999. Exact numbers are, however, not available due to the flood in Prague which destroyed part of the CSO.

57 For details see study by Kučera Z. and L. Fialova, *Demografická chování obyvatelstva České republiky během přeměny společnosti po roce 1989*, Sociologicky ustav, Praha 1996

									children	
	No.	%	No.	%	No.	%	No.	%	No.	%
No.of children	542136	27,6	1063078	54,0	276421	14,0	58999	3,0	26972	1,4
No. of families	542136	45,7	531539	44,8	92140	7,8	14750	1,2	5394	0,5

To sum up, the relative risk of poverty and social exclusion of lone parents and divorced/separated women with dependent children is the highest. They are vulnerable in spite of government support, because the social allowances do not meet all their needs. They have difficulties with co-ordinating employment and family responsibilities. There is no system to help the divorced or separated women in regularly obtaining adequate support from their former spouses.

The risk for families with many children is relatively smaller. Low-income families receive income-tested children's allowances and family benefits for housing and other expenditure (see above).

The most vulnerable are families with more than one of the mentioned problems, e.g. broken-down Roma families with many children, long-term unemployed lonely parent with more children. The spouse (generally the woman) left with the many dependent children is sure to suffer extreme poverty. The system is capable to eliminate one social handicap, but is inadequate where handicaps join.

Abandoned/orphaned children are not a major problem and the state system is able to handle the cases. The government has developed "diagnostic" institutes to determine what support is to be offered to abandoned and abused children and orphans[58]. There are special infant institutions to care for laid-off children. There is an efficient system of adoption, foster care, alternative family care and children's homes. The government has created Republican Council for Children, Youth and Families in Difficult Conditions[59]. This Council has made several proposals to the Ministries of Interior, of Health and of Labour and Social Affairs to improve protection against abuse and maltreatment inside families and provide services to those in difficulties.

The problem arises when the children become adults and have to leave the homes, alternative institutions and foster care. There is little to offer on behalf of the government. Thus non-governmental organisations - often with the support of municipalities - organise "half-way" homes to accommodate

[58] See Smolcnop, V., *K činnosti MPSV v roce 2001 a program na rok 2002* (On activities of the Ministry of Laboour and Social Affairs in 2001 and program for 2002), in Socialni politika vol.28(4), 2002

[59] The council recently published a report on its activities, see Sociální politika vol.27 (10), 2001. The Report was approved by the Government including recommendations.

these young adults for up to one year to enable them to find a proper accommodation. Similar houses are organised for young lonely mothers with children generally up to one year of age.

The government and municipal policies are on the whole successful. They reduce criminality and other syndromes of social exclusion. However they are insufficient in numbers and lack funds.

4.2.5 Accommodation

There is no housing shortage, but the prices to purchase a flat or a house are too high and make accommodation a problem especially for young households and pensioners. There is policy to promote social housing. Some municipalities keep municipal flats at lower rent. Only leftist parties support the idea of a social housing policy. The government has created a subsidised housing savings scheme, by which people may in 5 years save a sum as basis for investment in their housing. It has become very popular and over 2,5 million inhabitants have joined the scheme. It is operated by private housing funds supported by private commercial banks. The funds also offer long-term credits at relatively low interest rates.

The poorest families with incomes under the minimum living level may apply for a housing allowance (see chapter 2 above). There were three types of benefits granted under the state social support system to housing: the housing allowance, the social allowance and the compensation for higher rents and energy and heating costs. These were distributed to 332 thousand households (2000)[60]. The compensations were temporary till end 2000; the total amount of money distributed to these households thus dropped to half.

There are families that do not pay their rent and are removed from their flats. Some municipalities have developed very rudimental shelters for them to live in, nevertheless the number of homeless people is growing. These rudimental shelters are of a poor quality as well. People become homeless either because they fail to apply for a housing subsidy in time or live in large and expensive flats with rents that cannot be covered by the social allowance. There are certain groups that do not apply for the allowances that they are eligible for. These include alcohol and drug abusers.

Basic shelter for the homeless is offered by NGOs (especially by Charitas and the Salvation Army) that are mostly supported by the state and municipalities. Recently municipal efforts may be registered. Shelters are also offered to those leaving jails (post-penitentiary assistance). There is also a policy to support them with some initial social allowances and assistance in finding an employment.

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[60] Hiršl, M.: O vývoji sociální situace v roce 2000 (On social development in 2000), unpublished dokument

There are practically no problems in provision of basic subsistence necessities such as potable water, etc. that exist for any groups or areas in the country, provided they pay the cost. Any household that does not pay the bill for electricity, water, gas and telephone, will be cut-off. The poor households may apply for social assistance.

Many of the non-payers are from the Roma ethnicity. That is a very complex problem, which will be discussed below

There is a new phenomenon – the poor moving to offered shelters are in fact creating new poor areas. This phenomenon is called "pressing-out of the poor" and is especially evident in large cities. It is not the result of a policy; it is a consequence of some people being unable or unwilling to meet the costs of living in a flat. Thus poverty leads to exclusion.

Until now, there is no consistent government policy to stop this process and to repair the social harm already caused. There is also no consistent government policy with regard to homeless people. What is done for the homeless is mostly undertaken by non-governmental organisations, supported by municipal voluntary initiative.

4.2.6 Ethnicity

The population in the Czech Republic is quite homogeneous. However, there are minorities in the country – for example the German and Polish community – that live mostly in a certain region of the country. Other important minorities, for example from the Slovak Republic or Vietnam are spread over the country. A smaller number of migrants are from - for example -Greece, the former Yugoslavia, Albania, the former Soviet Union, China and Turkey. Most of the above mentioned members of minorities possess Czech citizenship or long-term residence permit.

In the last years, own schools for the children of minorities have been established and in some of the regions (e.g. north Moravia), there are signs in the streets that are both in Czech and - in this case - in Polish. All the minorities have cultural organisations which are eligible to be supported financially by the state. They have their newspapers and regional broadcasting in their language.

Roma are the only minority, spread out over the country, with Czech citizenship, that experience discrimination in life.[61] This is especially due to

[61] There are many studies and articles dealing with the subject. E.g. International cross-country by Evens, A. *Shifts in the welfare mix: Theit impact on Work, Social Services and Welfare policies*, Eurosocial, Vienna 1988, in-country studies by Višek, P. and others: Romové v České republice, Romové ve městě, SOCIOKLUB, Praha 2001 a 2002
Study by Kotýnová M., *Fenomen sociální vyloučenosti v kontextu české společnosti* in Sociální politika vol.25(1 and 2), 1999 and others

the skinhead movement: In the 1990s, there were several violent attacks on Roma registered with a clear racist motive.[62]

As laid down in the legislation against discrimination, Roma may select the nationality they want. According to estimations, the community of Roma in the Czech Republic count about 300.000 persons. Most of them choose the Czech or Slovak nationality, only about 30.000 persons choose the Roma nationality. Attempts of local administrations to count the Roma (for example by the colour of the skin) were punished.

The government has an alleviation policy. It supports Roma organisations and political parties. It created a Council with Roma representation. It finances special programs in the public radio and Roma periodicals, Roma festivals of dances and songs. Public offices have Roma advisors (trained Roma employees), which improve communication with the community. There are Roma assistants at schools to help the children in their studies. There are Roma social workers and Roma policemen in places where there is a larger concentration of the Roma population. Many of those programmes are financed with the help of the European Union and the Phare programme.

There is evident improvement with the integration and the number of Roma citizens who have education, decent living and employment is increasing. The process is, however, a very difficult one, especially in the view of the majority of the Czech public. It is often stated in public opinion polls, that Roma have a different way of living, they are seen as being evaders of taxes and as the most frequent clients of social assistance, housing allowances and other social benefits. Most Czechs believe that the integration of Roma into their society is a very difficult and delicate problem.

4.2.7 Regeneration of Areas

A social constraint to economic development is regional imbalance with high concentrations of unemployment in some regions. The causes are evidently in the structure and distribution of industry and agriculture. The successful industries are mostly concentrated in the central and eastern Bohemia and central Moravia. Rich agriculture is concentrated in the central (crop growing) and southern Moravia (wine). Unemployment is highest in northern Bohemia and Moravia - with heavy industries and mines. Revitalisation efforts are not as yet successful.

The northern areas are also most polluted and thus many ecological investments are expected. There is also a government program for development of technical infrastructure (esp. highways). Government has

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62 See reports of Czech Helsinki Commitee, published every year.

introduced interesting tax advantages for foreign investors, which seem to attract foreign investments.

The government also introduced special social allowances for released elderly miners and metal workers to help them cope with extreme unemployment. There is an important active employment policy to promote retraining of the unemployed.

The northern regions are not poor. In fact they belonged to the richest under the previous regime. However, the restructuring processes struck them more than other regions. The Government should increase mobility of workers and attempt to reduce structural imbalance across regions.

There are some positive results. Foreign investments in industrial development in northern areas have been announced. Phillips and Japanese car production have announced investments. These projects are expected to create jobs and reduce unemployment in northern regions. Foreign investments of other major car producers have been announced for other regions. Should the government increase the mobility of workers and reduce the tensions in housing, negative consequences of restructuring and imbalance over the regions could be alleviated.

Recently a new phenomena has manatees itself – the floods. In 1997 one third of Moravia and in 2002 one third of Bohemia were flooded and the regions were instantly deprived of both housing and infrastructure. The small and midium businesses, providing much of the employment in the region, were destroyed. The damages caused by the floods in Moravia have not yet been fully repaired. Poverty of the vulnerable groups of people was a hampering quicker development of the flooded regions.

4.2.8 Other factors influencing poverty and social exclusion

The Czech population is relatively homogeneous and adaptable to different situations. Although originally an important kingdom in central Europe, it was in the last nearly 500 years (since 1526) - with the short periods of independence (1918-1939) and (1945-1948) - dominated by foreign powers with efforts to germanise the Czechs. The policy was effective in towns, thus the Czech culture survived mostly in the countryside. The Czech population revolted quite a few times and lost its nobility in the 30 years war. Thus all the Czechs have their family origins in the 18th and 19th century villages. This in fact makes them so homogeneous.

The Czechs easily adapted themselves to the transition. Quickly took up self-employment, retrained for new professions and adapted to rules of market economy relatively easily, compared to many other post-communist countries.

Traditionally there is a strong social feeling among the people. Health and disability do not represent an important problem. There are programs "positively discriminating" the disabled.

There are newly growing social problems mostly connected with alcohol and drug abuse. There is new legislation penalising drug dealers, sales of cigarettes and alcohol to youth under age 18, and government supports NGOs that operate in this sector of social problems. There is a special department at the Prime Minister's office dealing with problems connected with drug abuse.

There are some problems with growing criminality (mostly foreigners and Roma) and post-penitentiary assistance, with children leaving children's homes at 18, with lonely young women giving childbirth, with prostitution, but these are comparable to problems EU members have. The Government has developed legislation and put in place institutions to deal with these problems. Regular information campaigns are launched, information and consultation offices have been opened at all major cities to assist people who have personally failed, be it for objective or subjective reasons. The transition is tough with some people who are incapable to "take it".

4.2.9 Administration, Access to and Delivery of Services

Central and local state and self-governing public bodies (see chapter 2) administer social welfare. The Ministry of Labour and Social Affairs is the competent agent, although certain functions are performed by the Prime Minister's Office (drug abuse, etc.) or by government advisory bodies (Council for Handicapped, Council for Roma, etc.). These, however, do not have an administration.

The Ministry of Labour and Social Affairs is directly responsible for family policies. These are centralised and centrally operated (Central Database). The input information comes from local social welfare centres, which report to District Offices. The district offices shall be abolished as from 1.1.2003 and replaced by self-governing public structures within the second phase of the public administration reform. The rules for transfer of family policy competencies are being discussed.

The Ministry of Labour and Social Affairs is also responsible for other social welfare policies, although these are in principle administered locally. These are decentralised and were operated by district offices and larger municipalities. With the introduction of self-governing regions the competencies of district offices will be newly shared by the regional and municipal self-governing administrations. This shall be an important step towards further substantial decentralisation within the frame of the public administration reform.

Some years ago the government opened up social welfare activities to non-governmental organisations (NGOs) and created a system of subsidies and grants to co-finance their activities. To-day important roles in social services are performed by NGOs. They primarily operate offices providing consultation and social work to destitute, prostitutes, drug abusers and homeless people and facilities which provide social care to abandoned children, lonely young adults, disabled and seniors. Some operate alternative family care. There is no evidence of improper performance. Their activities are regularly monitored. They are accountable for government money.

The positive results of sharing of responsibilities with the NGOs are evident. Public administration masters much more efficiently its competencies and has enlarged the services offered to the needy, poor and vulnerable segments of the population. The process is still underway and there are problems and efficiency issues to be resolved. The legislation in force is out-lived and needs to be replaced by modern concepts or regulation and accountability. However, the major political parties are unable to come to an agreement on the principles of such legislation. Bills on social assistance and on social services have both been refused by some segments of the political spectrum. The differences in approach cut across the professional opinions - some prefer the British, some the Scandinavian and some the German model of social welfare management. So the development of social services - although substantial in extent and speedy in implementation - has no proper guidelines, is more a happening in a civil society, than a result of intentional concept.

The regions and larger municipalities are fully aware of the situation and are taking initiatives on their own. There is evidence of many successful pilot social welfare projects. In April a regional office supported of competent NGOs conveyed a national conference on social welfare programming within a region and municipality. The conference provoked positive developments in welfare at local levels.

However, in spite of all the evidence of positive developments, there is no effective attempt to draw together and cut across policy areas to combat poverty and social exclusion at central, regional or local levels. There are policies that alleviate unemployment, there are family policies that support low-income families, there is social insurance, there are policies guaranteeing a minimum living level, there are policies to develop housing and social services. But these are not harmonised or co-ordinated, so in fact one policy may be contra-productive towards another policy. Most recently there are many complaints of small and medium size establishments that the social welfare is so generous that in spite of relatively high unemployment, they are unable to recruit people at acceptable wages. So they are obliged to seek foreign labour (mostly from Ukraine and Belarus - due to language similarities).

Recently the Office of the Ombudsman was created and started operating. In the initial years the clientele was mostly complaining against public administration in social and health sectors. Furthermore, the Supreme Administrative Court was created and in the future will also deal with the social matters. Thus the right to provision is protected. Any citizen can contest the decision of an administrative body at independent courts.

4.3 Evaluation of future challenges

4.3.1 Main challenges

The main future challenges for social inclusion will probably be represented by

- The social consequences of economic restructuring that is underway but still will last for some time, because heavy industry has not yet been fully privatised. This may encourage further growth of unemployment and regional differentiation.
- Major inequalities among regions causing geographic concentration of wealth and poverty, which may encourage migration for which the country is unprepared.
- Long-term unemployment to which segments of the population have adapted and are satisfied with generous social benefits, which makes public social expenditure grow ineffectively.
- Inadequate housing policies which may hamper the start into life of the young generation and which may cause a growth of homelessness.
- Income diversification in society - 74% of the population earns less than 50% of average income, which will have a negative impact on families and natality.
- Homelessness and extreme poverty of certain segments of the population in face of lack of adequate capacities to meet the needs.
- Immigration of people from east and south Europe and Asia (especially middle east an south east Asia), which will probably cause problems that Germany experiences earlier.

4.3.2 Links to other social protection policies

Impact of the pension reform upon public social expenditure may be expected. It will probably have little significance for social welfare policies.

An important impact on social exclusion may be expected from the public administration reform. The existing and functioning structures are being reorganised in a substantial and unprecedented manner, which may cause

important discontinuities and drop-out in performance and hamper the provision of welfare to the vulnerable and needy.

There are proposals to tighten conditions for eligibility to pensions (increase in retirement age, prolongation of the qualifying insurance period, tougher definitions of disability, tighter conditions for survivor benefits, etc.). However, it is difficult to say what will really happen after June (Parliament) and November(municipal) elections. There is a project to introduce the notional defined contribution model (Sweden) and to replace the present benefit-defined pension insurance.

There are problems with financing health insurance, which are comparable to the problems in the rest of Europe. There is no major problem with sanitation as this is the responsibility of municipalities and supervised by an effective hygiene inspection.

4.3.3 Political directions of future reform

Future social reform is focused on old-age pensions, which in the view of the liberal parties (right-wing) has become unsustainable due to ageing of the population. They propose a three-pillar pension reform (like in Poland). The left-wing (social democrats) parties claim that no substantial reform is necessary in the basic mandatory pension insurance system. They argue that the supplementary pensions funds (introduced in 1994) prove effective and propose the introduction of voluntary occupational funds to complement the social insurance pensions. The left-wing parties also want to separate the financing of social insurance from the state budget and entrust the money to an autonomous tripartite-managed social insurance agency. The right-wing parties oppose this proposal as contra-productive.

There is also a left-wing pressure to reform the social assistance and social services, which is opposed by the right-wing which claims that present arrangements are sufficient to meet the needs. Right-wing parties rejected the bills.

There was an attempt to reach a social consensus in the Parliament. A working party (ad-hoc committee) of representatives of all parties represented in parliament was created, but failed to conclude a compromise. Thus there is no consensus in sight before the coming elections.

4.3.4 Social exclusion, poverty and EU accession

EU accession will have little bearing on the social sectors as most of the present laws and practices are compatible with German and other continental European practices and regulation. There is no problem with the application of the Directive 1408/71 and 574/72.

4.3.5 Conclusions

Generally speaking, with continuous government support and in view of the present trends existing social welfare institutions and practices will probably be able to meet the future needs of social coherence in the country. They may have difficulties to become fully compatible with the practices in the existing EU countries (especially Germany). However, things may change after the enlargement of the EU, because the practices in the Czech republic may serve as best practices for many of the new member countries.

A critical issue with respect to the future development of social inclusion policies is the absence of modern social welfare legislation. A lack of proper regulation, government supervision and a full accountability of the management may provoke improper practices and ineffective or even contra-productive activities. Vulnerable groups of people are might be weak or generally incapable of defending themselves and are thus vulnerable to bad practices harming their rights.

5. HEALTH CARE

5.1 Evaluation of current structures

5.1.1 Organisation of the health care system

The current health care system in the Czech Republic is based on the public health insurance system administered by health insurance agencies (currently there are 8 health insurance agencies) that are to some extent independent from the state. It means that they have self-government, their economy is detached from the state budget, nevertheless the state approves fundamental documents governing activities of the health insurance agencies (business plan, annual report) and has the right to undertake an audit in the health insurance agencies if necessary. Providers - represented by a mix of state and private owned health facilities - enter into contractual relations with health insurance agencies and are reimbursed for health care rendered to patients (third party payments). The contracts are negotiated under a limited state supervision.

One of the guiding principles of the public health insurance is universal access. All citizens permanently residing in the Czech Republic must participate in the public health insurance. Foreign nationals employed by organizations domiciled in the Czech Republic are also eligible. Family members must obtain coverage through own employment, be eligible for premiums from the state budget or pay premiums out-of-pocket.

The state budget is responsible for paying premiums for the following groups:

- children
- pensioners receiving benefits from the pension insurance scheme
- recipients of parental benefits
- women on maternity and prolonged maternity leave
- employment applicants
- persons receiving social care benefits for the reason of a social need
- predominantly or completely incapable persons or persons caring for such persons
- persons on basic military service
- persons in custody or persons serving prison sentences
- persons who achieved the age necessary for claiming an old-age benefits but not fulfil additional conditions (and do not receive a pension)

- persons taking all-day proper care of at least child up to the age of seven years or at least two children up to an age of 15 years

Other groups of persons have to pay health insurance premiums monthly. Employers deduct health insurance premiums from salaries of their employees and pay health insurance premiums on behalf of their employees. Other persons (self-employed, persons without earnings and not entitled to the state budget subsidy) pay on behalf of themselves directly on the account of the relevant health insurance agency.

From an institutional point of view there are health insurance agencies on one hand, independent providers of health care and their associations on the other hand and the state administration.

The Ministry of Health provides strategic leadership for the health system. It is responsible for the legal framework of the system. It has no direct financial responsibility; nevertheless it plays an important role in price negotiation between health insurance agencies and providers. In case of disagreement it has to decide on prices of health care. At district level the state administration has limited responsibilities: registering health facilities on the territory of the district and financing health care services not included in the public health insurance system (e.g. hygienic services, long-term nursing homes). Another part of state administration - the Institute for Health Statistics - reports directly to the Ministry of Health and collects statistical data related to the health sector.

The Ministry of Health performs some administrative and supervisory functions towards health insurance agencies such as licensing of health insurance agencies, participation in self-government bodies of health insurance agencies, approval of annual reports and of insurance plans and auditing.

All health insurance agencies are not-for-profit corporations fulfilling legally regulated obligations. They have their own self-government bodies organised on the tripartite principle - one third of the membership is nominated by the state, one third nominated by employers' associations and one third is nominated by the insured community. Management of health insurance agencies is appointed by the self –government.

The primary insurer is the General Health Insurance Agency of the Czech Republic (VZP). It covers nearly 70 percent of the population (approximately 7 millions of inhabitants) and a special law governs its operations. There are some peculiarities in case of the VZP, e.g. the representatives of insured persons in self-government bodies are elected by the Parliament and the managing director of the VZP is elected by the Parliament as well).

There are seven other so-called sector and enterprise insurance agencies that are governed by a distinct law and licensed by the Ministry of Health.

An entitled person has the right to choose any insurance agency once in twelve months. Persons on basic military duty are exempt from this right; they are insured obligatorily during their service by the Military Health Insurance Agency.

By law, the VZP has some additional fiduciary responsibilities. It runs the central register of insured, the so-called information centre of health insurance that collects data on utilisation of health services used subsequently for capping of reimbursement of providers and administers redistribution of revenues among health insurance agencies. This redistribution of funds aims at balancing revenue of a health insurance agency to its portfolio of insured with special emphasis to the number of people eligible for the state budget subsidy. The state budget pays premiums much lower than it is necessary to cover health care expenses for this segment of insured. Therefore, health care expenses for this segment must be subsidised by revenue out of active premium payers.

The balancing mechanism incorporates 60 percent of monthly revenue out of active payers and revenue out of the state budget. This fund is redistributed among health insurance agencies according to the number of persons eligible for the state subsidy. Persons above 60 years are counted three times in this risk adjustment mechanism (the fundamental parameters of the balancing mechanism are based on approximation of results of actuarial calculations).

Outstanding debts of health insurance agencies (except for the VZP) are backed by a special reinsurance fund made of regular annual contributions of relevant insurance agencies. In case of bankruptcy of a health insurance agency (except for the VZP), debts towards health care providers are covered by this fund. The insured persons can decide to enter any other health insurance agency or is overtaken by the VZP. The VZP itself can ask for a financial loan from the state budget in case of a lack of its financial means.

The majority of healthcare is rendered under the umbrella of the public health insurance schema. It means that standard health care is accessible to all citizens that effectively avoids the creation of two tiers health care system.

Private health insurance plays only a small role (see Table 4.4 below). It covers only persons not eligible for the public health insurance (non-residents that are not employed in the Czech Republic) and for services not covered by the public health insurance (supplementary insurance). The most popular product of supplementary health insurance is travel insurance, covering health care expenses while travelling abroad. This type of

supplementary health insurance is offered by several insurance companies (both public and private ones). Other supplementary health insurance products play only a negligible role. There is only one for-profit insurance company in the Czech Republic that focuses on such products. The health insurance agencies licensed for the public health insurance can sell also for-profit health insurance products provided they obtain an insurance license from the Ministry of Finance.

The role of co-operatives, occupational schemes and micro insurance schemes is quite negligible. Currently there is no such entity in operation.

The public health insurance scheme is unique for all occupational categories although some public health insurance agencies focus on specific occupations (steelworkers, mineworkers, etc.). Benefits stemming from the public health insurance scheme are nevertheless the same for all insured of any occupational category.

There is a mix of state and private provision of health care in the Czech Republic. Occupational provision of health care was in place till 1991. In relation with building up a new health insurance system this was reduced remarkably. Nearly all health facilities are financed by the public health insurance scheme or to a much smaller extent by the state budget. Some of them get subsidies or donations from specific private enterprises as a reimbursement for health care provided for employees above standard provision within the framework of the public health insurance scheme. Volumes and details of these subsidies are usually not publicly accessible.

Each enterprise is obliged to ensure preventive occupational care for its employees. It is usually done through contractual arrangements with a general practitioner.

In 1992 the Czech Parliament approved a law on non-state health facilities. Since that time a remarkable share of out-patient care has been privatised. For example some 99 percent of dental care are rendered in private out-patient care facilities. The network of general practitioners and specialists was also privatised with the exception of specialized outpatient care provided by hospitals.

In-patient care is provided mostly by facilities in public ownership. University hospitals and the majority of district hospitals are owned by the state. Smaller hospitals are either municipal or private hospitals. The volume of health care provided by private hospitals is small. (There were approximately only 10% beds in private hospitals in the year 2000). A program for privatisation of hospitals was launched in earlier nineties but it has been abandoned very soon afterwards because of the loss of political support.

Currently there is no institutional quality assurance system that spans all health care sectors. Quality assurance programs are run for some types of health care by specialized medical associations (e.g. for laboratory facilities).

At the end of the year 2000 the Czech Republic had 25 405-registered health care facilities (hospitals, out-patient care facilities-private doctors and polyclinics). Only 804 of them (mostly larger entities) were state facilities (138 directly controlled by the Ministry of Health, 516 by district administrations and 150 by the ministries of other sectors), 24 601 were non-state facilities (233 controlled by municipalities, 24 368 private).

There are approximately 0.77 general practitioners per 1,000 inhabitants that compares remarkable well to a European average (0.88). For specialists, however, the figure for the Czech Republic is 2.12 per 1,000 people. This is significantly higher than the European average of 1.3 specialists per 1,000 people.

This overspecialisation is amplified by the existence of two networks for outpatient specialised care. The first network is dense network of field specialists and the second one is the network of all hospitals offering a wide choice of outpatient specialised care in their premises. It is also the reason for the high share on the public health insurance expenditures that is allocated to the hospital sector.

There is a couple of providers' associations that play an important role in the negotiations with the state authorities and the health insurance agencies. The Chamber of General Medicine, Chamber of Dentists and Pharmacy Chamber have been established in 1991 and according the law they take over the licensing of private physicians and their further education. The membership in chambers is obligatory for all physicians active in therapeutic care but this regulation is critically discussed.

There are other professional institutions organised on voluntary principle- e.g. the Association of Hospitals, the Association of General Practitioners etc. These organisations protect interests of their members in negotiations on the structure of reimbursement and prices within the public health insurance. These negotiations are provisioned by the law on the public health insurance and take place regularly once in a half-year.

5.1.2 Benefits

Health care rendered within the public health insurance system includes the following:

- Out-patient care and institutional health care including diagnostic care, rehabilitation and care of chronically ill persons
- Emergency and rescue services

- Preventive care
- Dispensary service
- Rendering medicaments, technical health care means and dental products
- Spa treatment and treatment in specialised children's hospitals and convalescent homes
- Enterprise preventive care
- Transport of the sick and reimbursement for travel expenses
- Rendering medical assessments
- Post-mortem examination of insured persons and autopsies including transport.

The public health insurance covers health care rendered on the territory of the Czech Republic. It covers also necessary and urgent treatment the need of which arose during insured persons sojourn abroad, specifically to the amount stipulated for defraying such care on the territory of the Czech Republic.

The law on health insurance lists exemptions or special conditions for benefits rendered within the public health insurance, e.g.:

- Acupuncture services
- Extra/corporeal fertilisation shall be defrayed by health insurance at most three times in a life time
- Medicaments are defrayed by health insurance up to specified limit base on content of therapeutic substance. This ensures that medicaments with the same medical effects are reimbursed to the same level irrespective to their retail price. There are groups of medicaments containing specified therapeutic substances that are defrayed fully in any case.
- Dental products are defrayed by health insurance partially; percentage of covered cost shall be defrayed by health insurance depending on age of a patient (Specific dental products for persons below 18 are defrayed fully. The percentage covered for the rest of products doesn't depend on age of a patient).
- Some technical health care means are excluded from benefits of health insurance. Specific technical health care means are defrayed by health insurance and the law on health insurance specifies different percentage of cost covered by health insurance.

In exceptional instances, the relevant health insurance agency is entitled to defray health care otherwise not defrayed by health insurance if, from the point of view of the state of health of the insured, rendering this care is the only possibility. Such rendering health care shall depend-with the exception

of instances where there is danger from delay-on preliminary consent of a medical assessor.

The portfolio of benefits listed above is comprehensive enough to ensure efficient health care rendering without any deformation due to the lack of coverage. There is – from time to time - discussion on the reduction of benefits stemming from health insurance, nevertheless no balanced proposal has been submitted yet.

5.1.3 Financing of the health care system

The development of total health care expenditures (absolutely, per capita and as share of the GDP) shows the following table.

Table 5.1: Health care expenditures (at current prices)

Year	1980	1985	1990	1992	1993	1995	1997	1999	2000
Total health expenditures (in million CZK)	15177	19962	30052	n.a.	n.a.	100665	118815	134628	141871
total health expenditures per capita (in CZK)	1470	1931	2900	4221	6706	9744	11541	13122	13811
health expenditures as percentage of GDP	n.a.	n.a.	5.30	5.51	7.61	7.29	7.07	7.15	7.24

Source: Czech Health Statistics Yearbook 1995, 2000

The health care system is financed from following sources:

- Public health insurance
- State and regional budget subsidies
- Out-of-pocket payments
- Private health insurance

Public health care expenditures incorporate public health insurance and state budget subsidies. The development of public health care expenditure is illustrated in Table 5.2.

Table 5.2: Public health care expenditures

Year	1993	1994	1995	1996	1997	1998	1999	2000
State and regional budgets [1)] (Millions of CZK)							13 128	13 708
Public health insurance (Millions of CZK)							110 505	115 918
Total public expenditures (Millions of CZK)	69 262	81 136	93 299	102 400	108 834	112 679	123 633	129 625
Public expenditures as percentage of GDP (in %)	6.91	6.86	6.76	6.53	6.49	6.49	6.54	6.62

[1)] Doesn't include health insurance contributions from the state budget paid for specific groups of persons (see below)

Source: Czech Health Statistics Yearbook 1995,2000

The public health insurance schema itself is founded by two financial sources. The most important financial sources are employer and employee contributions and contributions of self-employed persons. The second financial source are contributions from the state budget for specific groups of inhabitants without own income (see above). These groups account for about half of the Czech population, the state budget contribution forms about 20 percent of the total health insurance revenues.

Health insurance contributions are set up as defined percentage of an assessment base. The law on health insurance contributions determines the assessment base and the percentage. For employees the assessment base is total rough salary and health insurance contributions amount for 13.5 % of the assessment base. One third of this is paid by an employee as a deduction from gross salary and two thirds are paid by an employer. Health insurance contributions are tax deductible for both employees and employers.

The assessment base is defined for self-employed persons in a bit different way. It is one third of gross profit and the contribution rate is 13.5 % again but paid totally by a self- employed person. Health insurance contributions are tax deductible also in this case.

There is a discrepancy between average income of public health insurance scheme for an employee and a self-employed persons. Due to the contribution of an employer the average income on behalf of an employee is approximately two times higher than on behalf of a self-employed person, although average consumption of health care is the same. It has raised vivid debates about increasing of health insurance contribution for self-employed people.

There are charges for some services, nevertheless the share of out-of-pocket payments is generally small. GP visits, hospital treatment and even specialised care are usually free of charge. The level of out-of-pocket payments in dental care is a bit higher, approximately 25 percent on average. User charges are also used for medication. Data on user charges and out-of-pocket are usually based on estimations - there is no systematic research in this field until now.

A medicine is reimbursed within the public health insurance up to the specified limit derived from content of active substance in the medicine. It means that medicines with comparable chemical composition are reimbursed at the same level by the health insurance system irrespective of the commercial price. The difference is covered by the patient. The adjustments of this mechanism and fluctuations of commercial prices of medicines explain the slight annual increase of out-of–pocket payments (see Table 5.3).

Table 5.3:Trend of out-of-pocket payments

Year	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Out-pocket payments (Millions of CZK)	3 800	5 282	7 366	8 252	9 881	10 604	11 475	12 245
Per 1 inhabitant (Kč)	368	511	713	801	959	1 030	1 116	1 192
Proportion of total expenditures (in %)	5.49	6.68	7.32	7.46	8.32	8.17	8.49	8.60

Source: Czech Health Statistics Yearbook 1995,2000

Private health insurance doesn't play any remarkable role. Its share is less than one percent of the public expenditures for health care. The reasons for such negligible role can be found in the comprehensive coverage of the public health insurance and in the universal access of inhabitants to this insurance scheme. The majority of health care expenditures reimbursed by private health insurance accounts for health care rendered to Czech tourists abroad. Only a fraction of such acute care is reimbursed within the public health insurance scheme, this is why private travel insurance is very popular in the Czech Republic.

Table 5.4:Commercial for profit health insurance

Year	1999	2000
travel health insurance (written premiums in millions of CZK)	734	839
other for-profit health insurance (written premiums in millions of CZK)	213	249
Approximate number of policies (excluding travel insurance policies)	17 000	17 000
Percentage of total national health coverage (in %)	0.70	0.77

Source: Czech Association of Insurers Yearbook 2000, Česká pojišťovna ZDRAVI a.s. Annual Report 2000

The share of public health care expenditures, out-of-pocket payments and private health insurance on total health care expenditures is shown in Table 5.5.

Table 5.5: Structure of health care expenditures

Year	1999	2000
Public expenditures -proportion of total expenditures (in %)	90.81	90.63
Out-of-pocket payments -proportion of total expenditures (in %)	8.49	8.60
Private health insurance -proportion of total expenditures (in %)	0.70	0.77

Source: Czech Health Statistics Yearbook 1995,2000, Czech Association of Insurers Yearbook 2000, Česká pojišťovna ZDRAVI a.s. Annual Report 2000

A significant item in the expenditures on health care is drug expenditures. Table 5.6 shows the development of drug consumption in financial terms and number of defined daily doses per 1000 persons.

Table 5.6:Total drug consumption

Drug consumption	1993	1994	1995	1996	1997	1998	1999	2000
In thousand mil. .CZK [1)]	13.96	21.19	25.64	28.18	30.06	33.31	36.44	38.39
Defined Daily Doses per 1000 inhabitants	756	911	945	986	1 045	1 105	1 188	1 196

[1)] including consumption not covered by the public health insurance system

Source: Czech Health Statistics Yearbook 1995,2000

The following table shows the structure of expenditures of health insurance agencies on health care in 2000.

Table 5.7: Structure of expenditures of the public health insurance system on health care (proportion in %)

	1993	1994	1995	1996	1997	1998	1999	2000
Out-patient care	41.8	39.6	40.6	39.7	40.3	39.8	38.9	39.6
In-patient care	38.9	34.2	29.4	30.9	31.3	30.7	31.3	32.3
Prescribed medicaments and medical aids	17.2	21.7	24.7	24.7	23.7	25.3	25.4	24.1
transport	0.9	2.1	2.4	2.1	2.0	1.8	1.9	1.7
balneal care	2.3	2.3	2.7	2.7	2.6	2.4	2.3	2.2

Source: Czech Health Statistics Yearbook 2000,Annual Reports of the General Health Insurance Agency of the Czech Republic 1993-2000

Out-of-pocket payments (more than 12 billion CZK in 2000) should be allocated mostly to medicaments (about 11 billion) and to dental care (about 1 billion). The share of other financial sources (besides the public health insurance system) in other types of health care is rather small .

Unofficial out-of-pocket payments are not estimated nor included. There are no problems in outpatient care in this sense, nevertheless in in-patient care, they play a role. They are often used to ensure skipping in a waiting list or as an incentive for more care obtained from hospital staff. There are no reliable data and no systematic research on this topic so far.

5.1.4 Incentives

The public health insurance system was built with an universal reimbursement mechanism fee-for-service in the early nineties. This was

accompanied by utilisation problems that were explained generally by the lack of positive incentives both at side of patients and the side of providers.

The former fee-for-service financing of providers has been replaced by a more elaborate mix of financing mechanisms in 1997. Utilisation went down by some 25 percent within a very short time span (Annual report of the General Health Insurance Agency 1997). This decrease was partly due to the cessation of former bad practices in reporting services to health insurance agencies, partly due to a real decrease of utilisation. The latter was the reason for forming waiting lists. This rapid change in financing showed a big impact on utilisation of health services.

A massive privatisation process that was accompanied by a growth of network of providers has brought also utilisation problems especially in regions with higher density of providers.

Therefore, main incentives for keeping utilisation within affordable limits are aimed towards providers in the Czech health insurance system. There are several regulatory measures in place, e.g.:

- Development and growth of network of providers are effectively controlled by contracts with health insurance agencies. A new contract can be concluded only after a public tendering procedure organised by state authorities. The committee who decides is based on tripartite principle - a representative of the state, a representative of the health insurance agency and a representative of respective professional association.
- General practitioners are paid predominantly by a capitation fee that provides no incentives for an artificial growth of utilisation. General practitioners are rewarded for keeping labs and other referential services (specialists etc.) within specified limits by a bonus (approximately 7% of total reimbursement) applied to the capitation fee.
- Specialists have an overall time limit applied to the volume of invoiced services. A certain 'normative' time is assigned to each service (roughly the average time for a service), and the sum of such normative times for invoiced services cannot exceed a specified limit for a defined period of time (month ,quarter of year) - otherwise a reduction of the fees is applied by the health insurance agencies. The normative times are defined in negotiation process between health insurance agencies and providers. Reduction of the fee could be remarkable (20%) but more probably providers adjust their behaviour to such limits in advance.
- Hospitals are reimbursed on a fee–for-service principle with an overall limit adjusted according to the average utilisation per patient for a defined period.
- 'Soft' limits are applied for drug prescription of outpatient doctors. Soft means that these limits can be exceeded with corresponding deductions

from the doctors' fee. The limits are based on a nation-wide average prescription within a given speciality. It seems that these measures help to limit growth of drug consumption.

Incentives to reduce utilisation on the patient's side are not developed too much with exception of:

- Patient's cost sharing for the majority of drugs
- Co-payments for defined dental heath services and dental products

5.1.5 Coverage of the system and access to care

The public health insurance scheme is far most prevailing, covering:

- all persons who have permanent residence on the territory of the Czech Republic;
- persons who do not have a permanent residence on territory of the Czech Republic as long as they are employees of an employer who has a site on the territory of the Czech Republic.

This comprehensive public insurance scheme covers nearly all persons living on the territory of the Czech Republic in need of health care. Nevertheless there are two groups that are not covered by the public health insurance scheme:

- not permanently resident entrepreneurs acting on the territory of the Czech Republic
- family dependants of not permanently resident persons that are due to the employment covered by the public health insurance;

These two groups can buy individual insurance similar to public health insurance coverage and offered by the most important public health insurer-the General Health Insurance Agency of the Czech Republic (approximately 7,000 persons have bought this insurance product). Recently the Czech Government has undertaken legal steps to include children of not permanently resident eligible persons also into the public health insurance scheme. Current restrictions on coverage originate directly in the non-existence of family insurance in the Czech public health insurance. Each person is insured standalone, and this rather complicates the situation of non-resident dependants.

Asylum seekers form a special group. They are not eligible to the public health insurance nevertheless their health care is financed through the Ministry of Interior by the state budget.

Any insured person by the public health insurance is eligible for health care service without any other precondition. Even non-compliance with legal requirements to pay premiums is not a qualifying condition for

unrestricted provision of health care under the umbrella of the public health insurance.

The provision is even across the country and irrespective to sex of an insured. Access to health care services is ensured irrespective of the means of a claimant or a beneficiary.

On the other side there is no possibility to opt out the public health insurance system. There is only one exception of persons who reside on long-term basis abroad.

The insured persons have the right to choose a physician or other health care worker and health care facility, who is in contractual relation with the relevant health insurance agency. Referral of a general practitioner is not precondition to visit a specialist, even if this principle is subject of discussions right now.

Health care facilities are distributed relatively evenly throughout the country so that all insured persons may use their rights to access health care effectively. There are no places with remarkable gaps in the network of health facilities, nevertheless in big cities the access to health care is a bit easier than in country. Health insurance agencies strive to ensure even distribution of health care capacities by their contractual policy.

The following table shows the distribution of health care capacities throughout regions:

Table 5.8: Survey of health care capacities in regions in year 2000

Region	**Out-patient care (physicians per 10 000 inhabitants)**	**Hospitals (physicians per 10 000 inhabitants)**	**Hospitals (beds per 10 000 inhabitants)**	**Hygienic service (physicians per 10 000 inhabitants)**
The Czech Republic	27.01	7.99	66.71	0.65
Prague capital	46.52	12.73	90.30	1.88
Středočeský	20.92	6.08	53.54	0.48
Jihočeský	25.30	7.18	60.60	0.61
Plzeňský	29.40	8.34	67.99	0.73
Karlovarský	23.07	5.99	58.34	0.31
Ústecký	22.09	7.36	73.58	0.51
Liberecký	22.86	7.84	59.17	0.37
Královehradecký	28.16	7.54	71.72	0.53
Pardubický	23.09	5.52	49.87	0.40
Vysočina	21.35	6.44	58.18	0.30
Jihomoravský	29.48	9.91	72.56	0.52
Olomoucký	27.22	8.39	59.82	0.46
Zlínský	22.52	5.54	55.18	0.37
Moravoslezký	23.74	7.65	62.24	0.52

Source: Czech Health Statistics Yearbook 2000

Capacity of health care facilities is sufficient to ensure instant access to health care for inhabitants. There were minimal waiting lists in the early years of the new public health insurance system when fee-for-service reimbursement was used as dominant way of financing of health care facilities. Health insurance agencies faced in this years (from 1993 to 1997) oversupply of health care services. Nearly no waiting lists were reported in these years even for complicated operations (hip transplantation etc.). The situation has changed rapidly after imposing budgetary caps on reimbursement of health care in 1997. Waiting lists for some operations have been introduced unofficially that has brought incentives for under-the – table payments.

5.1.6 Public acceptance of the system

The public health insurance system generally meets acceptance in the population regarding coverage and benefits. The Czech population has been accustomed to a high level of health care coverage from public funds nearly

the whole twentieth century. Voices demanding restrictions of benefits from the public health insurance in favour for supplementary forms of insurance or out-of-pocket payments can be heard - nevertheless this seems to be rather a political weapon than the prevailing public opinion.

Administrative efficiency and transparency is generally considered to be low, although administrative costs of the public health insurance system form only 3.9 percent (year 2000) of total returns of the public health insurance system. A critic focuses on the number of health insurance agencies (currently 8). The argument is that the existence of several insurance agencies causes extra administrative burden and complications. On the other hand, this argument might be overvalued if one consider the potential of competition to a full extent. However the legal framework of the Czech health insurance system prohibits the development of competition among health insurance agencies.

The public can evaluate efficiency and transparency of health financing namely through of view of providers and the corresponding picture made by the media. Financial mechanisms applied towards providers of health care are rather sophisticated in the last years and easily create an impression of weak transparency. On the other hand, expenditures on health care keep pace with the overall inflation rate in the last years that can be considered to be evidence of efficiency in this area.

5.2 Evaluation of future challenges

5.2.1 Main challenges

The main challenges of the current health care system can be summarized as follows:

- Keep health care expenditures within acceptable limits in pace with the overall inflation rate.
- (Just after launching of the reform, health care expenditures stepped up heavily due to the privatisation in health care and penetration of new drugs and medical technologies. Since several years the share of health care expenditures on the GDP has stagnated with slight increase in last years.)
- Ensure equal access to quality health care for all citizens and avoid bribery in health care.
- (Gates to introduce heavy co-payments in health care sector are still closed, nevertheless attempts to define non standard services paid out-of-pocket with overlaps to services from the public health insurance are observable.)
- Exercise effective methods to ensure comparable quality of health care rendered.

- (An Initiative to collect comparable data on quality of health care has been launched quite recently)
- Introduce national case mix system for cost, utilisation and quality control of health care rendered .
- (The Ministry of Health launched recently a project to design a national case mix system for hospital care based on the DRG system)
- Find the right content for competition among health insurance agencies.

5.2.2 Financial sustainability

The public health insurance system in the Czech Republic seemed to be very unsustainable during 1993-1998. Reasons for such development were specific to the transformation period, namely:

- Open ended financing of health care through fee-for-service
- Extensive privatisation of health care facilities prevalently in outpatient care
- Penetration of new drugs on the Czech market

The deficit of the public health insurance system amounted for some 4-5 percent in this period. This resulted in several bankruptcies of health insurance agencies and delayed reimbursement of health facilities from others. The number of health insurance agencies decreased from 29 to current 8 agencies..

This undesirable financial development has been reverted by a couple of steps or factors in recent times:

- replacing the fee-for-service financing by other methods (Capitation for general practitioners, budgets for hospitals and fee-for-service with strong limits for specialists)
- increase of health insurance contributions paid by the state budget for person without any earnings (This has negative effect on deficit of the state budget and the state debt that goes up sharply in last years.)
- more favourable economic development after the crisis in 1996

There are no long-term projections of the financial development of the health care sector based on social, demographic and economic development of the country. Short and medium term development is influenced by far more by factors that lie inside the health sector, namely:

- income level of health care personnel (amounts nearly for 50 percent of total health care expenditures)
- density of network of health care facilities and possible oversupply of health care services

5.2.3 Health care policy and EU accession

Accession of the Czech Republic to the EU will influence:

- Adjustment of education of medical personnel
- Adjustment of licensing

Medical chambers are undertaking necessary steps in these directions, although confusion on actual requirements of the EU emerges sometimes.

- Move of medical personnel

This may cause serious problems in case of paramedical personnel rather than in case of physicians. The move-in of foreign physicians seems to be effectively controlled by the contractual policy of health insurance agencies. The medical chamber is threatened by movement of physicians outside the Czech Republic. Future development can by hardly forecasted - currently these threads are perceived rather as a part of negotiation process on fees and salaries.

- Utilisation of health care in other EU countries

It may cause some problem; its impact can be influenced by the following observations:

- Price level of drugs and technical means approaches the level usual in the EU countries.
- Language barrier will still exist for several years after accession.
- Reimbursement of health care is bound to a contract between a provider and a health insurance agency for non-urgent cases. This will allow controlling effectively access to health care abroad.
- The Czech government has already started bilateral negotiation with selected EU countries about rendering of acute care for Czech citizens abroad and vice versa. Two agreements have already been signed (Austria, Luxemburg).

5.3 Evaluation of recent and planned reforms

5.3.1 Recent reforms and their objectives

Basic features of the health insurance system were preserved during the post war period nevertheless tendencies for centralization were generally promoted. After communist coupe in 1948 did the Semashko's model of health care organisation according Soviet pattern quickly replace the former health care system

This new model of health care organization was apparently simple national system, which provided a single organisation for each territory

covering all health services. The government, without regard to performance, financed this organisation. There was no split between financing and delivery of health care services. Basic administrative unit were district institutes of national health. Its directors were doctors appointed by the government with communist party approval.

This system was theoretically ensuring for all inhabitants health care free of charge and actually achieved visible results in early post-war times. Absolute centralisation, bureaucratisation and the removal of incentives produced an utterly inflexible system in which loyalty rather than ability was rewarded and efficiency declined. Providers lost their motivation and relationships with patients suffered. Doctors and patients were assigned to each other without choice.

With growing economic failure, health care funding was reduced and a black economy and favouritism undermined the system's claims to fairness. Under-the-counter payments may well have added another 1 to 2 percent of GDP to the low official figure of 4.2 percent of GDP on health care (expert estimations).

Following the revolution of 1989 the Government began with a massive programme to reform the health care system. What had until then been a national health care system, with a single organisation and financed largely out of taxation, was turned upside down, in line with other sectors of the Czech economy and the general reform movement. The main reform objectives were to achieve:

- the decentralisation and de-monopolisation of health facilities;
- greater choice of health providers for patients;
- greater autonomy for doctors and hospitals;
- more emphasis on ambulatory care rather than inpatient care
- multiple health care financing institutions-health insurance funds financed out of health insurance contributions

Health care financing was reformed at the beginning of 1992 with the establishment of the General Health Insurance Agency of the Czech Republic and the framework for the public health insurance. The legal framework was completed in 1992 by passing the law enabling a non-state health facility and another law on so called employee health insurance agencies. In January 1993 the Czech health insurance system became autonomous, collecting premiums and disbursing payments to health facilities without direct government involvement.

The Czech citizens are entitled according the Constitution to health care free of charge within the framework of the public health insurance under conditions specified by a law.

5.3.2 Political directions of future reforms

The Czech health insurance system has been reintroduced quite recently and still cannot be considered matured. Strong voices advocated deep reform of this health insurance system several years ago. It seems now that there is no political order to change the system and only relatively minor enhancements of the health insurance system are proposed in programs of major political parties.

Left wing political parties propose to preserve the contemporary system and not to increase level of out-of-pocket payments. (The social democratic party even proposes provision of medication free of any charge for seniors above 70.)

Left wing political parties favour generally higher level of state control over health insurance agencies and some of them also propose to decrease number of health insurance agencies within the public health insurance schema..

On the contrary right wing political parties stress individual responsibility for health status and plan to replace partly reimbursement from public insurance funds by individual reimbursement either from supplemental health insurance or out-of-pocket.

Nevertheless no comprehensive transformation of the health insurance system seems to be on the table. There are still several items on the agenda that will be discussed in short or medium time frame and that are to some extent political neutral:

- Introduction of family insurance in the public health insurance schema (Each person is insured separately now and the state budget pays for a person without any earnings).
- Adjustment of premiums of self employed persons (Average health insurance premium for a self-employed is about a half of average income for an employee from a point of view of health insurance agencies.)
- Transfer of provision of sickness benefits from social insurance to the public health insurance scheme (There is no consensus on this issue yet.)
- Reconsideration of risk adjustment scheme among health insurance agencies (Current risk adjustment schema takes into account only the number of persons without any earning and - within this group of persons - the rough age structure)
- Introduction of case mixed based financing of hospital care (A project for creation of national DRG system is in place.)
- Designation of general practitioners as gate keepers (There is direct access to specialist without any referral from a GP)

5.3.3 Conclusions

The reform process of health care provision and health care financing in early nine tees brought a lot of visible achievements:

- Remarkable increase of life expectancy (from 67.6 in1990 to 71.7 in 2000 for men and from 75.4 to 78.4 for women)
- Visible enhancement of medical equipment in most health facilities
- Access to broad choice of drugs
- Free choice of a doctor for all inhabitants
- Higher portion of the GDP was the nature price for the above-mentioned achievements. This price seems still to be affordable.

The set up of the Czech health care sector provides several levers to trim allocation of resources and to facilitate adjustment of incentives and risks of all participants. These levers can be utilised within framework of the current system.

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