

National Social Report 2012

The Czech Republic

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Introduction

This National Social Report (hereinafter the “NSR”) aims to provide comprehensive information on the implementation by the Czech Republic of the general overarching and specific objectives of social protection and social inclusion defined on EU level within the open method of coordination (hereinafter the “OMC”). The report describes the measures implemented or prepared by the Czech Republic in the areas of (a) social inclusion and poverty reduction, (b) provision of adequate and sustainable pensions, and (c) provision of accessible, high quality and sustainable healthcare and long-term care. With regard to the fact that an essential part of the measures and policies implementing the OMC objectives contributes at the same time to the implementation of European and national objectives of the Europe 2020 Strategy for smart, sustainable and inclusive growth and is part of the National Reform Programme 2012 (hereinafter the “NRP”), the NSR 2012 supplements the NRP 2012, referring to it in many points and specifying certain areas of the reforms of the respective social protection and healthcare systems. Nevertheless, the NSR does not analyze in detail the impacts of the individual reform steps on individuals and social groups.

The NSR has been prepared upon consultations with relevant social partners who are members of the Interministerial Coordination group for the EU affairs of the Ministry of Labour and Social Affairs of the Czech Republic (hereinafter the “MOLSA”)¹ and of the Social Inclusion Committee².

1. Economic and Social Context³

The macroeconomic development of the Czech economy was gradually becoming worse in 2011. The growth of GDP decreased, compared to the previous year, to 1.7 %; in the 2nd half of the year GDP was already decreasing. This development had both internal and external causes: a deepening decrease in the household consumption dynamics is seen as a significant factor existing within economy; an external cause was especially the global deceleration of economic growth, which manifested itself in a lower rate of foreign demand for Czech goods, since export was a priority element of the Czech GDP growth. For a vast majority of 2011, investments were reducing, too, and the only growth factor was – even despite the above-mentioned problems – the foreign trade (especially in the cars market). The growth in consumer prices slightly accelerated – compared to the previous year – to 1.9%.

¹ Interministerial Coordination group for the EU affairs of the Ministry of Labour and Social Affairs of the Czech Republic is a working body of the Interministerial Committee for the European Union which is the main working coordination body of state administration of the Czech Republic towards the EU in accordance with the Government Resolution No. 427 of 28 April 2003.

² The Social Inclusion Committee is a regular advisory, initiative and coordination body of the Minister of Labour and Social Affairs in the area of social policy, specialized in social inclusion, fight against poverty and social exclusion.

³ At present, there are many different approaches worldwide to measuring and monitoring poverty, and individual results of such measurements may differ. The assessment of the development of poverty in the Czech Republic in chapter 1; titled Economic and Social Context of the NSR 2012 is based on the indicator “at-risk-of-poverty rate”, which is an internationally comparable indicator of poverty reduction and social inclusion agreed by the European Commission and EUROSTAT. EUROSTAT does not work currently on changes of definition of at-risk-of-poverty rate. According to the data of aggregate indicator of poverty reduction and social inclusion (composed of indicators: at-risk-of poverty rate, material deprivation and number of persons living in jobless households or households with a very low working intensity) the Czech Republic in 2010 showed the best result (14.4 %) of all the EU (EU-27 average amounted to 23.5 %).

As a result of a slight improvement in the labour market and implementation of legislative amendments adopted from January 2011, in 2011 there were financial savings particularly in the area of unemployment benefits (reduction of expenses by 22.5%) and in some non-insurance benefit systems (reduction of expenses of social support benefits by 11.7%, of care allowance by 7.7%). Pension insurance benefits and non-insurance benefits improving the social situation of low-income households in a material need increased – compared to the previous year – both as regards the number of recipients and the amount of expenses. The expenses of pension insurance benefits increased by 5.6% in relation to the pension indexation performed from 1 January 2011 and as a result of the increase of the number of pensioners. The growth in the expenses of benefits of assistance in material need by 28.4% was mainly influenced by the growth in the expenses of housing in combination with a less favourable income situation of households and legislative amendments in the social support.

Nevertheless, the poverty rate in the Czech Republic remains low. In 2009 it was the lowest of all EU countries and amounted to 8.6%. Due to the economic crisis, the at risk of poverty rate increased in 2010 by 0.4 p.p. and amounted to 9%, which was again the lowest rate of all Member States. The overall poverty rate in the Czech Republic is significantly influenced by social transfers. Without pensions and other social transfers 37.2% of population would live in 2010 below the poverty line (social transfers reduced the poverty rate by 28.2 p. p., indicating their effectiveness). Official information on at risk of poverty rate in 2011 will be provided in the second half of 2012 (this data will already include all impacts of the economic crisis); it is expected that the current situation may deteriorate. According to preliminary data of the Czech Statistical Office, at risk of poverty rate increased in 2011 to 9.7%.

2. Review of progress made against the overarching objectives of the OMC

In 2011 reform of the pension system and of employment and social protection systems (Social Reform I.), reform of the healthcare system, and reforms of other systems were prepared and approved. These reforms are part of the Government's effort to improve the functioning and effectiveness of social protection and employment systems. Their aim is to simplify the system, increase the effectiveness of social transfers and to ensure a better targeting of the assistance to individuals who really need it, as well as to improve the effectiveness of the institutional framework of these systems. In the effort of securing a financial sustainability of these systems and maintaining a necessary social cohesion in the society, the adopted measures at the same time contributed to the Government's effort to reform and stabilize the public finances in a mid-term horizon in order to reach a balanced budget in 2016. With these aims, the main challenges and priorities of the Czech Republic in following the common objectives of OMC in 2011 and 2012 have been adopted:

Social inclusion and poverty reduction:

- to enhance the employability of socially excluded persons and of persons at risk of social exclusion in the labour market by means of a larger interconnection of social protection with employment policy, by increasing the motivation of an individual in a difficult social situation to improve their social status by their own effort, especially by entering the labour market;
- to activate groups of citizens excluded from the labour market, limit the scope of illegal work, extend the tools of active employment policy and make them more efficient, expand the possibilities of providing employment and improve the qualification of the employed and of the unemployed in accordance with the needs of the labour market, among other things also by means of changes in the preparation for employment and implementation of lifelong learning and training programmes;
- to improve the system of benefit assistance and make it more effective by means of reducing the number of existing benefits, simplifying the criteria for entitlement to the benefits and the method of payment, by better targeting and directing the benefits, by reducing the number of health assessment schemes and by using modern and internationally acknowledged approaches to the health assessment;
- to support access to key services of social type, such as social services and services for families and children, community activities and other subsequent activities; in order to ensure social inclusion or prevention of social exclusion of persons, where it is possible, to give precedence to social services provided in the natural environment of the users;
- to implement measures for the improvement of the system of care for children at risk; to increase emphasis on the solution of the territorial dimension of social exclusion in structurally inadequately developed regions; all these efforts are meant to support a dignified life of an individual in his/her natural environment.

Pensions:

- to contribute to a fiscal sustainability and strengthen a longer-term stability of the pension system;
- to distribute the intergenerational burden more fairly in time;
- to strengthen the principle of equity in the area of pension system;
- to ensure diversification of income in old age by means of a multipillar pension system;
- to ensure protection against poverty in old age.

Medical and long-term care:

- to make the public health insurance system more effective;
- to improve organization, structure and quality of the healthcare with a special focus on acute inpatient institutions and in relation to the improvement of the system of education and human resources development in healthcare;
- to support e-Health and information technologies;
- to set up a new system of health-and social care.

3. Reducing poverty and social exclusion

The Czech Republic has set the following as the national target of poverty reduction and social exclusion: *“maintaining the limit of the number of people at risk of poverty, material deprivation or living in jobless households by 2020 at the same level as in 2008. The Czech Republic will at the same time make an effort to reduce the number of people at risk of poverty, material deprivation or living in jobless households by 30 000 people”*.⁴

The national target of poverty reduction and social exclusion is based on a comprehensive indicator that is made up of the following three partial indicators:

- (1) income poverty (at-risk-of-poverty rate);
- (2) material deprivation;
- (3) number and ratio of people aged 0-59 years who live in jobless households or with a very low work intensity.

Implementation of the national target is influenced by the Czech Republic’s ability to recover quickly from the crisis, by the development of economy, by the situation in the labour market and by demographic development. In 2010 the rate of population at risk of poverty or social exclusion increased by 0.4 p.p. to 14.4 %, which was about 1,495 thousand people. The rate of population at risk of poverty or social exclusion in the Czech Republic remained the lowest of all EU countries (according to Eurostat data, the EU-27 average was 23.5 %).

Maintaining the same number of people at risk of poverty or social exclusion in 2020 at the level of 1,556 thousand people as of 2008 at the expected growth of population means reduction of the rate of these people in the total population from 15.3 % to 14.7 %. In order to reduce the number of people at risk of poverty or social exclusion by 30,000 people, it would be necessary to reduce the rate of these people in the total population from 15.3 % to 14.4 %.

The preliminary results of EU-SILC 2011, which reflect the situation of households in 2010 and in the spring of 2011, show that the rate of at risk of income poverty increased in comparison to the previous year. According to the preliminary data, 1,008 thousand people (i.e. 9.7 % of all people) in the Czech Republic were at risk of income poverty, which is by 71 thousand more than in the previous year. Women were at risk of poverty more often (10.4 % of all women) than men (8.9 % of all men). Most at risk of poverty were people in incomplete families (34.7 % of people) and especially in households of the unemployed (45.7 % of people), where their number grew by more than 5 p. p. as a result of increase of long-term unemployment. The previous trend of decreasing this rate was reversed in 2010 as a result of a slow-down of the growth of households’ income starting in 2009 in connection with the impacts of the global financial crisis. The rate of material deprivation in the entire population remained according to preliminary results in 2011 approximately at the same level as in the preceding year, i.e. 6.1 %; there were, however, greater divergences of its concentration within the total population.

⁴See NRP 2012, p. 45.

The precondition for the fulfillment of the main target set by the Czech Republic in the area of poverty reduction for 2020, is economic growth, implementation of reforms and, in particular, fulfillment of targets in the area of employment. Reform measures in the area of employment and social affairs should among other things ensure a better interconnection of the social protection system with employment policy, which is in compliance with the main principles of the concept of active inclusion. Based on this mutual relation between the two areas, the individual main measures⁵ are divided in the following parts of this chapter in such a way as to correspond with the pillars of this concept.

The European Social Fund plays an important role in social inclusion, which besides the area of employment helps also in social inclusion of people and supporting equal opportunities with an emphasis on the development of labour market and human resources. It supports the development of social services and other tools which lead to the social inclusion and to the prevention of social exclusion, such as for example transformation of residential social services, improvement of quality and accessibility of social services, educational programmes, courses or professional training for people at risk of poverty and social exclusion.

Conceptual document “Long-term vision of MOLSA in the area of social inclusion” is under preparation in 2012. The document analyses the current situation in the areas influencing the social inclusion processes, sets up the main priorities in the fight against poverty and social exclusion and outlines the orientation of such policies which should lead to fulfilling the national target of reducing poverty and reinforcing the social cohesion in the Czech Republic. The vision will be a basis for the Social Inclusion Strategy until 2020.

3.1 Measures for the development of active inclusion of disadvantaged groups

In September 2011 the Government of the Czech Republic approved the **Strategy of Fight against Social Exclusion for 2011-2015**. The Strategy includes more than a hundred of specific measures that are targeted in particular on the support of employment, participation of socially disadvantaged children into the main education stream, prevention of family break-up and taking children away into institutional care, or safety in and around the socially excluded localities. The measures address not only the situation of the citizens in the socially excluded localities but also the situation of the territory on which the socially excluded area is located.

In 2011 the Czech Parliament approved the **amendment to the Assistance in Material Need Act**. The new legislation aims – besides transfer of the decision on the material need assistance benefits from municipalities to the Labour Office of the Czech Republic – to ensure better targeting of assistance at people who really

⁵ The measures mentioned below were adopted within the following acts:

- Act No. 364/2011 Coll., amending certain acts connected with austerity measures within the remit of the MOLSA;
- Act No. 365/2011 Coll., amending the Act No. 262/2006 Coll., the Labour Code, as amended, and other related acts;
- Act No. 366/2011 Coll., amending the Act No. 111/2006 Coll., the Act on Assistance in Material Need, as amended, Act No. 108/2006 Coll., the Social Services Act, as amended, Act No. 117/1995 Coll., the State Social Security, as amended, and other related acts;
- Act No. 329/2011 Coll., governing the provision of benefits for persons with disabilities and the amendment to related acts;
- Act No. 367/2011 Coll., amending the Act No. 435/2004 Coll., the Employment Act, as amended, and other related acts.

need it, tightening up the conditions for people who consciously avoid working, increasing the motivation of people in material need to change their unfavourable situation, develop their social and work habits for entering the labour market and seek employment,⁶ but also for instance to provide a higher assistance to families with children by means of paying the expenses of education, leisure activities and social and legal protection by means of special immediate assistance.

Organization of **community service**⁷, which helps the inclusion mainly of long-term unemployed people and persons excluded from the labour market⁸, was transferred from municipalities to the Labour Office of the Czech Republic. This change was implemented in order to simplify the access of persons in material need to the community service, increase the availability of the service and extend the areas of its performance. If a job seeker who has been registered for more than two months refuses without a serious reason to perform this service in the amount of up to 20 hours a week, he/she will be removed from the register.

In November 2011 the Parliament of the Czech Republic also approved an **amendment to the Employment Act**, which contains changes in the areas of registration and keeping the register of job seekers, unemployment benefits or retraining etc. In 2012 the preparation of a new concept of employment will continue, with emphasis on employment of people with disabilities and foreigners, and a more intensive and flexible use of active employment policy tools.

With respect to the **youth employment**, the main problem are school leavers without any work experience and a discrepancy between qualifications of young people and the needs of the labour market. Young people up to 25 years of age and school leavers without any work experience are identified as a disadvantaged group in the labour market, and increased attention is paid to them within the active employment policy. The Employment Act after its last amendment enables registering the people who are preparing themselves for their future occupation in the registry of job seekers, and at the same time supports acquiring professional experience of a student during his/her studies, whereby it increases his/her employability. A higher flexibility of the labour market in the area of acquiring qualification will also be ensured by the tool of selected retraining, which means that a job seeker or a job applicant may choose a training/retraining institution and a retraining course according to his/her own competencies and possibilities of employment. Short-term practices during studies and after completion of studies are supported e.g. within the project called “Internships in Companies – Education by practice” – that is being prepared for implementation by a newly established institute – the Further Education Fund. The educational system is also undergoing a reform, the aim of which is to improve the reconciliation between the qualifications offered and the demand in the labour market. Professional occupational guidance services are offered to young people to help them choose a field of education required by the labour market.⁹

⁶ See NRP 2012, p. 46 and 52.

⁷ As regards motivation, community service as a tool for work with a client is only suitable for clients who have not completely given up on solving their own situation. The motivation offered through this service is particularly the permeability of community service scheme. A job seeker who successfully completes community service, enhances his/her chances of finding regular employment. Successful applicants will be offered a subsidized employment within the tools of active employment policy. The aim of community service has never been to secure a cheap workforce, but rather to involve the unemployed in the life of municipalities and communities, and for some of them to enable them to maintain or renew their work habits.

⁸ See NRP 2012, p. 48 and 50.

⁹ See NRP 2012, p. 11 – 12, p. 44, p. 48 – 51.

Attention is also paid to measures targeted at increasing the **employment of older people** (especially those over 55 years of age). The measures are included in the National Programme of Preparation for Ageing for the period 2008-2012 and in the currently prepared new National programme for the period 2013-2017. Disadvantages of this group of job seekers are also being addressed by means of the active employment policy tools and European Social Fund projects designed to increase their adaptability, qualification, skills and thereby their employability in entering the labour market.¹⁰

Several measures have been adopted to support **employment of women**, particularly those after their maternity and parental leave; the measures (also in the area of benefits) enable keeping in touch with the employment during the time of taking care of a child and a gradual return or entering the labour market with respect to their plan to reconcile the professional, family and personal lives. In order to increase and ensure a sufficient offer of pre-school care and support of the development of wider spectrum of providers of childcare services, a new legislation is being prepared regulating the alternative type of childcare services¹¹. They should complement the network of public childcare services. Family-friendly tax measures are being prepared, consisting in tax deductibility of costs incurred by employers who provide care to their employees' children and a tax reduction for parents who due to return to work or entering the labour market pay for childcare¹².

Inclusive education, which is based on equal access to the right to education (enshrined in Education Act No. 561/2004 Coll., as amended on preschool, primary, secondary and higher vocational and other education) is a key element for supporting social inclusion and fighting against poverty, increasing the participation in the labour market and reducing structural unemployment. Emphasis is put on a due performance of compulsory education. Inclusive education is acquiring a key importance especially in socially excluded localities. By the end of 2013, a system of support of participation of children from socially and economically disadvantaged environment in preschool education will have been created, which will increase the ratio of these children in pre-school education (to prepare these children for school attendance, i.e. to enable them a normal school attendance, and later on also to involve them in a better way in their private and professional life).¹³

In the area of legislative changes towards inclusive education, significant progress has been achieved this year. Several legislative norms were amended, which should support inclusive education measures in the education system of the Czech Republic (especially the amendment to Decree No. 72 and 73/2005 Coll.). Training programmes in the basic education can now adapt to the real individual needs of children, pupils and students with special educational needs. The legislative changes were also aimed at improving the counselling provided to disadvantaged pupils and their education.

The validity of the written recommendation of the school advisory facility is newly defined in § 1 of Decree No. 72/2005, on the provision of guidance services in

¹⁰ See NRP, chapter III. 2.2. and III. 2.3.

¹¹ See NRP 2012, p. 44 - 50.

¹² See NRP 2012, p. 52.

¹³ See NRP 2012, p. 52.

schools and school facilities, according to Decree No. 116/2011, Coll., only for one year.

In the area of social inclusion of **persons with disabilities**, the Czech Republic makes continuous efforts to support a full-value life of persons with disabilities, which includes employment, education and a maximum social inclusion. In 2012, a legal regulation of a coordinated rehabilitation of persons with disabilities should be submitted to the Government; the legislation is to contribute to the unification of the system of coordination and provision of rehabilitation to such persons.¹⁴

The issue of **social inclusion of the Roma** is also dealt with in the Roma Integration Concept for 2010–2013, whose main aim is to attain a conflict-free coexistence of Roma community members with the rest of the society¹⁵. The document contains measures targeted at equalizing the chances and initial disadvantages of the Roma which prevents them from standard participation in the cultural, social, economic and political life of the major society. The measures from the above-mentioned Strategy of Fight against Social Exclusion for 2011-2015 are being fulfilled. The Strategy reacts widely in particular on the local extent of social exclusion, i.e. the issue of socially excluded localities. The main activity performed by the Agency for Social Inclusion in Roma Localities, is establishing local partnerships with representatives of the local government, state administration, non-profit sphere and other actors who are or may be involved in the process of social inclusion in the community. Some NGO's work effectively and over a long period in many areas of social inclusion in the socially excluded localities. The inclusion of the socially excluded Roma and other endangered groups is, besides the specific tools of social inclusion, supported by more flexible labour law, a more effective system of social transfers, increasing the financial literacy and inclusive education.

In order to support employment in socially excluded localities and to improve the use of human capital, an analytical assessment of effectiveness of the current active employment policy will be performed. Based on this study, MOLSA will prepare a conceptual document "Employment Strategy", which will include specific measures, their content and focus and an implementation plan¹⁶.

In the area of reform of the **system of care for endangered children**, The Czech Republic is preparing unification of the management structure and financing, creating a single network of services for the work with families and children, a complex system of substitute family care, a unified information system in the area of children's rights protection and other measures which will lead to securing the protection of children's

¹⁴ See NRP 2012, p. 53.

¹⁵ The partial objectives defined by the concept include the following six priorities, which are linked to appropriate measures:

- to create a tolerant environment without any prejudices, in which membership of a community based on race, skin colour, citizenship, language or membership of a nation is not a reason for a different opinion on or treatment of an individual;
- to remove external barriers which prevent inclusion of members of Roma communities into society, i.e. in particular to remove all forms of discrimination against individuals and whole groups based on race, skin colour, citizenship, language or membership of a nation or ethnic group;
- to assist in removing internal barriers which prevent inclusion of members of Roma communities into society, i.e. especially removing the handicap in education and qualification;
- to improve the social status of members of Roma communities, i.e. in particular to reduce their unemployment, to improve the housing situation and subsequently the state of health;
- to prevent social exclusion in Roma communities and remove its consequences;
- to develop and include the Roma culture and language into the majority culture of the Czech society; to ensure security of members of Roma communities.

¹⁶ See NRP 2012, p. 54.

rights in the Czech Republic and limitation of placement of children in institutional care.¹⁷ Another issue to be dealt with is child poverty, including the intergenerational transmission of poverty.

In the half of 2011, the **Concept of Housing** in the Czech Republic until 2020 was approved. Following this concept, an analysis and review of social benefits related to housing will be prepared in 2012 together with an analysis of a possible transfer of financial means determined for the housing allowance and housing supplement and specification of the complex competencies of municipalities in housing matters, which will be submitted to the Government. Following the above stated, a comprehensive solution to social housing will be prepared, using the institute of so-called emergency housing. It defines a social situation and events in connection with an unsatisfied housing need¹⁸. At the same time, a concept of solution to homelessness is being prepared, which will be focused on a complex solution to the situation of persons endangered by an extreme social exclusion¹⁹.

Another important area of preventing social exclusion is the issue of **financial literacy**, measures preventing over-indebtedness, limiting inappropriate increase of debts and reducing executor's competencies.²⁰ EAPN²¹ together with many NGOs, the office of the Public Defender of Rights, media and other institutions achieved legislative changes for the protection of individuals and families who fall into a debt trap.

3.2. Changes in the area of social benefits²²

The changes in the area of social benefits from 1 January 2012 were led by the effort to have – thanks to increasing effectiveness – enough means for paying benefits to persons who really need them, primarily by means of reducing costs of the system administration. The tools for achieving these goals include introducing a single place for the payment of benefits, reducing the number of benefits paid by the means of their aggregation into bigger units, introducing an effective assessment of income of the applicants for benefits, payment of benefits through an electronic payment means.

Changes in the **parental allowance** include the possibility for parents to flexibly change its amount and length of its receiving with respect to the current social situation of the family, until the family draws the target amount (CZK 220,000) or until the child reaches the age of four years. The chance of a parent of a small child to reconcile the professional career with family life also increases due to the abolition of restriction on entitlement to parental allowance by the length of stay in a childcare institution for children over two years old.

Granting the benefits for mitigating the social impacts of disability and for supporting social inclusion is regulated by a new **law on Granting Benefits to Persons with**

¹⁷ See NRP 2012, p. 55.

¹⁸ See NRP 2012, p. 55.

¹⁹ See NRP 2012, p. 55.

²⁰ See NRP 2012, p. 54, chapter III. 2.3.

²¹ EAPN - European Anti-Poverty Network

²² See NRP 2012, chapter III. 2.3.

Disabilities, which became effective in January 2012. The Act reduced the number of existing benefits to two basic ones (mobility allowance and grant for special aid) and authorized the Labour Office to decide on them. Thus the Act contributed to a better targeting of benefits and increasing the comfort for the benefit system users.

Since January 2012, the following changes regarding the **care allowance** were realized: increasing the monthly allowance from CZK 5,000 to CZK 6,000 for persons aged 1-18 years in the dependence degree II, enabling increase of the allowance by up to CZK 2,000 a month if the recipient is a parent of the dependent child or the dependent child itself and the income of the family (jointly assessed persons) does not exceed 2.0 multiple of the living minimum amount.

Furthermore, changes were implemented in the method of **assessing the unfavourable state of health** in determining the degree of dependence for the purpose of granting the care allowance. The health assessment doctors thus assess only 10 single areas of everyday life. For the disabled this means a more impartial and fairer assessment of their state of health. At the same time it eliminates the activities assessed duplicately, which results in reducing the administrative burden of the assessed persons. The social allowance that had been granted since 1 January 2011 to families with a disabled member was cancelled in relation to the above-mentioned changes of benefits for persons with disabilities. As regards housing benefits, a time limit was set up for granting the housing allowance and the housing supplement to 84 months in the last 10 calendar years. This measure is to mitigate the risk of people falling into a social trap and at the same time prevent a loss of motivation to find an own housing.

As of 1 January 2012, both the **amounts of living minimum** (i.e. also the limits of entitlements to income-tested benefits) and subsistence minimum amounts increased by 9 %. The increase covered the expected impact of the VAT increase.

As regards simplification and unification of the **employment and social protection administration**, on 1 April 2011 the Act No. 73/2011 Coll. became effective, establishing the Labour Office of the Czech Republic with 14 regional branches and 423 contact places.²³ This Act united the previous structure of public employment services (77 district labour offices). Since 1 January 2012, the competencies of the Labour Office of the Czech Republic has increased besides granting the social support benefits to granting benefits for persons with disabilities, care allowance and benefits of assistance in material need²⁴.

The social reform also includes introduction of the so-called "Social Systems Card", which will be used for payments of social benefits.²⁵

²³ See NRP 2012, p. 46.

²⁴ See NRP 2012, p. 46 a 52.

²⁵ See NRP 2012, p. 53.

3.3. Changes in the area of social services

The Government is preparing a more extensive amendment to the Social Services Act and a draft law on social workers. This is part of the continuous reform aimed at the support of availability of social services by means of effective and transparent management, distribution and monitoring of financial means provided from public budgets to social services²⁶.

4. Adequate and Sustainable Pensions

4.1 Pension Reform²⁷

Several reform measures were adopted in 2011 as part of the pension system reform, and they are gradually being implemented.

The so-called **small pension reform** is a set of parametric changes which have modified the PAY AS YOU GO pillar of the pension system. This reform has slightly increased the merit basis of the pension system.

In reaction to the decision of the Constitutional Court, the replacement rate of low- and high-income participants of the system was regulated by setting new reduction threshold for calculating the pensions, and the assessment base is now reduced as follows: up to 44 % of the average wage 100 % are calculated, from this limit to up to 400 % of the average wage it is 26 %, and above this limit the income is not taken into consideration; the transition to the target state is spread over 5-year transition period. As a result of these changes, the new pension calculation is lower for approximately 80% of applicants for pension, whose pensions are up to 3% lower than when calculated by the previous law. Furthermore, the reform established a further gradual increase of the retirement age and its faster unification for all insured persons (in the following years the retirement age will grow by 2 months every year, for women temporarily by 6 months every year; no final date of termination of the increase has been determined). A possible amendment of this mechanism in the future may be performed depending on new projections of demographic development. At the same time the rules for increasing the pensions have been adjusted: the amount of increase of pensions is no longer decided by the Government, but is subject to an exact specification provided in the law. These measures will ensure a higher long-term financial sustainability of the system.

The so-called **big pension reform**, which will actually commence in 2013, should in particular diversify more the sources of financing pensions (between capital and PAYG component) and thereby secure reinforcement of stability of the pension system in the future.

The reform consists mainly in a creation of a system of pension savings based on a voluntary decision of an individual to transfer a portion of the existing premium (3 p.p.) to individual accounts at private pension companies (funds) and a subsequent increase of this transfer by 2 p.p., and on modernization of the

²⁶ See NRP 2012, p. 53 – 54.

²⁷ See NRP 2012, p. 28.

supplementary pension insurance with the state contribution (3rd pillar). This measure will have a negative impact on the state budget due to the loss of income from pension insurance premiums. This loss is partially addressed by additional income of the state budget by the title of increasing the reduced VAT rate.

4.2 Comments on the specific recommendation on the pension system²⁸

Based on NRP's assessment in 2011, the Commission submitted to the Czech Republic among other things the recommendation on the pension system of the Czech Republic.²⁹

The Czech Republic adopted the pension reform in 2 steps – in September 2011 by the Act No. 220/2011 Coll., which performed amendments in the Pension Insurance Act, and in December 2011 by three acts, in particular Acts No. 426/2011 Coll., No. 427/2011 Coll. and No. 428/2011 Coll. Although the work on the reform acts had commenced before the recommendation was issued, most points included in the Commission recommendation were fulfilled by the reform acts.

Long-term sustainability

The amendment to the Pension Insurance Act was adopted in order to essentially reinforce the long-term sustainability. The result of the measures is lowering the costs of the pension system. The main factor for financial stability is increasing the effective retirement age.³⁰

The result of the increase is stabilization of the pension system deficit at less than 1 % GDP. For more than a half of the monitored period (from 2050 to 2100) this is a significant improvement of the balance by 3-4 % GDP compared to the situation before the reform. The improvement will begin to become evident to a lesser degree already in the middle of the current decade. The pension system will temporarily generate deficits exceeding 1 % GDP only between 2040 and 2070, when retirement age will be reached by strong population years of the 70s and 80s, while the less populous generation of people born in the 90s and at the turn of the millennium will be most active in the labour market.

Adequacy of future pensions

The adequacy of future pension insurance benefits has been reached by two measures. In the first place, the key parameters of the pension formula (assessment base, reduction threshold) were linked to the development of average wage and a long-term time schedule of increasing the effective retirement age. This ensured that pensions would not in the long term fall behind the development of wages in economy, and that as a result of improvement of sustainability it would not be necessary to adopt additional measures in the future to significantly reduce the amount of benefits. At the same time, this link contributes an element of predictability

²⁸ See NRP 2012, p. 11.

²⁹ „Implement the planned pension reform in order to improve the long-term sustainability of public finances and to ensure the future adequacy of pensions. Additional efforts should focus on further changes to the public pillar to ensure that the system is not a source of fiscal imbalances in the future, and on the development of private savings. With a view to raising the effective retirement age, measures such as a link between the statutory retirement age and life expectancy could be considered. Ensure that the envisaged funded scheme attracts broad participation, and is designed to keep administrative costs transparent and low.“

³⁰ Other factors include removing the possibility of discretionary indexation and increasing penalization of early retirement.

to the pension system, which will enable the citizens to adopt appropriate measures such as additional savings in order to ensure an adequate level of their pension incomes.

The adequacy of future benefits should also be reached by establishing a system of pension savings. Low-income groups of citizens will still be protected against the risk of poverty by pensions from the existing PAYG system, and high-income groups can at the same time use the system of pension savings to increase their income in retirement. This increase of adequacy is supported by allocating a higher volume of financial means to retirement security due to the obligation of supplemental payment of 2 % from the assessment base.

Acceleration of increase in retirement age

The gradual increase in retirement age is performed in accordance with the development of the middle life expectancy in the future. The time for which pensioners will receive their pensions, will be, upon the expected demographic development, essentially stable, i.e. about 20 years for men and 23 years for women. The only exception is the initial shortening of the time of receiving pension in case of women, which is caused by the unification of retirement age of men and women.

A faster increase in retirement age (which would mean shortening the time spent in retirement) than stated at present is groundless, socially unjust and hardly acceptable. Therefore we consider this part of the recommendation unrealizable.

Development of private savings

The significance of private savings in the area of pension security is reinforced by creating a system of pension savings and also by modernising the supplementary pension insurance. Implementing a quasi-mandatory system by means of opt-out with a supplementary contribution definitely contributes to the development of private old-age savings. A more modern character and changes in the structure of state contribution at the supplementary pension insurance lead to the increase of motivation and of the significance of private savings for retirement in a longer-term horizon.

Ensuring high level of participation in the fund system

The system of pension savings is at present in its implementation stage: it is being prepared. Entrance into the system will be enabled from 1 January 2013. So far it is not possible to assess factually the level of participation, or of the respective economic advantage and cost optimality of this system. No contingent steps to reinforce the participation are necessary at the moment. If they are taken, it will be done after some time and after a thorough analysis of functioning of the system.

Transparency and low-costness of pension savings

Low costs and their transparency are included in adopted acts. A regulation of costs (especially of acquisition of clients) and a simple structure of charges and their maximum amount for the management of financial means was determined.

5. Accessible, High Quality and Sustainable Healthcare and Long-term Care

5.1 Healthcare

The Government of the Czech Republic set an objective in its Policy Statement - to **adopt a series of reform measures leading to modernization and higher effectiveness of the healthcare system** with emphasis on a long-term financial sustainability, which was projected as the main viewpoint of the implemented reform steps. A wide range of reform measures from the NRP 2011 is thus being implemented in order to secure an accessible, high quality, financially sustainable, adaptable and effective healthcare for the citizens.³¹

Improving the efficiency of the public health insurance system

The Government has undertaken to perform modernization of the public health insurance, which was supported in 2011 e.g. by adopting two **amendments to the Act No. 48/1997 Coll., the Public Health Insurance Act**. The amendments particularized the definition of the scope of care paid from the public health insurance, and therefore also of the right of the patient. This legislation also among other things clearly defines the rules for drawing above-standard, and economically more demanding variants of healthcare, and will enable a gradual reduction of costs of drugs by means of reviews, agreed highest prices and in case of generics by electronic payment auctions³².

Reforms of the public health insurance system continue in 2012, too, and they are targeted at improving the efficiency of this system. In relation to this, a **new draft law on health insurance companies** is being prepared which will reinforce the responsibility of health insurance companies in the area of management of public funds and increase the pressure on their efficiency³³. The Act will define the health insurance company as a non-profit institution sui generis, with a responsible Supervisory Board and a Board of Directors that will be prohibited from owning healthcare facilities. The Act will specify the procedure of creation, existence and cessation of health insurance companies, the method of supervision and inspection, and establish the Health Insurance Office, which will provide common activities. The Act will also result in particularization of the definition of the scope of care paid from the public health insurance and the right of the patient.³⁴

Patient's rights and regulation of patient's behaviour

The Government also focused on reinforcing the patients' rights. With respect to the same, in the autumn of 2011 the Act No. 372/2011 Coll., the Healthcare Services and Terms of their Provision Act was adopted, which besides determining individual terms of providing medical care services for all providers, mainly specifies the rights and obligations of patients, who thus become an equal participant in the process of providing healthcare services.³⁵ For the patient it practically means that he/she has - by contrast to the past - a right to any and all information on his/her state of health

³¹ See NRP 2012, p. 31 - 32.

³² See NRP 2012, p. 32.

³³ See NRP 2012, p. 32 – 33.

³⁴ See NRP 2012, p. 32 – 33.

³⁵ See NRP 2012, p. 31 – 32.

and the healthcare services provided; he/she is free to choose a healthcare provider; he/she has a right to receive detailed information on the treatment used; he/she has a right to the presence of close persons, or may choose persons who are entitled to receive information on his/her state of health.

Providers of healthcare and education

The Government has also decided to particularize and unify the terms for healthcare providers, which were solved by adopting the **Act No. 372/2011 Coll., regulating the healthcare services and terms of their provision**. In practice this means, e.g. that patients' complaints will be settled by a unified procedure, and that providers, insurance companies and regional authorities will be obliged to provably deal with the complaints under a threat of sanctions. Furthermore, all data on the healthcare services providers will be made accessible.

The Government also adopted the **Act No. 373/2011 Coll., the Specific Health care Services Act** (it regulates e.g. blood donation, artificial insemination, sterilization of women, castration of men or sex reassignment) and the Act No. 374/2011 Coll., the **Emergency Medical Service Act**, which represents a complex legal regulation complying with current requirements of providing pre-hospital emergency service, which has been missing so far.³⁶ This Act among other things improves the efficiency of cooperation between the emergency medical service and hospitals by determining clear rules and states that the emergency medical service response time does not in a vast majority of cases (95%) exceed the limit of 20 minutes.

Another objective of the Government was to finish the reform of education of healthcare workers. In order to fulfil this objective, a combination of economic, legislative and executive tools will be used. One of the priorities is to improve effectiveness of management of state-owned hospitals and to clarify the competencies within these organizations. This area will be regulated by the **University Hospitals Act**, which is being prepared and which will reflect the dual function of the existing university hospitals which provide treatment as well as education.³⁷

The system of education of medical doctors³⁸ will be optimised, and in order to improve the system of education of non-medical workers the **Act No. 36/2004 Coll., regulating the terms of acquiring and acknowledging the competence for performing non-medical healthcare professions**³⁹ was amended.

Support of eHealth and information technologies

In order to ensure a higher transparency of providing and payment of healthcare, a continuous support is provided to the eHealth system and to information and communication technologies as significant tools of controlling and monitoring the impacts of individual reform steps⁴⁰.

The issue of computerization of healthcare as a tool for increasing the transparency and effectiveness of the healthcare system is dealt with especially within the project

³⁶ See NRP 2012, p. 32.

³⁷ See NRP 2012, p. 33.

³⁸ See NRP 2012, p. 33.

³⁹ See NRP 2012, p. 32.

⁴⁰ See NRP 2012, p. 33 – 34.

of *medical documentation computerization* (technological platform for exchanging and sharing medical documentation data), identifiers (of the insured person and of the medical professional), registers (databases defined within and outside the National health information system) and prescription (databases of prescribed and delivered drugs or medical material). The computerization of healthcare, however, relates significantly to the supervision and regulation of drugs, telemedicine and education (e.g. for the standardization and development of possibilities of modern methods of distance education of medical professionals and citizens within education of contingent preventive care).⁴¹

5.2. System of health and social long-term care

In its Policy Statement the Government also promised to define the long-term health and social care and establish a complex system of health and social services. This aim should be attained by adopting an act on this issue that is being prepared.

The **new legislation** will significantly improve the effectiveness of spending public funds from the public health insurance system and social benefits, secure an accessible and good quality long-term care provision according to individual needs of the client and secure equality of conditions for all citizens and providers of long-term health and social care. The aim is to define clearly the area of long-term care, and interconnection of health and social services provided within its scope, clients' entitlement and its assessment, and to determine appropriate requirements for the personnel and material equipment of the providers.⁴²

The cooperation between health insurance companies, the Government and regional authorities should gradually lead to optimalization of the network of inpatient treatment with the aim of providing people with optimum and adequate inpatient centres in relation to demographic tendencies. A defined number of urgent care beds will be cancelled or transferred into consequent care beds. The aim of optimalization of the health and social care is primarily the support of out-patient and field health and social services on community level, whereby the people who are ill for a long time might stay in their natural home environment for as long as possible. Besides supporting the transformation of in-patient care, the Government therefore aims to reallocate the financial means from the cancelled urgent beds towards the support of home healthcare. The project of optimalization of the health and social care is coordinated by MOLSA and by the Ministry of Health, health insurance companies and founders.

The need of the act is derived from the necessity to interconnect the health and social services and introduce the term **long-term care** as a new category, a specifically defined area of health and social services with a single process of assessment and fulfillment of the **client's needs**. In order to reduce administration, the act will - where it is not absolutely necessary to define new processes - use the existing processes stated in the At No. 372/2011 Coll., the Health Services Act, and in the Act No. 108/2006 Coll., the Social Services Act, as amended, and will provide their coordination and interconnection. The act will react to the existing

⁴¹ See NRP 2012, p. 33 - 34.

⁴² See NRP 2012, p. 34.

inequality among clients in drawing the long-term care services and to the insufficient accessibility of adequate long-term care both in home and institutional environment. This situation is caused by the current separation of financing and organization of healthcare and social care. Citizens in healthcare institutions usually do not receive the needed social care and represent a significant financial burden for health insurance companies. One group of citizens is in the long term hospitalized in institutions equipped for the provision of a different kind of services, while on the other hand the required services are not accessible. The result of this is inequality among citizens, economic inefficiency in spending public financial funds and a low quality and accessibility of services provided.

The act anticipates a common assessment of health and social needs of a client with a result valid for both sectors, including a combined financing from the state budget and from the public health insurance. The needs of clients of long-term care will primarily be fulfilled within home or outpatient care, including stationary care. If it is not possible for the clients to stay in their home environment, they will be provided with care in a stay form combining the healthcare and social services. The long-term care will be provided in the outpatient and home area by the existing providers of social services and by the providers of healthcare services - by them, it will particularly be provided in the form of outpatient and home healthcare.