Standard Summary Project Fiche

1. Basic Information

1.1. Desiree Number  CZ00-03-03
    Twinning number  CZ2000/IB/SO/01
1.2. Title  Support to Pension Reform
1.3. Sector  Economic Criteria
1.4. Location  Ministry of Labour and Social Affairs (MoLSA), Czech Social Security Administration (CSSA)

2. Objectives

2.1. Wider Objective

- Ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

2.2. Immediate Objectives

The Immediate Objective of this Project is to:

- Strengthen capacities to implement the acquis in the co-ordination of social security and complementary (occupational) pension schemes, rested on the principles of social cohesion, political, economic and monetary union, concentrating on the harmonisation of legislation with the acquis plus digitalisation of the system, leading to increased security and sustainability of the system, the harmonisation of the Czech Republic legislation with the acquis, with the aim of social security area to ensure full compliance of CR social security system with EU.

- Support the establishment of Social Insurance Company – SIC - (transformation of the existing Czech Social Security Administration into a new public institution, with financing separated from the State Budget).

2.3. Accession Partnership / NPAA Priority

The Accession Partnership (December 1999) highlights the following priorities:

- **Medium-term:** continue health care and pension system financing reforms; reinforce the related administrative structures and those required for the co-ordination of social security.

The National Programme (May 1999) highlights the need that:

- Reform of the pension system be undertaken immediately, especially owing to the long-term nature of this procedure;

- The pension system will continue to be based on the two pillars of compulsory pension insurance, which will continue to be financed on pay-as-you-go basis, and voluntary supplementary pension insurance;

- To make the compulsory system more transparent and to reinforce the principle insurance of the basic compulsory scheme it will be financially and institutionally separated from the state budget through the establishment of a new institute, a public Social Insurance Company;

- As regards voluntary pension insurance, it is expected in the near future, after the introduction of number of important changes by Law 42/94 amendment in 1999, including tax incentives for participants and their employers, the scheme will be further developed. At the same time new forms will be developed, primarily the possibility of creating occupational complementary pension schemes or others, based on commercial principles.
3 Description

3.1. Background / Justification

The transformation process between 1990 and 1999 created a statutory pension system based on two pillars: the first pillar of basic compulsory pension insurance, conceived on the basis of employment contribution financing, and the second pillar of complementary/supplementary pension insurance supported by a state contribution and since 2000 also by tax incentives.

Over the medium-term it is necessary to continue to reform this system to be able to deal successfully with future economic and demographic developments. The demographic projection elaborated by the Czech Statistical Office predicts the development of the ratio of economically active citizens/pensioners from 33% in 1996 to 31% in 2003, 32% in 2007. If the current gradual increasing of the pension age will not be continued after 2007 the ratio is predicted to be 36% in 2010 and 42% in 2015.

In order to ensure the insurance principles of the basic compulsory scheme and in order to increase transparency of its financial flows, its financial and institutional detachment from the state budget, by means of establishing a new public-legal institution (the Social Insurance Company) will be carried out.

The draft principles of the Law on transformation of Czech Social Security Administration (CSSA) into the Social Insurance Company was approved by the Czech Government in September 1999. The Law will be submitted to the Government in June 2000. The Law is planned to come into force partially in July 2001 and fully in January 2002.

The establishment of this new institution, requiring institution building support, will deepen the requirements for reliable data for its management and decision making. This will include high quality actuarial analyses and projections. Reaching the general consensus how to solve this issue will be an essential condition of the successful reform of the pension scheme. Wide expert and political discussion will therefore precede from 2000 onwards.

Concerning the administration of pensions, one of the aims of CSSA (SIC) is to ensure reliable, easily accessible and accurate information about the claims of citizens, based on transparent relations between the insured, organisation and insurance holder. This information will allow insurance holder to inform insured clients (including international ones) about their periods registered at the insurance holder, potentially also preliminary pensions calculations. Digitalisation of the system will also ensure pension benefits proceedings are quicker and more efficient.

Meeting all these preconditions is qualified by numerous measures at the technical level by conversion of various types of records about insured clients and periods of insurance and earnings into the computer database, i.e. the creation of personal accounts of insured clients. At present, CSSA archives about 90 million documents, with the digitising capacity of the existing plant in České Budejovice, with a staff of 50, is approximately 4.6 million documents per annum.

3.2. Linked Activities

The Project CZ 9703 01-02-10-01 “Digitising of the Administrative System of Social Insurance”. Output of this project which will be finished in September 2000 is an information system for the administration, distribution and directing of digital documents at the headquarters of the Czech Social Security Administration with an interface to regional branches.

The Project CZ 9703 01-02-10-02 “Statistical Build-up”. Outputs of this project which will be finished in November 2000 are:

• Developed methods for comprehensive use of the statistical system database of the Czech Social Security Administration;

• Completion of software equipment with suitable products for the use of statistical systems;
• Modification of the software usage methodology. Completion with applications and databases necessary for the evaluation of the development of pension insurance, namely its legislative amendments and development trends;

• Development of the software product system for available information and presentation of pension statistics.

The project under CONSENSUS II programme ZZ-9710-0053 "Employers’ sponsored occupational pensions: feasibility and perspective in the Czech Republic", it is supplementary pension scheme to be introduced in the Czech Republic. Setting up this scheme is the major steps in pension reform planned by Czech Government. MoLSA was to submit the substantial proposal concerning Employers’ sponsored occupational pensions to the Government in 1st quarter 2000 to be able to incorporate the results of this project. Final report of this study was submitted in late 1999 and project was finalised by seminar. Project 2000 proposal should be aimed at the system of state supervision of compulsory pension schemes.

The project proposal under CONSENSUS III programme “Implementing EU Co-ordination Rules as decided by Regulation 1408/71 and 574/72” is aimed not only at the MoLSA and CSSA but also at the other involved institutions covered by the regulations. There are 8 main subprojects but only one of them - Data collection and management is directly linked with this Phare 2000 project. The main aim of this element is to identify how the system operates in the Member States, how the exchange of data is functioning and how the data security is ensured. The project will be started in the second half of 2000, through to mid 2001.

3.3. Results / Outputs

The Outputs to be delivered and Guaranteed Results to be achieved via this Project include:

• CSSA transformed into fully operational Social Insurance Company, with necessary internal procedures and operational capacities (technical and personnel) to administer a digitalised pension system, meeting the requirements of EC legislation and EU co-ordination of social security;

• CSSA/SIC operational in compliance with Regulation 1408/71/EEC and co-ordination of the social security with the other foreign social security administrations established (data collection and exchange systems/operations);

• Proposals for sustainable and secure Czech social security system, in particular on how to improve the quality of state supervision of the system of supplementary pension schemes, including the employer sponsored schemes, analysed/defined (initial principles are now under preparation in MoLSA), with supervision systems strengthened;

• Extensive staff training for CSSA/SIC, in particular regarding actuarial analysis, methodology and the review of statistical data, plus management training (with SIC financed separately from the state budget, this will bring higher requirements for accurate data and skills for management and decision making;

• Support to establish a new digitising plant (at Karlovy Vary, with an annual capacity to process 7 million documents) to ensure conversion of all paper documents into electronic form by 2005 (50% digitalisation by the end of this project), leading, over the medium-term, to increased sustainability and security of the Czech Republic social security system.

3.4 Inputs / Activities

The Project consists of the following Inputs:

• Twinning and Training Package.

• Investment in Institution Building (Digitalisation).
3.4.1 Twinning and Training Package – CZ 2000/IB/SO/01

The Twinning and Training Package should comprise the following key Inputs:

- A 1 year Pre Accession Adviser (PAA), who will be located in CSSA/SIC, to support the institutional transformation and operational functioning of SIC, including the transformation requirements brought by digitalisation and financial separation from the State Budget. The PAA, who will co-ordinate the inputs of a series of short-term experts and oversee all aspects of project implementation, should have senior management experience and necessary financial analytical skills from working in a similar agency in an EU Member State;

- A series of Short-Term Experts (approximately 20 person-months) to provide specialist inputs relating to the functions of SIC and the strengthening of its procedural, technical and personnel capacities. STEs should provide a pool of expertise, covering the management of personal accounts, institutional and financial issues, legislation, supervision of insurance schemes, social insurance, statistics, etc.;

- Other services and intangible supplies, including the development of information management systems, IT requirements, seminars, etc.

The following key Activities will be undertaken via the Twinning and Training Package:

- Management, administrative and procedural support to CSSA with its transformation into SIC, supporting the review and development of guidance, tools, procedures, mechanisms and instruments to support policy and strategy implementation;

- Review the system of state supervision of complementary pension schemes based on international experience and analysis of the present situation, leading to proposals as to how to improve the supervision of the existing state-contributory complementary pension schemes but also principles of state supervision of occupational supplementary pension schemes which are under preparation;

- Preparation of necessary legal and regulatory drafts to ensure compliance with the acquis;

- Systems and procedures for the collection and exchange of data relating to the co-ordination of the social security with the EU Member State social security administrations established;

- Development of the system of personal accounts, their institutionalisation and updating:
  - Unify the data sources and their structure;
  - Increase transparency of insurance administrations and supervisory institutions (MoLSA, Ministry of Finance, Supreme Audit Office);
  - Improve services for insured;
  - Enable preliminary pension benefits calculations;
  - Make outputs compatible with outputs of other insurance holders, especially in the EU Member States;
  - Enable on-line access to the database from remote workstations;
  - Reduce the costs (of traditional archive media, the transport, etc.);
  - Simplify both internal communication within CSSA and external communication with Ministries of Finance, Interior, Defence, Justice and international partners (especially EU Member States);

- Training needs analysis and delivery, in particular requirements for actuarial analyses, methodology and review of statistical data based on international experience:
Identification of basic requirements for actuarial analyses and projections including basic methodology;

Assessment of the scope of relevant statistical data; if the scope is not sufficient it should include recommendation for its improvement aimed at reaching of the highest level possible of actuarial analyses and projections;

Proposal of responsibilities description of actuarial unit of Social Insurance Company including its structure and staffing.

Also included in the twinning package will be technical assistance expertise on actuarial mathematics, social insurance statistics, demography projections, supervision of complementary pension schemes in the form of practical analyses, development of variant solutions, recommendations etc. (25 man months).

3.4.2. Investment in Institution Building (Digitalisation)

In order to ensure a higher standard of service offered by CSSA/SIC, a major focus is placed on the digitalisation of the pension system. Present capacity for digitalisation would allow for all paper documents to be converted into electronic form by 2010. With the establishment of a second plant (at Karlovy Vary), all documents will be converted by 2004-05.

The construction of the new plant (with the State Budget co-financing of ca 50% of the investment costs mainly the construction adaptations works and staff training), this Phare activity will provide for the procurement and installation of essential IT equipment at the Karlovy Vary plant, allowing the plant to process 7 million documents per annum.

Indicatively, supply will consist of computers, scanners, archiving equipment disc arrays, SW for control of central unit, databases, communication channels etc.

4. Institutional Framework

Ministry of Labour and Social Affairs (MoLSA)

MoLSA is a central department of the State administration and is responsible for labour relations, occupational safety, employment and training, collective bargaining, civil service, wages and other forms of remuneration, pensions and sickness insurance, social protection, family and child affairs, care for vulnerable groups and other issues of wage and social policy. The number of MoLSA staff is ca 550 persons.

Czech Social Security Administration (CSSA)

The main tasks of the CSSA are to collect contributions for the basic pension insurance system, the sickness insurance scheme and the system of state employment policy (unemployment insurance and employment policy programs). And to arrange the calculation and payment of benefits from those schemes as well as the keeping of records on insured individuals (excluding the system of state employment policy).

CSSA is divided into the Central Administration (with offices in Prague) and District Social Security Administration (76 administrations), to which is associated the Prague Social Security Administration (PSSZ). Between the central and the district administrations there also exist detached workplaces of the Czech Social Security Administration at the level of the former regions (DPSSZ, 7 administrations). The number of CSSA staff is ca 6 500 persons including the district branches.

5. Detailed Budget (in MEUR)

<table>
<thead>
<tr>
<th>Project Components</th>
<th>Investment Support</th>
<th>Institution Building</th>
<th>Total Phare (= I + IB)</th>
<th>National Co-financing</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
</thead>
</table>
Twinning and Training Package | 0.6 | 0.6 | 0.6
Investment in Institution Building (Digitalisation) | 0.7 | 0.7 | 0.7
Investment in Institution Building (Digitalisation) | 0.87 | 0.87 |
TOTAL | 0.7 | 0.6 | 1.3 | 0.87 | 2.17

6. Implementation Arrangements

6.1. Implementing Agency
The CFCU will be the Implementing Agency. Project implementation will be under direct responsibility and co-ordination of the Ministry of Labour and Social Affairs, in consultation with CSSA/ISC.

6.2. Twinning – CZ 2000/IB/SO/01
The Contact person is Mr Miroslav Fuchs, Director of the European Integration and International Relations Department, Ministry of Labour and Social Affairs, tel. +420 2 21922300, fax +420 2 21922223, e-mail fuchsm@mpsv.cz.

The Contact Person in CSSA is Mr Josef Trnka, First Deputy-Director, tel. +420 2 57062223, fax +420 2 57062032, e-mail josef.trnka@cssz.cz.

6.3. Non-Standard Aspects
DIS Manual will be followed.

6.4. Contracts
It is foreseen to conclude two tenders/contracts:
- Twinning and Training Package = 0.6 MEUR,
- Investment in Institution Building (Digitalisation) = 0.7 MEUR.

7. Implementation Schedule
Start of Tendering: 3Q/00
Start of Project Activity: 2Q/01
Project Completion: 4Q/02

8. Equal Opportunity
Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

9. Environment
The investment components of this Project all relate to Institution Building activities.

10. Rates of Return
The investment components of this Project all relate to Institution Building activities.

11. Investment Criteria
The investment components of this Project all relate directly to Institution Building activities. All investment is to be tendered immediately. Specifications will be reviewed by independent experts within the framework of twinning, where possible and appropriate.

12. Conditionality and Sequencing

The Law on the transformation of Czech Social Security Administration (CSSA) into the Social Insurance Company (the principles of which were approved by the Government in September 1999), will be passed and enter partially into force by July 2001 and fully by January 2002.

Annexes to Project Fiche

1. Logframe Matrix
2. Detailed Implementation Chart
3. Cumulative Contracting and Disbursement Schedule for the Project (MEUR)
4. List of Relevant Laws and Regulations
## Logframe Matrix

### Support to Pension Reform

#### Project Number: CZ 00-03-02

**Date of Drafting:** 04/2000

**Contracting Period Expires:** 31/10/2002

**Disbursement Period Expires:** 31/10/2003

**Total Budget:** 2.17 MEUR

**Phare Contribution:** 1.3 MEUR

<table>
<thead>
<tr>
<th>Wider Objective</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union</td>
<td>- Social Insurance Company established&lt;br&gt;- Complementary pension schemes strengthened</td>
<td>- Reports from MoLSA and other national bodies&lt;br&gt;- EU Member State social security organisations</td>
<td>- Law on transformation of CSSA into SIC passed</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Immediate Objectives</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumption and Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Strengthen capacities to implement the acquis in the co-ordination of social security and complementary (occupational) pension schemes, rested on the principles of social cohesion, political, economic and monetary union, concentrating on the harmonisation of legislation with the acquis plus digitalisation of the system, leading to increased security and sustainability of the system; &lt;br&gt;- Support the establishment of Social Insurance Company (transformation of the existing Czech Social Security Administration into a new public institution, with financing separated from the State Budget)</td>
<td>- SIC established and operational&lt;br&gt;- Improved system of personal accounts created and operational, including foreign networking with EU Member States&lt;br&gt;- Increased ratio of complementary pension schemes&lt;br&gt;- Improved supervision of the system&lt;br&gt;- Requirements to the actuarial analyses and projections defined</td>
<td>- Programme monitoring and evaluation reports&lt;br&gt;- Reports from MoLSA and other relevant national bodies&lt;br&gt;- EU Member State social security organisations</td>
<td>New strategy/policy and legislation approved/implemented by MoLSA</td>
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<table>
<thead>
<tr>
<th>Results</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumption and Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>- CSSA transformed into Social Insurance Company, with necessary internal procedures and operational capacities (technical and personnel) to administer a digitalised pension system, meeting the requirements of EC legislation and EU co-ordination of social security; &lt;br&gt;- CSSA/SIC operations in compliance with Regulation 1408/71/EEC, co-ordination of the social security with the other foreign social security administrations, established (data collection and exchange systems/operations); &lt;br&gt;- Options as to how to improve the quality of state supervision of the system of supplementary pension schemes, including the employer sponsored schemes, analysed/defined (initial</td>
<td>- 50% of paper files digitalised by the end of the project, all fully digitalised by the year 2005&lt;br&gt;- Legislative/regulatory proposals/schemes elaborated and submitted to MoLSA&lt;br&gt;- Strategies/Policies endorsed by MoLSA and key sector partners&lt;br&gt;- Extensive staff training programme undertaken</td>
<td>- Programme monitoring and evaluation reports.&lt;br&gt;- Reports from MoLSA&lt;br&gt;- Reports from Czech Statistical Office&lt;br&gt;- Documents and policy papers issued by MoLSA&lt;br&gt;- List of laws</td>
<td>- Sufficient implementation capacity and response at MoLSA and institutional level</td>
</tr>
</tbody>
</table>
principles are now under preparation in MoLSA), with supervision systems strengthened;
- Extensive staff training for CSSA/SIC, in particular regarding actuarial analysis, methodology and the review of statistical data, plus management training (with SIC financed separately from the state budget, this will bring higher requirements for accurate data and skills for management and decision making;
- Support to establish a new digitising plant (at Karlovy Vary, with an annual capacity to process 7 million documents) to ensure conversion of all paper documents into electronic form by 2005 (50% digitalisation by the end of this project), leading, over the medium-term, to increased sustainability and security of the Czech Republic social security system

<table>
<thead>
<tr>
<th>Inputs</th>
<th>Assumption and Risk</th>
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<tbody>
<tr>
<td>Twinning and Training Package: 1 year Pre-Accession Adviser, approximately 20 person-months of Short-Term Experts, plus intangible supplies and services</td>
<td>- Good quality EU expertise contracted to undertake the project with detailed relevant experience</td>
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<tr>
<td>Technical assistance experts – approximately 25 man months</td>
<td>- Sufficient implementation capacity and response at Ministry and institutional level</td>
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<tr>
<td>Procurement and installation of technical equipment for 2nd digitisation plant</td>
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### Detailed Implementation Chart for the Project

#### Annex 2

<table>
<thead>
<tr>
<th>Detailed Project Implementation</th>
<th>Year 2000</th>
<th>Year 2001</th>
<th>Year 2002</th>
<th>Year 2003</th>
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<tr>
<td><strong>Institution Building</strong></td>
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<tr>
<td><strong>Twinning and Training Package</strong></td>
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<td></td>
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</tr>
<tr>
<td>- Launch Twinning request to Member States</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- Selection of MS(s) for twinning</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>- Elaboration of twinning covenant</td>
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<tr>
<td>- Submit Twinning covenant to Commission &amp; Steering Committee for approval</td>
<td>X X X</td>
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<tr>
<td>- Twinning Package commences</td>
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<tr>
<td>- Tender Launch</td>
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<tr>
<td>- Contract(s) Signature</td>
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Cumulative Contracting and Disbursement Schedule for the Project (M €)  

### Cumulative Quarterly Contracting Schedule (M €)

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<tr>
<th>Project</th>
<th>3Q/00</th>
<th>4Q/00</th>
<th>1Q/01</th>
<th>2Q/01</th>
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<th>1Q/03</th>
<th>2Q/03</th>
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<td>1,3</td>
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### Cumulative Quarterly Disbursement Schedule (M €)

<table>
<thead>
<tr>
<th>Project</th>
<th>3Q/00</th>
<th>4Q/00</th>
<th>1Q/01</th>
<th>2Q/01</th>
<th>3Q/01</th>
<th>4Q/01</th>
<th>1Q/02</th>
<th>2Q/02</th>
<th>3Q/02</th>
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<th>1Q/03</th>
<th>2Q/03</th>
<th>Total</th>
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<tr>
<td>Support to Pension Reform</td>
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<td>0,2</td>
<td>0,5</td>
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<td>1,3</td>
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<td>1,3</td>
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</tbody>
</table>
List of Relevant Laws and Regulations

Draft law on organisation and implementation of social insurance – to be submitted to the Government in June 2000;

Draft law on change of relevant laws within adoption of the Law on organisation and implementation of social insurance – to be submitted to the Government in June 2000;

Draft Government Decree on change of the amount for assessment base purposes of sickness insurance (care) – to be submitted to the Government in October 2000;