



# ESPN – Flash report

## 2015/61

**Proposals of the Czech Expert Committee on  
pension reform: balancing fairness, attractiveness  
and sustainability**

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<b>Theme(s):</b>	<i>Pensions</i>
<b>Title:</b>	<b>Proposals of the Czech Expert Committee on pension reform: balancing fairness, attractiveness and sustainability</b>
<b>Category:</b>	<i>Reform proposals</i>
<b>Abstract:</b>	The Czech Expert Committee on Pension Reform came up with several proposals during the last year. These proposals aim to enhance the fairness of the pension benefits calculation, improve the attractiveness of the supplementary pension savings scheme and terminate the pension savings system. For some proposals one can assume a smooth approval process, whereas the other ones will require extensive society-wide discussions.
<b>Description:</b>	<p>The current Czech government in its Policy Statement (Government, 2014) declares that it <i>"shall establish an expert committee to terminate Pillar II and propose changes to the pension system"</i>. The Expert Committee on Pension Reform (henceforth "Committee") was established in June 2014. It has approximately 50 members from political parties, including two ministers, independent experts and interest groups, such as labour unions and various pension and insurance associations.</p> <p>During the last year, the Committee produced several concrete outcomes (ECPR, 2015a and 2015b) which include a proposal for a method for phasing out the pension savings system (Pillar II). This voluntary, fully funded, defined-contribution pillar was opened in 2013 and was intended to reduce the almost absolute dependency of Czech pensioners on state pension. Participants were offered the option to divert 3 percentage points (of the 28%) of their pension contributions from Pillar I to their individual pension accounts. The Proposal of the Method for phasing out the Pension Savings System (Pillar II) was submitted as a new bill to the Czech Parliament at the end of May 2015 (see MFČR, 2015). According to the bill, payments to the second pillar will be discontinued from the beginning of 2016; participants will be given back all their savings by the end of 2016.</p> <p>The second group of suggestions is related to improving the attractiveness of the supplementary pension savings scheme (Pillar III) which, despite the vast coverage, operates with only limited funds (see OECD, 2013, pp. 189-195). These suggestions include: exemption of third-pillar pensions from income tax if the pension is paid out gradually over at least ten years (this is intended to increase the motivation to opt for long-term, rather than one-off, payment of one's savings); possibility to participate in Pillar III without any age limit; and adjustment of the investment and supervision rules governing the pension funds. The Committee continues to discuss the setting of the floor and ceiling on the state contribution to the payments made by individuals. The resulting proposals will be submitted for approval at the turn of 2015 and 2016.</p> <p>Thirdly, the Committee also proposed changes to the defined-benefit pay-as-you-go pension system (Pillar I). These include:</p> <ol style="list-style-type: none"> <li>a) A proposal for a revised system for setting the retirement age threshold. The Ministry of Labour and Social Affairs has already prepared the corresponding bill and sent it to other ministries for</li> </ol>

	<p>comments. The intention is that the new regulation comes into force in 2017. The new mechanism assumes regular revision of the retirement age every five years. Although technical details are not yet clear, the revision mechanism should take into account life expectancy of each age cohort and revise the retirement age that would allow an average individual from this cohort to spend a quarter of his/her life in retirement.</p> <p>b) A proposal for a shared assessment basis for married couples for claiming their pension rights. The purpose of this proposal is to tackle the gender gap in pensions. Under the proposal, both spouses should receive a fair pension that will be calculated on the basis of both their annual records (the partners' assessment bases would be added together and then divided equally between both partners).</p> <p>c) A proposal for the differentiation of pension insurance premiums with respect to the number of dependent children in the household. The proposal was adopted by the Committee at the end of May 2015. The measure proposes a differentiation of the pension insurance rate for economically active parents, based on the number of dependent children in the household (for students up to 26 years of age). The measure for the differentiation of pension insurance premiums would not affect an individual's future old-age pension. For details, see ECPR (2015b). The proposal is currently only being discussed at the Ministry of Labour and Social Affairs and Ministry of Finance. Our microsimulation model suggests that the measure is budgetary-neutral. Childless households would face a negative impact amounting to CZK 6.2bn per year (approximately €230m); households with 2+ children could expect an equivalent positive impact. The measures would lead to a more proportional distribution of net income within society. The value of the at-risk-of-poverty rate would remain the same: a small increase for childless households would be offset by a slight decrease for households with children.</p>
<p><b>Outlook &amp; Commentary:</b></p>	<p>Given the low participation in Pillar II, the measure of phasing out the Pension Savings System will affect only a limited number of beneficiaries (approximately 2% of the labour force), and will not have significant budgetary implications.</p> <p>On the basis of our personal attendance at the Committee meeting and discussions with its members, we can confirm that some members of the Committee argue that the proposal for the differentiation of pension insurance premiums with respect to the number of dependent children in the household has several shortcomings: it interferes with the revenue side of the pension system; the pension system should serve pensioners, not be a system of support for families with children; the proposal favours two-income families over one-income families; it increases the implicit labour taxation of a childless family; it penalises families with children who are no longer dependent. With regards to the problems described above and the ongoing debate within the Committee, we believe that extensive society-wide discussions will accompany the approval process.</p> <p>It seems that MLSA does not support the proposal for a shared assessment basis for married couples for it being too administratively difficult to implement (see Hovorka 2015).</p>

<p><b>Further reading:</b></p>	<p>ECPR 2015a. <i>Final report on Activities in 2014</i>. <a href="http://www.duchodova-komise.cz/wp-content/uploads/2015/02/Final-report-CoE-2014.pdf">http://www.duchodova-komise.cz/wp-content/uploads/2015/02/Final-report-CoE-2014.pdf</a></p> <p>ECPR 2015b. <i>Průběžná zpráva o činnosti v prvním pololetí 2015</i>. [Interim report on the activities of the Committee in the first half of 2015]. <a href="http://www.duchodova-komise.cz/?p=1546">http://www.duchodova-komise.cz/?p=1546</a></p> <p>Government 2014. <i>Policy Statement of The Government of The Czech Republic</i>. <a href="http://www.vlada.cz/en/media-centrum/dulezite-dokumenty/policy-statement-of-the-government-of-the-czech-republic-116171/">http://www.vlada.cz/en/media-centrum/dulezite-dokumenty/policy-statement-of-the-government-of-the-czech-republic-116171/</a></p> <p>Hovorka, J. 2015. <i>Společné důchody manželů? Příliš komplikované, odmítla Marksová doporučení komise</i>. [Joint pensions for married couples? "Too much complicated", Marksová refused committee proposal.] <a href="http://zpravy.aktualne.cz/finance/spolecne-duchody-manzelu-prilis-komplikovane-odmitla-marksov/r~b0bddff87bce11e5b440002590604f2e/">http://zpravy.aktualne.cz/finance/spolecne-duchody-manzelu-prilis-komplikovane-odmitla-marksov/r~b0bddff87bce11e5b440002590604f2e/</a></p> <p>MFČR/MoF (Ministry of Finance) 2015. <i>Vládní návrh zákona o ukončení důchodového spoření</i>. [Governmental draft of the Bill on the termination of the pension savings system]. <a href="http://www.psp.cz/sqw/text/tiskt.sqw?O=7&amp;CT=493&amp;CT1=0">http://www.psp.cz/sqw/text/tiskt.sqw?O=7&amp;CT=493&amp;CT1=0</a></p> <p>OECD (2013), <i>Pensions at a Glance 2013</i>. OECD Publishing, Paris. <a href="http://dx.doi.org/10.1787/pension_glance-2013-en">http://dx.doi.org/10.1787/pension_glance-2013-en</a></p>
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