



Slovenia increases minimum old-age and disability pension

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The amended Pension and Disability Insurance Act will increase the minimum old-age and disability pension to €500 per month as from 1 October 2017 for pensioners meeting the full retirement conditions. This amount slightly exceeds the income threshold for entitlement to the “income supplement” benefit, thus ensuring the provision of basic social security to low-income pensioners.

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Description

In the period 2011-2015, the financial austerity measures adopted to achieve budgetary consolidation have had a serious negative impact on pensions and on the minimum income provisions for older people.

In May 2016, the Slovene Federation of Pensioners' Associations (SFPA) launched an initiative to investigate the possibility of raising the minimum pension assessment base for new pensioners (“new” pensioners are to be understood as people who will retire after the proposal is adopted). The purpose of the minimum pension is to ensure greater social and material security for pensioners receiving low pensions. For example, the minimum old-age pension (provided through the minimum pension assessment base which is fixed at 76.5% of the average monthly net salary in the previous calendar year) was lower than the income threshold for entitlement to the “income supplement” benefit for men with a 40-year pension qualifying period (in 2016: €443.74 compared to €470.76, respectively). (Income supplement tops up cash social assistance by providing resources to cover living costs that arise over longer periods of time, such as maintaining/repairing the dwelling or replacing durables.)

The SFPA suggested increasing the statutory amount of the minimum

pension to the level which provides men with at least a 40-year qualifying period with a pension exceeding the income threshold for entitlement to the income supplement. To achieve this goal, they proposed to raise the statutory minimum pension assessment base to 81.2% of the average monthly net salary in the previous calendar year. For men with a 40-year qualifying period, this would result in a minimum pension of €471.02, thus exceeding the income threshold for entitlement to the income supplement. The minimum pension for women would be temporarily raised to €511.07. The SFPA alternatively proposed an increase in the minimum pension assessment base for all pensioners.

The Ministry of Labour, Family, Social Affairs and Equal Opportunities (MLFSAEO) reacted to this proposal by submitting the Act Amending the Pension and Disability Insurance Act that was unanimously approved by the Parliament on 25 April 2017. The Ministry considered this an important step towards reducing the poverty risk among pensioners.

The amended Pension and Disability Insurance Act increases the minimum old-age and disability pension to €500 per month for pensioners who fulfil the full retirement conditions. This amount slightly exceeds the income threshold for entitlement to the income

supplement, thus ensuring basic social security for this group of pensioners. It has to be noted that, due to the transition period (till 2019), the minimum old-age or invalidity pension of €500 applies also in the case of a qualifying period shorter than 40 years (e.g. current pensioners [such as women] whose full retirement conditions at the time of retirement were different).

The pensioners who were entitled to an old-age or invalidity pension under the previously applicable regulations and had fulfilled the qualifying period at the minimum required age or without an age condition are also entitled to it.

The amended Pension and Disability Insurance Act is due to enter into force on 1 October 2017. The Pension and Disability Insurance Institute of Slovenia has estimated that 45,291 old-age and disability pensioners retired under the provisions of the 2012 Pension and Disability Insurance Act or previously applicable regulations, and had fulfilled the "full retirement conditions" – i.e., almost 9% of the entire population of old-age and invalidity pensioners (29,722 women and 15,569 men). The estimated increase in pension expenditure amounts to €3.3 million in 2017 and €13.3 million (plus the amount resulting from indexation of pensions) in 2018.

Outlook & commentary

In its proposed amended act, the MLFSAEO follows the basic idea of the SFPA initiative to some extent, but their final solution is different. The most important difference is that the MLFSAEO does not raise the minimum pension assessment base, which would have affected all pensioners whose calculated pension assessment base was lower than the minimum pension

assessment base. Instead, it increases old-age and invalidity pensions to €500 for pensioners who have fulfilled the full retirement conditions, thus ensuring that they receive basic social security, at least to the extent that they no longer have to apply for the income supplement to increase their income above their (current) pension level. We have estimated that 46% of all pensioners with a pension between €400-500 will benefit from the increase in the minimum pension (author's own calculations). According to the information provided by the representative of the MLFSAEO, these pensioners will on average receive €24 more in pensions per month. However, the net income effect will depend on the actual income supplements these pensioners were receiving.

With the amended pension regulation, the Slovenian government has in fact bypassed, for pensioners with full retirement conditions, the entitlement conditions for the income supplement. As a result, these pensioners will experience a non-negligible increase in their income. The amount of €500 will be indexed in the same way as pensions (at the moment indexation takes account of both evolution of wages [60%] and inflation [40%]). The minimum pension assessment base is linked to a fixed proportion of the net salary (76.5%). Therefore, the current important difference between both pensions (€500 and €444, the last being calculated for men with 40 years of service and using minimum pension base) will disappear in the future. In addition to the evaluation of the effects, a thorough analysis would need to be performed of the behaviour of pensioners on the lowest pensions, regarding the take-up of the income supplement.

Further reading

Act Amending the Pension and Disability Insurance Act [Zakon o spremembah in dopolnitvah Zakona o pokojninskem in invalidskem zavarovanju (ZPIZ-2C)], *Official Gazette of the Republic of Slovenia*, No. 23/2017. Available at: <https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2017-01-1209/zakon-o-spremembi-in-dopolnitvah-zakona-o-pokojninskem-in-invalidskem-zavarovanju-zpiz-2c> (accessed 10 June 2017).

Pension and Disability Insurance Act [Zakon o pokojninskem in invalidskem zavarovanju (ZPIZ-2)], *Official Gazette of the Republic of Slovenia*, No. 96/2012. Available at: <http://www.uradni-list.si/1/objava.jsp?urlid=201296&stevilka=3693> (accessed 16 June 2017).

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