



Croatia: Will the reform of the pension system contribute to improving the adequacy and sustainability of pensions?

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GOJKO BEZOVAN – EUROPEAN SOCIAL POLICY NETWORK

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The proposed reform of the Croatian pension system increases the pensionable age and the penalties for early retirement. It also increases the minimum pension. The rights to 2nd pillar pensions will be regulated, with supplements for different categories, pensioners will be able to take 15% of the accumulated funds when they reach pensionable age, and the 2nd pillar management fees will be reduced. Finally, there will be a reduction in the number of jobs and occupations considered arduous or hazardous.

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Description

Since 2002, Croatia has had a mixed three-pillar pension system. A major pension reform will begin in 2019. The Minister responsible for Labour and the Pension System sees the reform as a way to help increase pensions, ensure the sustainability of the pension system and help to prevent discrimination against pensioners in different categories. Key points of the Reform, after the first reading in Parliament, include the following.

Pension growth. For retirees on a minimum pension, around 246,000 people, pensions will increase by 3.13%.

Increasing pensionable age. According to the current legislation, women and men will retire at 67 years of age from 2038. With the reform, retirement at the age of 67 will be in place from 2033. However, this does not apply to those who entered the world of work early. Currently, these people receive an old-age pension for the long-term insured at 60 years of age with a 41-year-contributory period; as of 2027, this will become 61 years of age and a 41-year-contributory period. From 2027, early retirement conditions will be the same for women and men aged 60 and with 35 years of contributions. From 2028, the pensionable age will be increased by 4 months per year. By 2033, men and women will be entitled to early retirement at 62 if they have 35 years of insurance.

Penalisation for early retirement.

The reform reduces early retirement pensions by 0.30% for each month of retirement before the pensionable age (3.6% per annum), and up to a maximum of 18.0% for five years. The reward for further time in employment is increased from the current 0.15% to 0.34% per month of paid employment after the prescribed age and 35 years of contributions.

Work in arduous or hazardous conditions. There will be a reduction in the number of jobs and occupations considered arduous or hazardous.

2nd pillar pensions. One of the key challenges of the reform is to create equal rights for all retirees receiving a pension from both the 1st and 2nd pillars. Persons born before 1952 will receive a 1st pillar pension. Those born between 1952 and 1961 will have the right to choose between: i) a pension only from the 1st pillar with a supplement of 27% and a transfer of funds from the 2nd to the 1st pillar; or ii) a pension from both the 1st and 2nd pillars with a supplement of 27% for the period insured in the 1st pillar until 2001, and a supplement of 20.25% for the period insured in the 2nd pillar from 2002 until retirement.

Reduction of the management fees in the 2nd pillar. Entrance fees will be reduced from 0.8% to 0.5% of paid contributions. Management fees, which will amount to no more than 0.3% of paid contributions in 2019, will also be reduced (by 4% for each subsequent

year to a minimum of 0.2%). People insured in the 2nd pillar will be able to request a one-off payment of up to 15% of their savings when retiring. Mandatory Pension Funds (MPF) will be able to invest in infrastructure projects in Croatia.

Possibility of establishing a state Pension Insurance Company (PIC). A PIC is a joint-stock or limited liability company that pays out pensions from the 2nd and 3rd pillars. At the moment of retirement, savings from the 2nd pillar will be transferred from the MPF account to the PIC, and a 5% management fee will be charged. If a pensioner is opting for a 1st pillar pension, the savings will be transferred to the state budget. There is currently only one PIC; the reform will allow the Croatian Pension Insurance Institute to establish a PIC. The idea behind this is that competition will make it possible to reduce the 5% management fee.

Finally, the Government made three major changes: a) for each born or adopted child, the mother will receive a six-month addition to her contributory period once she reaches pensionable age; b) the indexation formula will be more favourable; and c) the Government will appoint one MPF board member representing insured persons.

Outlook & commentary

A working group to prepare the reform was established in April 2018, with representatives of state institutions, trade unions, employers and academic experts. The experts complained that there was no paper analysing the impact of the proposed changes.

In an "Open Letter on the Pension Reform" on 12 July 2018, the three unions declared that they were only formally involved in the reform and that the working group was not debating it. They

demanded a policy paper as a basis for the reform. Strongly disagreeing with the pensionable age increase, the increased penalisation of pensions and the delayed pensionable age for the long-term insured, they organised a public protest in Zagreb on 20 October 2018. They are calling for a referendum to be held on this topic. From media reports, it is very clear that citizens are against the increase of the pensionable age and the further penalisation of early retirement.

The coalition partners HNS (at the centre of the political spectrum) have mainly focused on strengthening the 2nd pillar and made a strong statement that retirees from the 2nd pillar must be allowed to take a one-off payment of up to 15% of their savings. The SDP (left-leaning), the main opposition party, is close to the trade unions.

An MPF lobby group, very present in the media, is advocating the supplement of 27% for all those insured under the 2nd pillar. The MPF and PIC Association, together with the daily newspaper Jutarnji list, organised a conference entitled "Did We Choose the Right Way to the Pension Reform?" on 24 October 2018 with a view to promoting this position. The government is against this idea because of the transitional increase in costs and the threat to public finances that it would imply.

Other independent experts (including the author of this Flash Report) asking for a transitional cost calculation and a portfolio analysis of MPF with their management fees, are given no space in the public media or on the leading news websites and newspapers.

The debate began in Parliament on 25 October 2018. Unfortunately, the media did not properly cover this important debate and two leading daily newspapers did not cover it at all.

Further reading

Sindikati zavaravaju javnost [Unions deceive the public], Interview with Minister M. Pavić, Večernji listi, 20.10.2018.

Što nam zapravo donosi mirovinska reforma: penzije će nam padati! [What pension reform brings to us: Pensions will fall on us!], Jutarnji list, 18.10.2018.

Dubravko Štimac, Sve što treba znati o drugom stupu [All you need to know about the pillar], Večernji list 28.9.2018.

Dodatak bi za sve trebao biti jednak [The supplement should be the same for all], Jutarnji list, 25.10.2018.

Željko Garača, Drugi mirovinski stup je potencijalno tiha pljačka epskih razmjera! Ovo nadilazi ukupnu štetu privatizacije, Agrokor, Uljanika... [The second pension pillar is a potentially quiet epic scale robbery! This goes beyond the total damage to privatization, Agrokor, Uljanik...], Slobodna Dalmacija, 7.10.2018.

Drago Jakovčević and Gojko Bežovan, Zašto je II. mirovinski stup neodrživ [Why the 2nd pension pillar is unsustainable], Večernji list, 10.10.2018.

Author

[Gojko Bezovan](#) (University of Zagreb)