Slovenia plans to increase pension adequacy

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The Slovenian Government has proposed amendments that increase pension benefits and the pensionable age, and improve the status of employed pensioners. Agreement is most likely to be achieved on the increase in accrual rates. This will increase the adequacy of pensions, but could weaken the long-term financial sustainability of the pension system.

Description

The Slovenian pension and disability insurance system, i.e. the "first pillar" pensions, is a pay-as-you-go (PAYGO) system. It is uniform and mandatory for all employed persons and other persons generating income from employment or other gainful activity. Inactive persons can join the system on a voluntary basis.

Participation in the "second pillar" (i.e. supplementary pensions) is mandatory for: a) public employees; and b) persons employed in hazardous or arduous occupations. These two groups are enrolled in two closed pension funds managed by Kapitalska družba (KAD), a state-owned pension company. In addition to KAD, there are several other supplementary pension funds. These funds are organised by employers. They are voluntary, i.e. not mandated by law or collective agreements.

The Ministry of Labour, Family, Social Affairs and Equal Opportunities has presented amendments to the Pension and Disability Insurance Act (MLFSAEO, 2019) which aim at increasing the adequacy of pensions paid under the PAYGO scheme.

1. The accrual rate for both sexes would be gradually increased to 63% for a pension qualifying period of 40 years, with an additional accrual rate of 1.25% for each child. In 2025, the old-age pension of new pensioners with a 40-year pension qualifying period would be on average around 8% higher. A higher accrual rate would result in an increase of between 5 and 15% in widower, invalidity and survivors' pensions, as well as in disability insurance benefits.
2. People who meet the retirement conditions but decide to remain in employment would be able to receive a part of their pension (and after a specified period, even a full pension), subject to payment of all social security contributions on their earnings. It is an improvement on the current system, under which they would receive 20% of the pension:
   - In the first three years of full-time employment after meeting the conditions for retirement, the employee would receive 50% (currently 20%) of the old-age pension as an additional incentive to remain in employment. The accrual rate for these three years would be reduced to 2% (from currently 4%).
   - In the fourth and all subsequent years, the employee older than 63 would be integrated into the PAYGO scheme and would receive a full old-age pension subject to normal retirement conditions. The accrual rate would then return to its normal level of 1.25%.
3. In order to improve the social security of pensioners without a 40-year pension qualifying period, and partly as a response to population ageing, a gradual increase in the pensionable age is proposed: by two months per year up to the age of 67 (to be reached in 2034).

The initial reactions from the coalition partners were both appreciative and critical; they were often contradictory.

The opposition New Slovenia party (centre-right) stressed that a more thorough reform of the pension system is needed. They see the proposed amendments to the pension legislation as only minor revisions, while, they say, a more systematic overhaul of the system is needed to achieve its long-term financial sustainability. They recall their proposal for a "modern three-pillar pension system", and express the hope that the government will be constructive and willing to listen to their proposals (SiolNET, 2019).

The two biggest trade unions (ZSSS and KSS Pergam) informed the public that a negotiating team had been set up at the Economic and Social Council with the aim to reach a tripartite consensus on key proposed changes to the pension legislation: a) the accrual rate for men and women; b) the status of employed pensioners; and c) retirement conditions. The Secretary General of KSS Pergam emphasised that the sustainability of the pension system had improved significantly, so that the debate should now focus on ensuring higher pensions. He also pointed out that the status of employed pensioners undermines the fundamental principle of the system: intergenerational solidarity. He also suggested that the proposed increase in the pensionable age should be a starting point in the next coordination round, leading to a comprehensive review of the pension system. The rise in pensionable age would particularly affect vulnerable groups on the labour market, such as persons in precarious employment and the long-term unemployed. (ZSSS, 2019)

Negotiations are on-going and the vote in the Parliament is expected for early autumn this year.

Outlook and commentary

Considering the reactions of the coalition partners and the position of the trade unions, it is hard to predict what consensus (if any) will be reached on the proposed amendments. In our view, agreement will most likely be achieved on the proposed increase in the accrual rates and an additional accrual rate of 1.25% for each child. We can then expect an even higher average increase in pensions than the 8% foreseen. The adequacy of pensions would certainly be increased but, at the same time, the long-term financial sustainability of the pension system would be significantly weakened – pension expenditure as a share of GDP is expected to increase by more than 1 percentage point by 2070.

The expected increase in the replacement rates of the PAYGO scheme would have a negative impact on the development of voluntary (second pillar) pensions, as it will reduce the need for these. The amendments proposed by the Government do not follow the European Commission recommendations (to ensure the long-term sustainability and adequacy of the pension system, including by increasing the statutory retirement age and by restricting early retirement [2018, p. 6]). Neither are they in line with the objectives agreed by the social partners regarding the long-term sustainability of the pension system and the importance of the second pillar (GRS, 2017).

Further reading

European Commission (2018), *Recommendation for a Council recommendation on the 2018 National Reform Programme of Slovenia and delivering a Council opinion on the 2018 Stability Programme of Slovenia*, Brussels: European Commission, 23 May 2018.

GRS (2017), *Izhodišča za prenovo Sistema pokojninskega in invalidskega zavarovanja v Republiki Sloveniji [Starting points for the recast of the Pension and Disability Insurance System in the Republic of Slovenia]*, Ljubljana: Government of the Republic of Slovenia.

MLFSAEO (2019), "Predlagane spremembe na področju socialnega varstva, trga dela in pokojninskega Sistema" [Proposed changes in the areas of social protection, labour market and pension system], *Novice*, Ljubljana: Ministry of Labour, Family, Social Affairs and Equal Opportunities, 13 March 2019

SiolNET (2019), Klampferjeva zagrizla v kislo jabolko pokojninskega sistema: bomo delali dlje? [Klampfer bites into the sour apple of the pension system: Are we going to work longer?], 13 March 2019

ZSSS (2019), Trg dela, davki, pokojnine – stališča ZSSS in KSS Pergam o predlaganih spremembah [Labour market, taxes, pensions – views of ZSSS and KSS Pergam on the proposed changes], Ljubljana: Zveza svobodnih sindikatov Slovenije

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