

# Croatia: Mitigating poverty among the elderly by introducing a “national pension”

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*After long preparations, the process that should lead to the introduction of a national pension is now well underway. This new benefit is targeted at people who do not have the required social insurance record to retire but are over the legal pensionable age of 65 and have no other source of income. Women living in extreme poverty in rural areas are given particular priority. The process will be quite challenging in view of the normative and institutional arrangements that will be required for putting in place this benefit.*



## Description

The discussions in the late 1990s, initiated by the World Bank, on pension reform in Croatia already highlighted the need to introduce a zero- or fourth-pillar pension, i.e. a “basic” national pension which would not depend on a person’s insurance record. (The first pillar is an intergenerational solidarity Pay-As-You-Go scheme, the second pillar consists of mandatory privatised pension savings and the third pillar consists of voluntary pension savings.) The Social Care Strategy for the Elderly in the Republic of Croatia for the Period 2017-2020 provides for the introduction of such a national pension, the “basic pension”, funded by taxation. This pension is intended for people who do not have the required social insurance record to retire, but are over the legal pensionable age of 65. These people must have resided in Croatia for at least 15 years and must have no other source of income. One of the justifications for introducing the “basic pension” is the situation of women living in rural areas in extreme poverty.

The Strategy emphasises the need to undertake a comprehensive analysis and review of this new benefit in relation to the other benefits from the social care system, to establish criteria for a means and/or income test, and to decide on who would be covered in order to plan the necessary funds in the budget. (The social care programme provides mostly means-tested benefits, such as social assistance for persons under a certain threshold, and also support to vulnerable people; these are supplied in

social assistance, in kind or as a service.)

To be eligible for an old-age pension, a person needs to be 65 years of age and have 15 years of service; such insured persons receive the lowest pension: HRK 1,019 (€ 137). With the 2019 pension reform, lowest pensions, as a part of the first pillar, have increased by 3.13%. Beneficiaries of the lowest pensions, thanks to the principle of solidarity for this category, receive higher pensions than what they earned by paying contributions.

In September 2019, the Ministry of Labour and the Pension System set up a working group of stakeholder representatives. For the purposes of this project, an analysis was carried out (Bejaković, 2019). The study highlights that in 2017 the at-risk-of-poverty rate was 28.6% for people aged 65 or over, while for older women it was 31.7% and for older men 24.1%. It estimates that 30,000 to 40,000 older people (mostly women) in Croatia did not meet the minimum eligibility requirements for a pension.

Two meetings of the working group (in September and October) were held, and doubts were raised regarding the name of this social right. At these meetings, it was argued that this was not a pension, because a “pension” in the Croatian Bismarckian system has to be based on an insurance record. The criteria, especially the implementation of the means test, will be a demanding part of the procedure. One major challenge will be to determine the levels of this social right, which must be lower than the lowest pension for 15 years of service. The third meeting of the working group

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is planned for December 2019. The next steps will be a discussion at the Government session which will then lead, if the discussion is conclusive, to a public consultation.

## Outlook and commentary

Bejaković (2019) estimates that paying a national basic pension of 1,000 HRK (€135) to around 27,650 people living alone or in households where no one receives a pension, would require approximately HRK 331 million (€44.7 million). This amount would need to be financed from the state budget. When introducing this social right, it will be necessary to define clear criteria, i.e. to determine the income threshold and the manner in which the means test will be carried out. If the social pension is introduced, the number of beneficiaries of the guaranteed minimum benefit (ZMN), and expenditure on this from the social care system, will be reduced. The actual increase in the state budget expenditure for the payment of social pensions would therefore be significantly less than this HRK 331 million amount.

The strategy of introducing a national pension has sparked a public debate. Retirement associations are strongly in favour of it, whereas liberal commentators fear an increase in social transfers and would like to invest that money in new projects to increase employment. The Minister of Labour and the Pension System, Mr. Aladrović, has announced the payment of national pensions from 2021.

An insight into the practices of the four Centres for Social Care in different types of settlements has shown that almost all needy

persons aged 65 or over without pensions receive the ZMN. The threshold for entitlement to this amount is HRK 800 (€108). In the event that users are unable to work, they receive HRK 920 (€124). As ZMN users, they are entitled to an energy poverty benefit of HRK 200 (€27), as well as a housing allowance and extra heating costs. In Zagreb, such a person can receive a total of HRK 1,600.00 (€216).

Amendments to the Social Care Act are being prepared, involving a rise in the threshold for entitlement to ZMN, from HRK 800 (€108) to 1,000 HRK (€135).

Putting in place a national pension will require additional investigations and analyses of social care benefits for elderly people. Since a large proportion of people aged 65 or above in the social care system receive the ZMN, and given the level of this, the question arises as to the effectiveness of the proposed national pension. It will be a great challenge to determine the level of this pension, ensuring that the system will still be fair relative to the default lowest pension for 15 years of service. Introducing a national pension will also require comprehensive institutional changes. Shifting social assistance beneficiaries into the "pension" system will require alignment of the Social Care Act with the new National Pension Act. Normative recalibration will be a less obvious challenge. The question is whether the pension beneficiaries will have other rights in the social care system, such as entitlement to an energy poverty benefit, a housing allowance and extra heating costs. Social care centres have the information on potential national pension beneficiaries and it is therefore reasonable for pensions to be provided through the centres.

## Further reading

Bejaković, P. (2019). Analiza parametara iz sustava socijalne skrbi, mirovinskog sustava te stanje na tržištu rada i EU praksa u odnosu na projekt uvođenja nacionalne mirovine [Analysis of Parameters from the Social Care System, the Pension System and the State of the Labour Market and EU Practices in Relation to the Project of Introducing a National Pension], Zagreb: Institut za javne financije.

Uvodi se nacionalna mirovina, prva bi isplata bila od 2021 [A national pension is being introduced, the first payment would be from 2021]:

<https://www.vecernji.hr/vijesti/uvodi-se-nacionalna-mirovina-prva-bi-isplata-bila-od-2021-1342844> (newspaper).

Treba li nam uopće nacionalna mirovina i koliko bi ona iznosila [Do we need a national pension at all and how much would it amount to?]:

<https://www.tportal.hr/biznis/clanak/treba-li-nam-uopce-nacionalna-mirovina-i-koliko-bi-ona-iznosila-foto-20190905> (tportal-newsportal)

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