# Slovenia is improving pension adequacy

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*In November 2019, the Slovenian Parliament approved amendments to the Pension and Disability Insurance Act that increase pension benefits and improve the status of employed pensioners. These amendments will increase the adequacy of pensions, but weaken the long-term financial sustainability of the pension system. They may also have a negative impact on the development of voluntary ("second pillar") pensions.*



## Description

The Slovenian pension and disability insurance system, i.e. the "first pillar" pensions, is a pay-as-you-go system. It is mandatory for all employed persons and other persons generating earnings from work. 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 which are organised by employers. They are voluntary, i.e. not mandated by law or collective agreements.

The amendments to the Pension and Disability Insurance Act – previously endorsed by the social partners – were approved by the Slovenian Parliament on 29 November 2019 (MFLSAEO, 2019b). They pursue two basic objectives: 1) to prolong work activity; and 2) to ensure a decent income in old age and so improve the social situation of all pension and disability insurance beneficiaries. Particular attention is paid to improving the socio-economic situation of the most vulnerable groups within the pension system.

The main changes to the legislation on compulsory pension and disability insurance include the following:

1) The accrual rate for men will be gradually increased to 63.5% (it remains at the current level of 63.5% for women) for a pension qualifying period of 40 years, with an additional accrual rate of 1.36% for taking care of a child in its first year (for a maximum of three children). For both sexes, the accrual rate is increased from 26% to 29.5% for the first 15 years of insurance. Accrual rates will be raised also for the other forms of pensions (survivors', widower and invalidity pensions).

2) People who meet the retirement conditions but decide to remain in employment are entitled to receive a part of their pension, subject to payment of all social security contributions on their earnings. In the first three years of full-time employment after meeting the conditions for retirement, the employee can receive 40% (currently 20%) of the old-age pension as an additional incentive to remain in employment. The accrual rate for these three years has been reduced to 3% (from the current 4%). In the fourth and all subsequent years, the proportion of the pension received will be decreased to 20%, and the accrual rate will return to its normal level of 1.36%.

At the end of a 6-year transition period (for men), higher and additional accrual rates are expected to result in increased pensions - an increase of between 13.5% and 10.9% for men, and between 1.7% and 9.3% for women, depending on the length of the pension qualifying period (from the minimum of 15 years to 40 years).

## Outlook and commentary

The amendments adopted did not meet with significant opposition from any of the social partners (for more information, see Majcen 2019), which is not surprising as they will lead to increased pensions.

However, these changes do not follow the European Commission recommendations to ensure the long-term sustainability and adequacy of the pension system, which include increasing the legal pensionable age and restricting early retirement (EC, 2019, 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).

The adequacy of pensions will increase but, at the same time, the long-term financial sustainability of the pension system will be significantly weakened: pension expenditure, as a share of GDP, is expected to increase by more than two percentage points by 2070 (MLFSAEO, 2019a, Table 4, p. 11). Since no additional sources have been identified to cover this increase, the higher expenses will most probably have to be paid by the future generations.

Moreover, an increase in the replacement rates of the pay-as-you-go scheme may have a negative impact on the development of voluntary (second pillar) pensions, as it reduces the need for these. Given the 63.5% accrual rate, the additional accrual rate for taking care of a child in its first year, and the additional accrual rate for continuing in work after meeting the retirement conditions, the theoretical replacement rate will come close to, or even exceed, 70% (in 2017, the social partners agreed that 70% would result in adequate pensions). Due to all this, and with the second pillar being voluntary in Slovenia, there will be less scope to save in the second pillar. Rather than the current purely voluntary second pillar, it would be worth considering automatic inclusion in the second pillar, with the possibility to opt out from it.

## Further reading


EC (2019), *Recommendation for a Council Recommendation on the 2019 National Reform Programme of Slovenia and delivering a Council opinion on the 2019 Stability Programme of Slovenia*. Brussels: European Commission.

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.

Majcen, B. (2019), "Slovenia plans to increase pension adequacy", *ESPN Flash Report 2019/43*, European Social Policy Network (ESPN). Brussels: European Commission.

MLFSAEO (2019a), *Ocena javnofinančnih posledic predlaganih sprememb pokojninske zakonodaje [Estimated public finance effects of the proposed amendments of the pension legislation*]. Ljubljana: Ministry of Labour, Family, Social Affairs and Equal Opportunities, 10 September 2019.

MLFSAEO (2019b), "Potrjena pokojninska zakonodaja in zakonodaja o urejanju trga dela" [Pension and labour-market legislation approved], Novice, 2 December 2019. Ljubljana: Ministry of Labour, Family, Social Affairs and Equal Opportunities.


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