

In need of change: reforming the old-age pension system in Slovakia

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Slovakia will be one of the EU countries with the fastest ageing population. At the end of 2020, a general framework for old-age pension reform consisting of three principles was incorporated into the Slovak Constitution. In July 2021, the Ministry of Labour, Social Affairs and Family published a proposal to amend the Act on social insurance, focusing on reforms of the statutory pension scheme and elaborating on these three principles. The reforms proposed include the so-called parental bonus which aims to strengthen intergenerational solidarity (from children to parents). This bonus has raised serious concerns and equity issues and could undermine the long-term sustainability of the system.

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Description

According to the latest demographic projections (European Commission, 2021), Slovakia will be one of the countries whose population is ageing fastest. The old-age dependency ratio, measuring the number of people aged 65 and above relative to those aged 20–64, is projected to rise from 25.9% in 2019 to 63.1% in 2070. Slovakia is the country with the second largest expected increase: 37.2 percentage points (p.p.), just behind Poland (38.8 p.p.); the EU-27 average is 24.7 p.p.. As a result, age-related expenditure in Slovakia is expected to grow by 10.8 p.p. of GDP between 2019 and 2070, representing the highest increase among the Member States. The strongest growth will be in public pension expenditure (5.9 p.p.), followed by healthcare expenditure (2.5 p.p.) and long-term care expenditure (2.1 p.p.). (Source: European Commission, 2021)

The sustainability of the pension system, addressed by the EU Council of Ministers' Country-Specific Recommendations in 2019, has become one of the key priorities in Slovakia's Recovery and Resilience Plan (RRP). The Slovak government has put forward plans to reform the pension system, focusing on improving the financial sustainability of the statutory pension scheme. It has also listed among the priorities of its 2020-2024 programme the stabilisation of the pension system.

While the specific reform proposals set out in the RRP are expected to be prepared by the end of 2021, several

steps towards changes have already been taken. At the end of 2020, a general framework for old-age pension reform was incorporated into the Slovak Constitution. It consists of three principles. The first principle removes the pension age cap (64 years of age) introduced by the previous government and replaces it with the right to retire either after reaching a certain age or after having worked (and having paid contributions) for a given period. Future legislation will specify the retirement age and the duration of the contribution period. The second principle tries to correct discrimination against persons with shorter contribution periods due to caring for children, which result in lower pensions. It announces a new calculation mechanism that will not put parents on maternal and parental leave at a disadvantage; this new mechanism will compensate for three years of caring for children. The third principle introduces the right to assign part of one's earnings and payroll taxes, related to the old-age pension, to the old-age pensions of parents or caregivers. This so-called parental bonus aims to strengthen intergenerational solidarity (from children to parents) in the statutory old-age pension scheme.

In July 2021, the MLSAF published a proposal for the amendment of the Act on social insurance. It focuses on reform of the statutory pension scheme and elaborates the principles incorporated into the Constitution in 2020.

The MLSAF proposes to link retirement age to average life expectancy. This would apply to persons born after 1966; older people would retire no later than

when reaching the age of 64. It also proposes the right to retire after having worked for 40 years. In this case, however, the old-age pension would be cut by 0.3% for every 30 days of earlier retirement (i.e. retirement before reaching the retirement age as defined by the average life expectancy). Years worked would also include any periods of maternal or parental leave.

Furthermore, the published draft of the amended Act on social insurance includes a parental bonus in the statutory pension scheme. All working persons with a contribution period of at least two years would have the right to assign 2.5% of their monthly assessment base (gross wage), reported two years before, to each parent (i.e. 5% in total). The text proposes that entitlement to the parental bonus would be established automatically, except if the working person declares their disagreement within a given period (this disagreement may be rescinded each year).

The MLSAF recognises that the introduction of a parental pension bonus would cause a loss of revenue for the Social Insurance Agency, which administers the statutory pension scheme, and would further undermine its sustainability, as well as the sustainability of public finances (one of the RRP priorities). According to the MLSAF's calculation, the loss of revenue would amount to €570.6 million by 2023 and €608 million by 2024. To mitigate this effect, it proposes to cancel the maximum level of earnings above which contributions to old-age, sickness, disability and unemployment insurance schemes

are not paid. For now, the maximum assessment base is seven times the national average wage reported two years before. This would increase the revenue of the Social Insurance Agency by €187.5 million in 2023 and by €191.1 million in 2024. Other planned measures are expected to produce savings and compensate for the costs of the parental bonus, including the change in the mechanism used to calculate the so-called current pension value that is used for the calculation of pensions.



Outlook and commentary

Among all the reform proposals, the introduction of the parental bonus in the statutory pension system is the most controversial. It raises three main criticisms. First, as explained above, the proposed bonus would undermine the long-term sustainability of the pension system, which has been under threat for a long time. Second, it might discriminate against several population categories, including parents with severely disabled children (who cannot work and thus do not pay social contributions), parents whose children live abroad, and childless persons. Third, it was not sufficiently discussed with the experts, stakeholders and the public.

At the moment, the amendments to the Act on social insurance proposed in July are open to public consultation, before being submitted to parliament. In May 2021, before its publication by the MLSAF, the proposal was discussed among social partners at a meeting

of the Economic and Social Council. Representatives of employees declared their fundamental disagreement with the proposed amendments, considering it an individualistic, anti-solidaristic and discriminatory measure. Objections were also raised by employer representatives, who pointed to the financial effects of the introduction of the parental bonus. Representatives of municipalities stressed at the meeting that it would lead to polarisation within society.

Although it is expected that the pension reform will be adopted, it is not clear what kind of form it will take. Proposals, in particular those related to the parental bonus, raised several questions and led to debates among experts, stakeholders and policy-makers.

Further reading

European Commission, 2021: *The 2021 Ageing Report. Economic and Budgetary Projections for the EU Member States (2019–2070)*. Luxembourg: Publications Office of the European Union.

Fodor, J., Martiška, P. and Cenker, J., 2021: *S vráskami rastú výdavky. Správa Európskej komisie o starnutí populácie*. Inštitút finančnej politiky.

Government of the Slovak Republic, 2021: *Recovery and Resilience Plan of Slovakia*.

The Economic and Social Council meeting report: https://hsr.rokovania.sk/291792020-m_opva/

The Slovak Spectator, 2021: [Old-age pension scheme gains three new features](#)

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