



## CZECH REPUBLIC

		Key indicators		
		Czech Republic	OECD	
<b>Czech Republic: pension system in 2006</b>  The public pension scheme has a basic element and an earnings-related part calculated according to a progressive formula. There is also a minimum pension.	Average earnings	CZK USD	234 800 10 400	808 700 35 800
	Public pension spending	% of GDP	7.3	7.2
	Life expectancy	at birth	76.7	78.9
		at age 65	81.6	83.4
	Population over age 65	% of working-age population	22.1	23.8

### Qualifying conditions

The standard retirement age will be gradually increased to 65 for men under phase 1 of the new pension reform. The pension eligibility age will be 62-65 for women with children (depending on the number of children that they raised) and 65 for women without children. A minimum required 25 years' coverage will be gradually increased to 35 years (by one year per year from 2010) but people with 15 years' coverage (gradually increasing to 20 years) can receive a pension from 65.

### Benefit calculation

#### *Basic*

The value of the basic pension is CZK 1 470 per month, equivalent to 7.5% of average earnings. There is no statutory indexation requirement for the value of the basic benefit alone. However, total pensions in payment must be increased by at least prices plus one-third of real wage growth (see below).

#### *Earnings-related*

The earnings-related pension gives 1.5% of earnings for each year of contributions. The earnings measure currently averages across all years since 1985, but it will gradually reach 30 years (in 2015). Earlier years' earnings are valorised by the growth of economy-wide average earnings.

There is a progressive benefit formula, with the first CZK 9 100 per month replaced at 100%, the slice of earnings between this limit and CZK 21 800 at 30%, with a 10% replacement above this level. The first threshold, below which there is 100% replacement, is equivalent to 46.5% of average earnings, while the second threshold is 111.4% of average earnings. There is no statutory indexation requirement for these thresholds, but both these thresholds have changed annually.

There is no specific statutory indexation requirement for the earnings-related pension component in payment. However, the combined total pension benefit (flat-rate and earnings-related components) is adjusted at least to price inflation plus at least one-third of real wage growth.

## ***Minimum***

The total value of the minimum monthly pension benefit is CZK 2 240, which is made up of a minimum earnings-related pension of CZK 770 plus the basic component of CZK 1 470. This combined minimum pension is indexed in the same way as described above. It is worth 11.4% of average earnings.

## ***Social assistance***

Older people are covered by the general social-assistance scheme and related benefits in kind. The target safety-net income for a single-person household is CZK 4 420 per month, or 22.6% of average earnings. This is made up of a personal needs amount of CZK 2 400 plus a household needs amount of CZK 2 020.

## ***Voluntary private pensions***

Around 45% of employees have a voluntary occupational or personal pension. Because of limits on the tax incentives for these plans, contributions tend to be small. For the modelling a contribution rate of 2.8% of earnings is assumed.

## **Variant careers**

### ***Early retirement***

It is possible to retire three years (increasing to five years, but no earlier than age 60) before the standard retirement ages, *i.e.* at 60 for men and 59-60 for women subject to 25 years' coverage (increasing in line with general qualification conditions to 35 years). The total accrual factor (*i.e.*, number of years of contributions multiplied by the accrual rate) is permanently reduced by 0.9% for each 90 days for the first 720 day of early retirement (3.6% per year), and 1.5 % for each 90 days thereafter (6 % per year from 2010). For a full-career worker, this is equivalent to a decrement in the pension level (rather than the replacement rate) for early retirement of 3.6/64.5 (1.5% times 43 years) = 5.6%.

### ***Late retirement***

It is possible to defer claiming the pension beyond the normal pension age. The total accrual factor (see section on early retirement above) is increased by 1.5% for each 90-day period of deferral (6% per year). There is no additional pension accrual for deferred retirement. It is also possible to combine pension receipt while continuing to work.

### ***Childcare***

Women are entitled to retire earlier depending on the number of children they have had:

Number of children	1	2	3	4+
Early retirement (years)	0	1	2	3

In addition, there are credits for labour-market absences during periods caring for children up to four years old (or older in case of severe disability). These years are then ignored in the calculation of earnings for pension purposes so that these absences do not reduce the assessment base. (This approach is used for all non-contributory periods.)

### ***Unemployment***

Periods on earnings-related unemployment insurance are credited in the pension system. The duration of unemployment insurance entitlement varies with age: six months up to age 50, nine months from 50 to 55 and 12 months for over 55s. In addition, up to three years spent unemployed without entitlement to unemployment insurance are also credited. The unemployment period used for the pension calculation is reduced to 80%, meaning that if an individual had five years' unemployment over the career, this would count as four years for pension purposes. If the unemployment period is in the decisive (reference) period (last 30 years before retirement starting 1986) for the average assessment base calculation, this period is excluded from the calculation and only the income from which the premium is paid is used.

## **Personal income tax and social security contributions**

### ***Taxation of pensioners***

Old-age pensions are not taxed up to a value of CZK 198 000 per annum.

### ***Taxation of pensions***

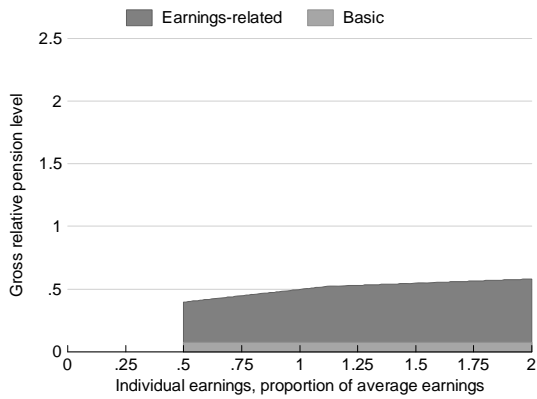
Only part of the pension above the tax-free allowance is taxed by the rules for income from work. The tax rates vary from 12 to 32%.

### ***Social security contributions paid by pensioners***

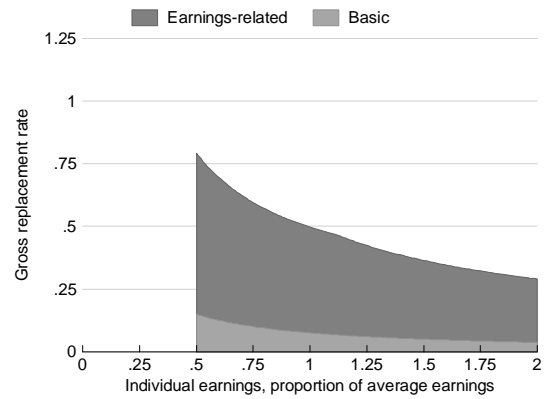
Recipients of pensions do not pay social security contributions from their pensions, but they pay social security contributions for income from work.

## Pension modelling results: Czech Republic

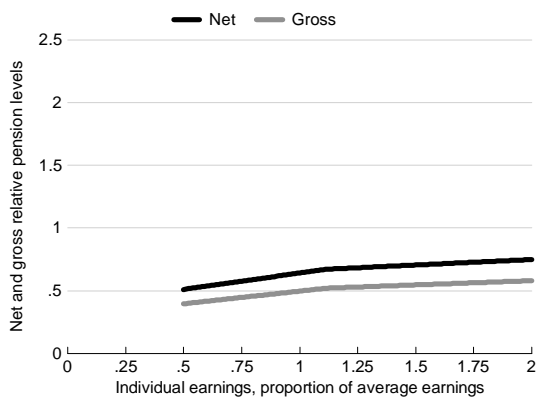
### Gross relative pension level



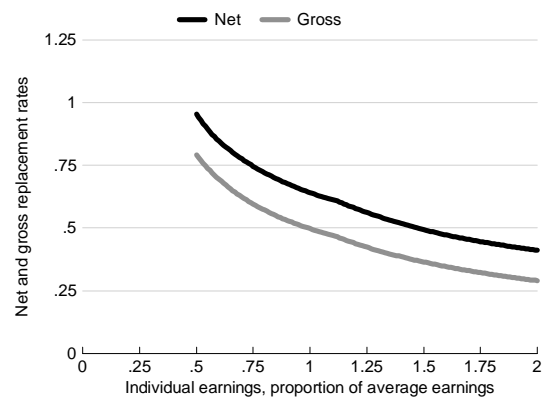
### Gross replacement rate



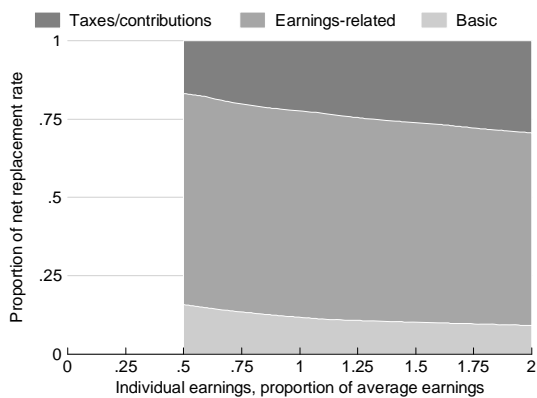
### Net and gross relative pension levels



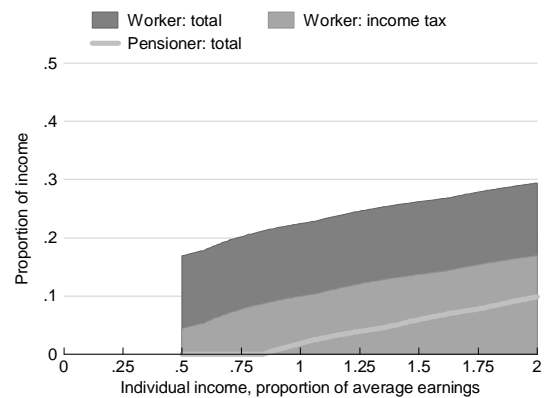
### Net and gross replacement rates



### Sources of net replacement rate



### Taxes paid by pensioners and workers



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	46.7	39.6	44.7	49.7	54.7	58.0
Net relative pension level (% net average earnings)	60.2	51.1	57.6	64.1	70.5	74.8
Gross replacement rate (% individual gross earnings)	54.9	79.2	59.6	49.7	36.4	29.0
Net replacement rate (% individual net earnings)	69.8	95.3	74.7	64.1	49.4	41.1
Gross pension wealth (multiple of average gross earnings)	8.4 9.9	12.1 14.3	9.1 10.8	7.6 9.0	5.6 6.6	4.4 5.2
Net pension wealth (multiple of average net earnings)	8.4 9.9	12.1 14.3	9.1 10.8	7.6 9.0	5.6 6.6	4.4 5.2