SLOVAK REPUBLIC

Slovak Republic: pension system in 2006

The earnings-related, public scheme is similar to a points system, with benefits that depend on individual earnings relative to the average. There is no minimum pension, but low-income workers are protected by a minimum amount of earnings on which pension is calculated. All pensioners are eligible for social assistance benefits. Defined-contribution plans were introduced at the beginning of 2005. It is impossible to evaluate these defined-contribution plans at this time.

Key indicators

		Slovak Republic	OECD
Average earnings	SKK	231 200	1 061 500
	USD	7 800	35 800
Public pension spending	% of GDP	6.2	7.2
Life expectancy	at birth	74.3	78.9
	at age 65	80.2	83.4
Population over age 65	% of working-age population	18.4	23.8

Qualifying conditions

Ten years of pension insurance are needed to be eligible for a benefit. Pension ages are being increased gradually, to be equalised between the sexes at age 62. For men, pension age will reach 62 in 2006. For women, the increase in pension age will be spread over the period 2004-14.

Benefit calculation

Earnings-related

Contributors to the pension scheme earn annual pension points. These are calculated as the ratio of individual earnings to economy-wide average earnings. The pension entitlement is the sum of pension points over the career multiplied by the pension-point value.

This was SKK 214.68 for 2006. The pension-point value is indexed to average earnings. National average earnings in 2006 were SKK 19 268 per month. Dividing the point value by the earnings figure gives the equivalent to the accrual rate in a defined-benefit scheme, which is just under 1.2%.

There is a ceiling to earnings for contribution and benefit purposes, which is set at three times average earnings. The earnings data are lagged, so the ceiling for the first half of 2006 was three times average earnings in 2004 (SKK 15 825 per month). In the second half, the ceiling was based on 2005 data for average earnings (SKK 17 274 per month). (At the baseline assumptions for earnings growth and price inflation, the lagging means that the ceiling is slightly less than three times contemporaneous average earnings.)

Pensions in payment are indexed to the arithmetic average of earnings growth and price inflation.

For workers joining defined-contribution plans, the benefits under the public, earnings-related scheme are half of those of workers who remain only in the public plan. These workers are supposed to get the second half of their pension from life insurance or combined from life insurance and an old-age pension company.

Minimum

There is no minimum pension. However, there is a minimum assessment base for pension purposes that is equal to the minimum wage. The minimum wage was SKK 7 600 from the beginning of October 2006 and SKK 6 900 earlier in the year. The minimum wage is worth just under 40% of average earnings.

Defined contribution

The contribution rate for the defined-contribution scheme is 9% of earnings. Participation is mandatory for workers entering the labour market from January 2005; all others should have chosen by June 2006 to remain solely under the public scheme or join the mixed system. The defined-contribution pension can be taken as an annuity or as a combination of scheduled withdrawal and annuity. The modelling assumes withdrawal in the form of a price-indexed annuity using unisex annuity rates.

Variant careers

Early retirement

Early retirement is possible. Benefits are reduced by 0.5% per month since the pension is claimed early (equivalent to 6% per year). Early retirement also requires that the resulting pension is equal to at least 1.2 times the adult subsistence income level, which was SKK 4 980 per month in 2006. The subsistence minimum for the calendar year 2006 was worth 25.8% of average earnings, meaning that the minimum pension required for early retirement is SKK 5 976 per month which is 31% of average earnings. Average early retirement pension, in 2006, was SKK 8 970 per month which is 46.7% of average earnings.

There is currently no age limit on early retirement: it is theoretically possible at any age provided the ten-year contribution condition and the requirement for the level of the benefit are both met.

Late retirement

It is possible to defer claiming the pension after the normal pension age. The benefit is increased by 0.5% for each month of deferral (6% per year). For people who claim the pension and continue to work, the pension will be recalculated when the individual eventually retires adding one half of the points earned during that period.

Childcare

There are pension credits for people caring for children up to the age of 6, with the state paying the relevant contributions. The assessment base for pensions is 60% of earnings prior to the period spent caring for children. In the first half of each calendar year, it is based on average earnings two years before the absence started. In the second half, the calculation uses earnings in the calendar year immediately before the absence. There is more generous provision for carers of disabled children.

These rules also apply for the defined contribution scheme (old-age pension scheme).

Unemployment

Unemployed people receive no credits in the pension system. However, they can make use of provisions for voluntary pension insurance.

Personal income tax and social security contributions

Taxation of pensioners

There are no special tax allowances or credits for pensioners.

Taxation of pension income

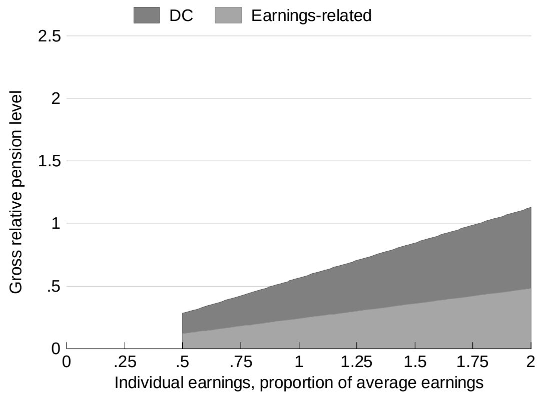
Pensions are not taxed.

Social security contributions paid by pensioners

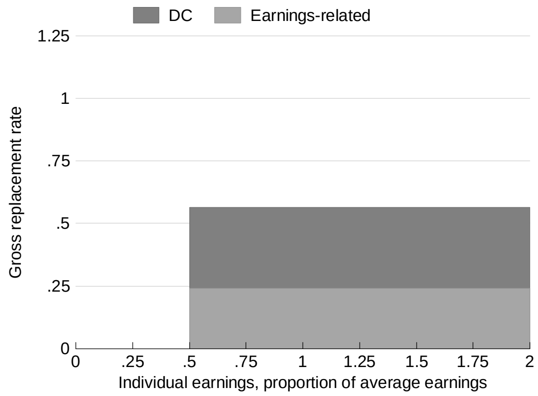
Old-age pension beneficiaries do not pay invalidity insurance contributions and unemployment insurance contributions, unless they are working.

Pension modelling results: Slovak Republic

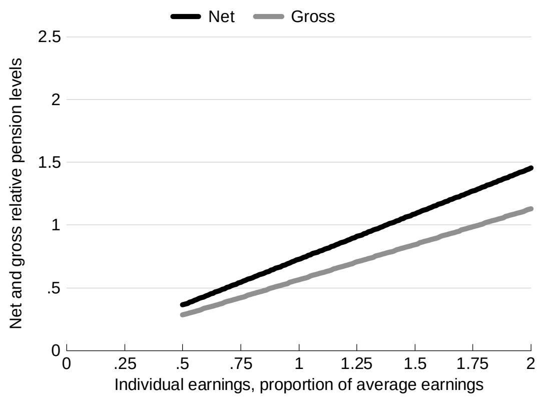
Gross relative pension level



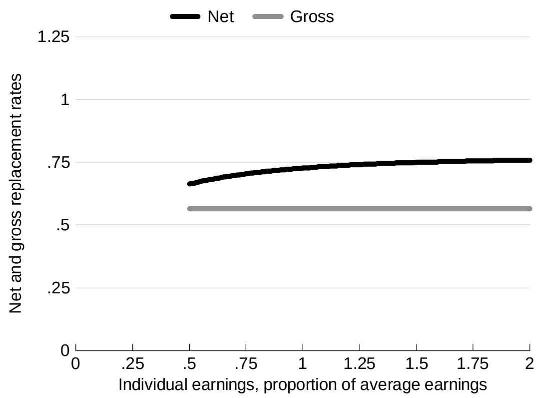
Gross replacement rate



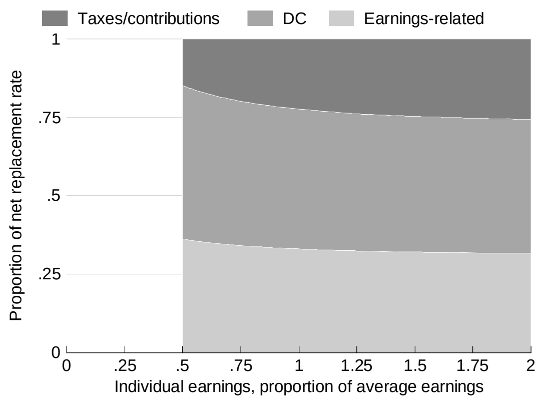
Net and gross relative pension levels



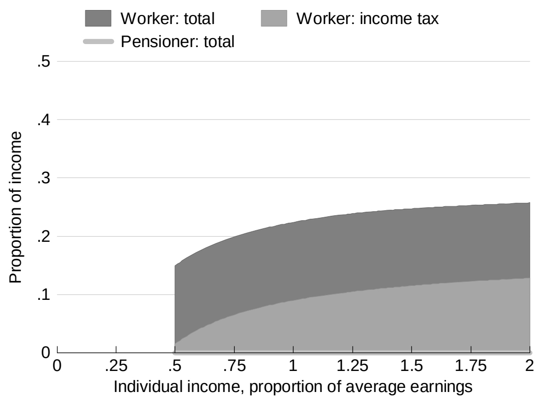
Net and gross replacement rates



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)	47.9	28.2	42.3	56.4	84.6	112.8
Net relative pension level (% net average earnings)	61.8	36.3	54.5	72.7	109.0	145.4
Gross replacement rate (% individual gross earnings)	56.4	56.4	56.4	56.4	56.4	56.4
Net replacement rate (% individual net earnings)	71.5	66.3	70.4	72.7	74.9	75.9
Gross pension wealth (multiple of average gross earnings)	8.8 *10.6*	8.8 *10.6*	8.8 *10.6*	8.8 *10.6*	8.8 *10.6*	8.8 *10.6*
Net pension wealth (multiple of average net earnings)	8.8 *10.6*	8.8 *10.6*	8.8 *10.6*	8.8 *10.6*	8.8 *10.6*	8.8 *10.6*