SLOVAK REPUBLIC

Slovak Republic: pension system in 2008

The earnings-related, public scheme is similar to a points system, with benefits that depend on individual earnings relative to the average. 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.

Key indicators

		Slovak Republic	OECD
Average earnings	EUR	8 700	27 800
	USD	12 700	40 600
Public pension spending	% of GDP	5.8	7.0
Life expectancy	at birth	74.6	78.9
	at age 65	80.3	83.1
Population over age 65	% of working-age population	18.3	23.6

Qualifying conditions

Since January 2008, fifteen 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 of 62 was reached in 2006. For women, the increase in pension age is being spread over the period 2004-14. All women will reach the single pension age of 62 years in reality in 2024, 2015 is the date for legal rising of the pension age. For instance it means that women who will be 53 years old in 2014 and have reared five or more children will have their retirement age of 53 years increased by 99 months.

In the old-age saving scheme one needs fifteen years of savings period in addition to reaching the pension age.

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 EUR 8.9955 for 2009. The pension-point value is indexed to average earnings (according growth in the third quarter of calendar year). National average earnings in 2008 were EUR 723.03 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 1.25%.

There is a ceiling to earnings for contributions, which is set at four times average earnings. For benefit calculation the ceiling is set by maximum Pension Points at level 3 (3 times of average earnings). The earnings data are lagged, so the ceiling for the first half of 2009 was four times average earnings in 2007 (EUR 668.72 per month). In the second half, the ceiling was based on 2008 data for average earnings (EUR 723.03 per month). At the baseline assumptions for earnings growth and price inflation, the lagging means that the ceiling for paying contributions is slightly less than four 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 aliquot part 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 EUR 295.50 from the beginning of January 2009. 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 was mandatory for workers entering the labour market for the first time from January 2005; all others had the possibility to choose by June 2006 to remain solely under the public scheme or join the mixed system. However, since 1 January 2008 the participation in mixed system is voluntary for people joining to the labour market for the first time. Last amendment of Act No. 43/2005 Coll. on the old-age pension saving system that has been approved by the Parliament of the Slovak Republic has changed the conditions that specify the beginning of the period for deciding whether to join the second pillar or not. This measure is focused only on new entrants and is effective from 1 January 2009. New entrants have six months for making their decision when their pension insurance last at least 150 days. When their pension insurance last less than 150 days this period is not counting as floating the period of 6 months. The aim of mentioned measure is to secure young people (for instance students) that work during their studies only for a certain period. New entrants do not have to wait when they reach 150 days of pension insurance they can make their decision whenever they want on following day after the day they have started to pay premium on pension insurance. 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 % for each 30 days, or part thereof, that the pension is claimed early (equivalent to 6.5 % per year). Early retirement also requires that the resulting pension have to be higher than 1.2 times the adult subsistence income level. The subsistence income level was and still is EUR 185.19 in 2009. The subsistence minimum for the calendar year 2008 was worth 24.7% of average earnings, meaning that the minimum pension required for early retirement has to be higher than EUR 222.30 which is 30% of average earnings. Average early retirement pension was EUR 327.60 in 2008, which is 45.3% of average earnings.

Currently there are three conditions which are necessary to be met on early retirement: maximum two years before reaching retirement age, acquired the fifteen-year contribution and the requirement for the level of the benefit.

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 (6.5% 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 average 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 (pension credits for people caring for disabled children up to the age of 18). The carer and also the child have to have permanent address in Slovak Republic and the carer has to register for pension insurance by reason of this care.

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

Unemployment

Unemployed people are not credited 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

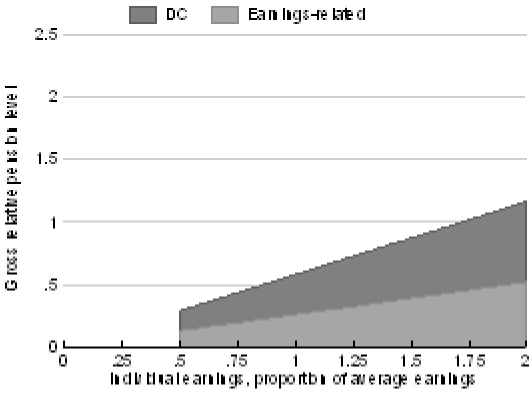
Pensions are not taxed.

Social security contributions paid by pensioners

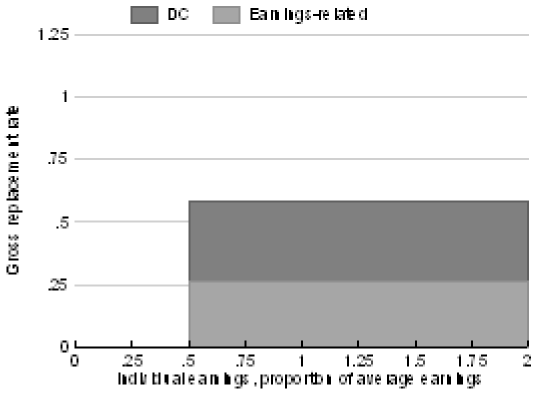
Old-age pension beneficiaries do not pay invalidity insurance contributions and unemployment insurance contributions, unless they are working.

Pension modelling results: Slovak Republic

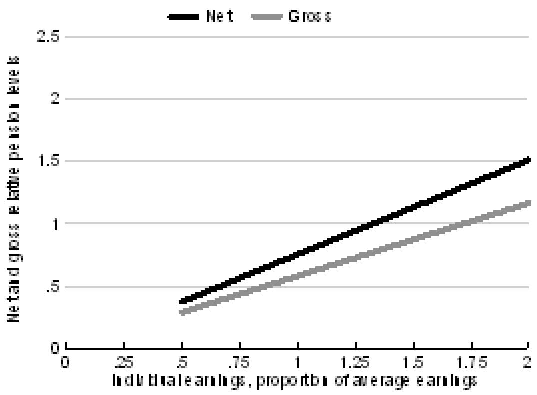
Gross relative pension level



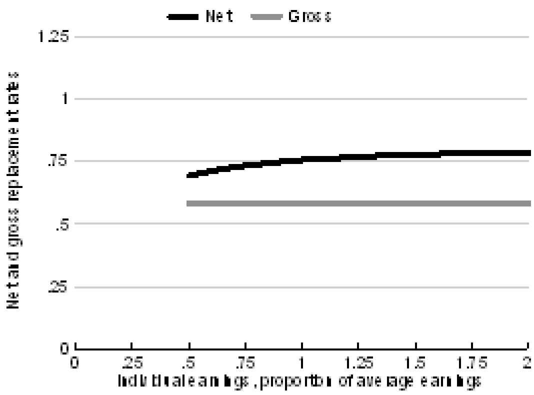
Gross replacement rate



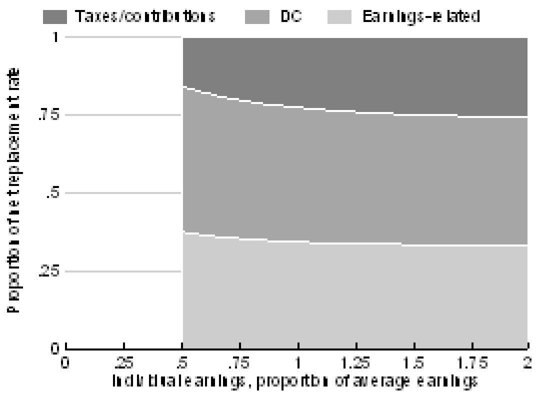
Net and gross relative pension levels



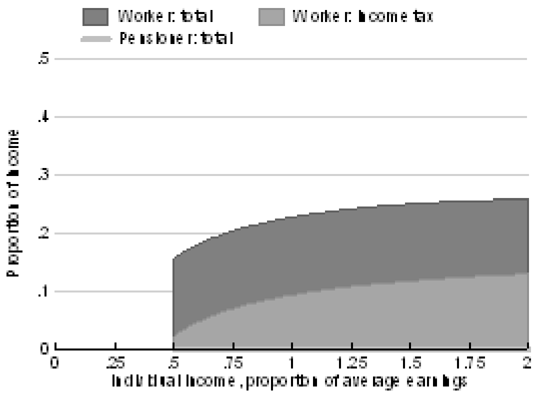
Net and gross replacement rates



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)	46.6	28.8	43.1	57.5	86.3	115.1
Net relative pension level (% net average earnings)	60.4	37.3	55.9	74.5	111.8	149.0
Gross replacement rate (% individual gross earnings)	57.5	57.5	57.5	57.5	57.5	57.5
Net replacement rate (% individual net earnings)	72.9	68.3	72.3	74.5	76.7	77.7
Gross pension wealth (multiple of average gross earnings)	9.2 11.3	9.2 11.3	9.2 11.3	9.2 11.3	9.2 11.3	9.2 11.3
Net pension wealth (multiple of average net earnings)	9.2 11.3	9.2 11.3	9.2 11.3	9.2 11.3	9.2 11.3	9.2 11.3