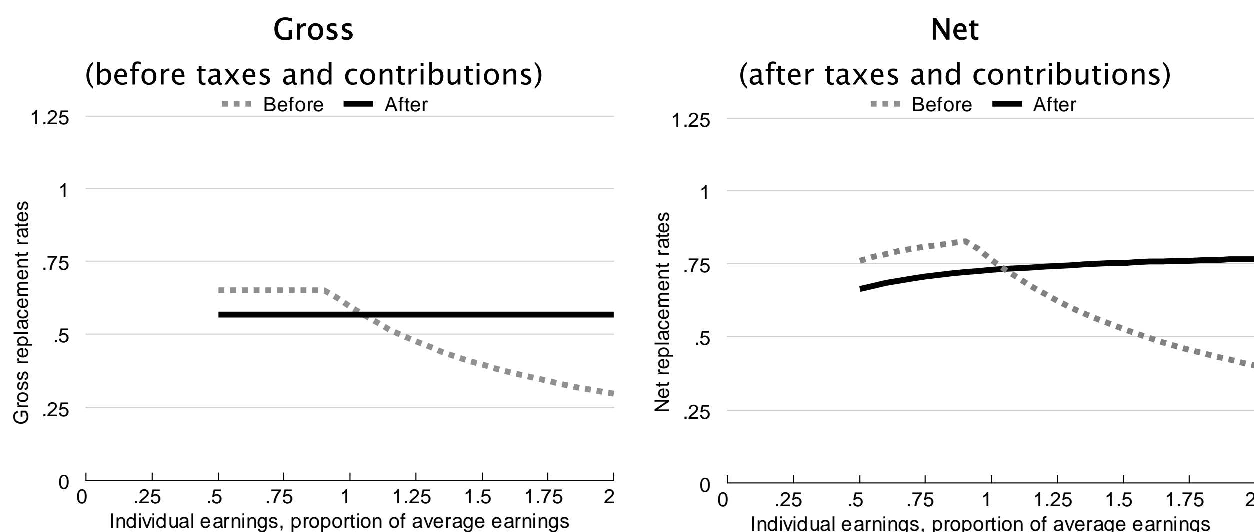
- Recent pension reforms cut the target for future retirement benefits for most workers – those on low and middle incomes – while increasing them for high earners.
- Only one other OECD country does not tax pensions in payment.

Recent pension reforms cut the target for future retirement benefits for most workers. Benefits are measured using the replacement rate: pension during retirement relative to earnings when working. For an average earner with a full career, the gross replacement rate from the public scheme was nearly 60%. After reform, the overall gross replacement rate is projected to be less than 50% when the new system is mature (see the left-hand panel of Figure 1). Around 55% of this will come from the new individual accounts with 45% from the reformed public scheme.

Figure 1. **Replacement rate in the Slovak Republic by earnings, full career under pre- and post-reform rules**



Source: OECD pension models: see OECD *Pensions at a Glance*

The Slovak Republic and Turkey are the only two of the 30 OECD countries that do not tax pensions in payment. A worker on average earnings would pay 8.9% of income in tax and 13.4% in social security contributions. This means that net replacement rates, taking account of taxes and contributions paid when working, are higher than gross. The net replacement rate for an average earner in the new system is expected to be 73%, a little above the OECD average of 70% (Figure 1 and Table 1).

The reform explicitly aimed to link pension benefits more closely with contributions. The result of this policy is a cut in benefits for low and middle earners: from a replacement rate of 76% to 66% for workers earnings between 50 and 90% of the average. This is equivalent to a 13% reduction in benefits. For a higher earner, with 150% of average earnings, benefits increase by 43%, taking the replacement rate from 53% to 75%.

There is a risk that the rebalancing of benefits away from low and middle earners towards high earners risks an increase in old-age poverty in the future or increased pressure on the social-assistance system, thereby compromising the long-term fiscal gains.

Table 1. **Net replacement rate in 10 OECD countries at 50%, 100% and 150% of average earnings**

	50%	100%	150%
Austria	90.4	90.9	89.2
Czech Republic	98.8	64.4	49.3
France	63.4	63.1	58.0
Germany	53.4	58.0	59.2
Hungary	94.7	102.2	98.5
Italy	81.8	77.9	78.1
Poland	74.5	74.9	75.0
United Kingdom	66.1	41.1	30.6
United States	67.4	52.4	47.9
Slovak Republic			
Pre-reform	76.1	76.4	52.7
Post-reform	66.4	72.9	75.4
OECD	**83.2**	**69.7**	**60.6**

Source: OECD *Pensions at a Glance*

Notes to editors

See also OECD (2007), *Economic Survey of the Slovak Republic*, Chapter 2.