

Slovak Republic

Slovak Republic: Pension system in 2012

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 worker earnings (AW)	EUR	9 800	32 400
	USD	12 900	42 700
Public pension spending	% of GDP	7.0	7.8
Life expectancy	At birth	75.3	79.9
	At age 65	15.9	19.1
Population over age 65	% of working-age population	19.2	25.5

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Qualifying conditions

Since January 2008, 15 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 2008. 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. From 2017 and onwards the statutory pensionable age will be indexed in line with increases in life expectancy at retirement age. The actual increase will be calculated as the change in average life expectancy in the first reference period compared with the change in the second reference period multiplied by 365. The result will be presented in days. The reference periods are calculated as average life expectancy during the first reference period (seven years prior to the reference year) compared to the second reference period (eight years prior to the reference year, 2009 to 2013 for the reference year 2017).

In the old-age saving scheme one needs at least ten years of savings period in addition to reaching the pension age. The modelling assumes a normal retirement age of 67 in 2056.

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. Nevertheless, there is the “solidarity element” reducing average pension point higher than 1.25 (coefficient for reduction will be gradually decreasing from 84% to 60% in the period 2013-18) and increasing average pension point lower than one (coefficient for increasing will be gradually rising from 16% to 22% in the period 2013-18).

The pension entitlement is the sum of pension points over the career multiplied by the pension-point value. This is EUR 9.8182 for 2012. The pension-point value is indexed to average earnings (according to growth in the third quarter of calendar year). National average earnings in 2011 were EUR 786.00 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. From 1 January 2013 the ceiling will increase to five times average earnings. The earnings data are lagged. The lagging means that the ceiling for paying contributions is slightly less than five times average earnings. At the baseline assumptions for earnings growth and price inflation, the lagging means that the ceiling for paying contributions is slightly less than five times contemporaneous average earnings.

Pensions in payment are indexed to the arithmetic average of earnings growth and price inflation. During a transition period 2013 to 2017 the pension benefits will be increased by fixed amounts. The share of earnings growth and inflation in the valorisation will change from (40:60 for 2014; 30:70 for 2015; 20:80 for 2016 and 10:90 for 2017). From 2018 valorisation will solely be according to the development of consumer prices for pension households.

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 part 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. From 1 January 2013 the minimum assessment base for self-employed persons is increased to 50% of the average wage two years before. The minimum wage was EUR 337.70 and minimum assessment base for self-employed persons was EUR 393.00 from the beginning of January 2013. The minimum wage is worth around 41% of average earnings.

Voluntary defined contribution

The contribution rate for the defined-contribution scheme is 6% of earnings. From 1 September 2012 the contribution rate for DC scheme was lowered to 4%. However, from 1 January 2017 the contribution rate will increase on a yearly basis by 0.25% each year and reach the target level 6% in 2024 where it will remain thereafter. Participation was mandatory for workers entering the labour market for the first time from January 2005; all others had the possibility to choose to join the mixed system or to by June 2006 to remain solely under the public scheme. From 1 January 2008 to 31 March 2012 participation in the mixed system has been made voluntary for new entrants to the labour market. The previous changes have changed the system into a default auto enrolment entrance with possibility to opt out in two years horizon. Auto enrolment rules have come into effect since 1 April 2012. From 1 January 2013 voluntary entrance is possible for new entrants and voluntary entrance is possible before the age of 35. 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 194.58 from 1 July 2012 and was worth 24% of average earnings. This means that the minimum pension required for early retirement has to be higher than EUR 233.49 which is 29% of average earnings. Average early retirement pension was EUR 374.50 in December 2012, which is 46% 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 at least the 15-year contribution and the requirement for the level of the benefit. From 1 January 2011, it is no longer possible to receive an early old-age pension and have mandatory pension insurance.

Late retirement

It is possible to defer claiming the pension after the normal pension age. The benefit is increased by 0.5% for each 30 days 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

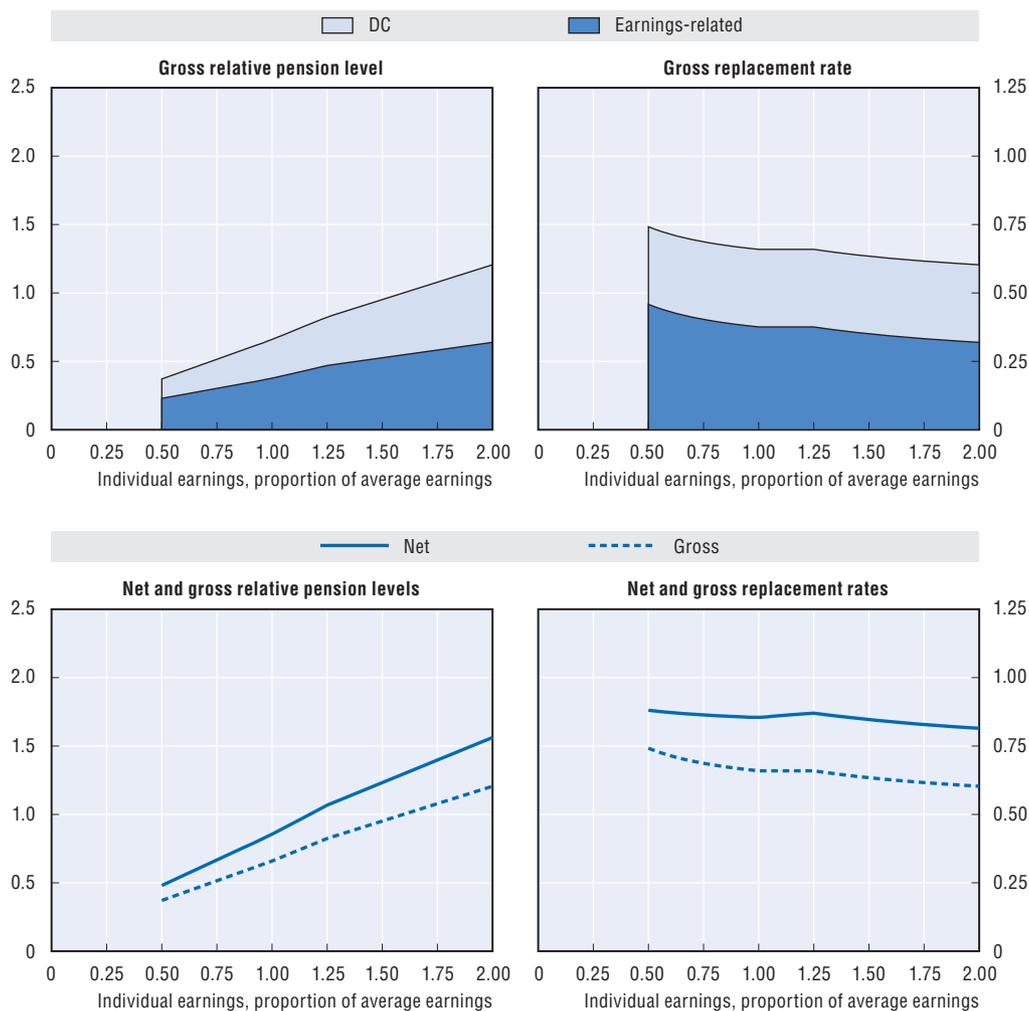
There are pension credits for people caring for children up to the age of 6 with the state paying the relevant contributions. The assessment base for pensions is 60% of average earnings prior to the period spent caring for children. Since 1 January 2011, the assessment base was adjusted to general ceiling rules, so is determined from the whole year level of average wage, which was valid two years before (2009) the absence year (2011). 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 the 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

Unemployment spells are not credited in the pension system. However, the unemployed can make provisions for voluntary pension insurance. Also is possible to pay contributions for this period retroactively.

Pension modelling results: Slovak Republic



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)	55.0	37.1	51.5	65.9	95.1	120.6
Net relative pension level (% net average earnings)	71.2	48.1	66.7	85.4	123.3	156.2
Gross replacement rate (% individual gross earnings)	67.9	74.2	68.7	65.9	63.4	60.3
Net replacement rate (% individual net earnings)	86.1	88.1	86.4	85.4	84.7	81.5
Gross pension wealth (multiple of individual gross earnings)	9.1	9.9	9.2	8.8	8.5	8.1
Net pension wealth (multiple of individual gross earnings)	9.1	10.7	10.8	10.4	10.0	9.5
Net pension wealth (multiple of individual net earnings)	9.1	9.9	9.2	8.8	8.5	8.1
Net pension wealth (multiple of individual gross earnings)	10.7	11.7	10.8	10.4	10.0	9.5

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