

Czech Republic

Czech Republic: Pension system in 2020

The Czech pension system consists of a public pension scheme and a voluntary funded private scheme which is mandatory once joined. The public pension scheme has a basic element and an earnings-related part calculated according to a progressive formula.

Key indicators: Czech Republic

		Czech Republic	OECD
Average worker earnings (AW)	CZK	402 261	909 338
	USD	17 331	39 178
Public pension spending	% of GDP	7.7	7.7
Life expectancy	at birth	79.1	80.6
	at age 65	18.0	19.7
Population over age 65	% of working- age population	33.8	30.4

Qualifying conditions

The standard retirement age is currently 63 years and 8 months for men and women without children. Women who raised children have lower retirement age. The age is gradually increasing by two months per birth cohort until reaching age 65. The pension age for women is increasing at a faster rate – 6 months per cohort – to equalise with that of men. The minimum years of required paid or credited coverage is 35 years (or 30 years without credits). Individuals with 20 years of pension coverage or 15 years without credited periods can receive a pension benefit five years later than the standard retirement age for males of the same birth cohort.

Benefit calculation

Basic

The value of the basic pension is equal to 10 % of the legislated average wage. In 2020 this translated into an annual benefit equal to CZK 41 880.

Earnings-related

The earnings-related pension gives 1.5% of earnings for each service year. The earnings measure currently averages across all years starting from 1986, but it will gradually reach lifetime average. Earlier years' earnings are valorised by the growth of economy-wide average earnings.

There is a progressive benefit formula, under which monthly income thresholds are applied to reduce average career earnings into the calculation basis. The first threshold is 44 % of the legislated average wage and the second 400 %. The first reduction threshold was equal to CZK 15 328 and the second was CZK 139 340 in 2018. Up to the first threshold the earnings are replaced at 100% and between the first and second at 26%. Earnings over the second threshold are not taken into account.

There is a statutory indexation requirement for the earnings-related pension component in payment to ensure that the state that the combined total average pension benefit (flat-rate and earnings-related components) is increased by the greater of general price inflation and pensioner specific inflation, plus half of the real wage growth.

Minimum

The total value of the minimum monthly newly granted public pension benefit is CZK 4 260, made up of a minimum earnings-related pension of CZK 770 plus the basic component of CZK 3 490.

Social assistance

The so-called “living minimum” for individuals (and therefore also pensioners that live alone) amounted to CZK 3 860 per month.

Voluntary private pension

There is an additional voluntary pension which is assumed to be defined contribution. The contribution rate is assumed to be 2.8%.

The voluntary private pension systems are not modelled in the base case.

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 subject to 35 years’ coverage. 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 of the first 360 days of early retirement (3.6% per year), 1.2 % for each 90 days between 361 and 720 days (4.8% per year) and 1.5% for each 90 days thereafter (6% per year).

Late retirement

It is possible to defer claiming the pension beyond the normal pension age. The total accrual factor 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. The accrual rate is increased by 0.4% for every 360 days of work if claiming the full pension and by 1.5% for every 180 days of work if only claiming half the pension.

Childcare

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: five months up to age 50, eight months from 50 to 55 and 11 months for over 55s. In addition, up to three years spent unemployed without entitlement to unemployment insurance are also credited (but only one year of unemployment without benefits before the age of 55 is 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 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.

Self-employed

The self-employed are covered by the same pension scheme as employees and the total pension contribution rate is 28% for both employees and self-employed workers.

The base for social security contributions is set at 50% of profits before paying social security contributions, with a minimum of 25% of the economy wide average wage.

Personal income tax and social security contributions

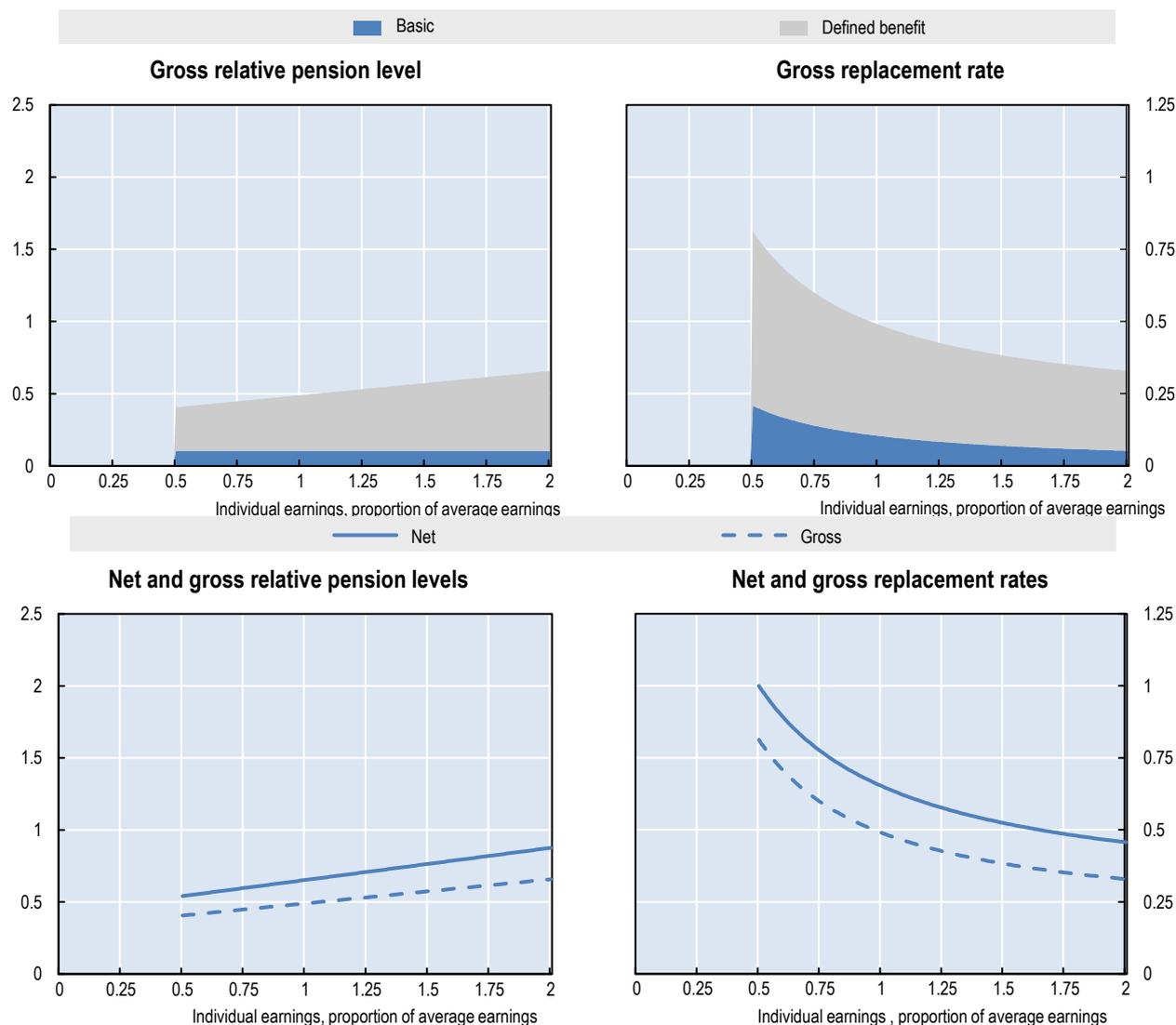
Taxation of pensions

Old-age pensions are not taxed up to a value of CZK 439 200 per annum. Above this the tax rate is 15%.

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 in 2063 retirement at age 65



Men <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	40.6	44.8	49.0	57.4	65.8	82.5
Net relative pension level (% net average earnings)	54.1	59.7	65.2	76.4	87.6	109.9
Gross replacement rate (% individual gross earnings)	81.2	59.8	49.0	38.3	32.9	27.5
Net replacement rate (% individual net earnings)	100.0	77.4	65.2	52.4	45.7	38.8
Gross pension wealth (multiple of individual gross earnings)	15.3	11.2	9.2	7.2	6.2	5.2
Net pension wealth (multiple of individual net earnings)	16.7	12.3	10.0	7.8	6.7	5.6
Net pension wealth (multiple of individual net earnings)	18.8	14.6	12.3	9.9	8.6	7.3
Net pension wealth (multiple of individual net earnings)	20.5	15.9	13.4	10.7	9.4	7.9

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 22 in 2020. Tax system latest available: 2020.