Pensions at a Glance 2023

Slovak Republic

Slovak Republic: Pension system in 2022

The earnings-related, public scheme is a points system, with benefits that depend on individual earnings relative to the average. Low-income workers with qualified pension contributions are protected by a minimum pension. All pensioners are eligible for social assistance benefits. Voluntary defined contribution plans were introduced in 2005.

Key Indicators: Slovak Republic

		Slovak Republic	OECD
Average worker earnings (AW)	EUR	15 538	39 182
	USD	16 362	41 261
Public pension spending	% of GDP	7.1	7.7
Life expectancy	at birth	75.4	80.7
	at age 65	80.6	84.6
Population over age 65	% of working-age population	27.3	31.3

Qualifying conditions

In 2022, the 1959 cohort can retire at age of 62 years and 10 months with at least 15 years of contributions. For women with children the pension age is reduced. For instance, a woman with five or more children can retire at the age of 61 years and 3 months in 2022.

The retirement age in the Slovak Republic is defined on a cohort basis. The retirement age for males and females with no children is set to increase by two months for each subsequent cohort, until it reaches 64 years in 2030 for cohort 1966.

From 1 January 2023 a new mechanism of the increasing retirement age over 64 years has been adopted. As from 1967 cohort, the retirement age is automatically adjusted by difference of the unisex life expectancy according to formula:

$$Retage_c = Retage_{c-1}$$

$$+median\left(\frac{LE_{r-2}-LE_{r-7}}{5},\frac{LE_{r-3}-LE_{r-8}}{5},\frac{LE_{r-4}-LE_{r-9}}{5},\frac{LE_{r-5}-LE_{r-10}}{5},\frac{LE_{r-6}-LE_{r-11}}{5},\frac{LE_{r-7}-LE_{r-12}}{5},\frac{LE_{r-8}-LE_{r-13}}{5}\right)$$

Where: $Retage_c$ is the retirement age for the cohort c, r is the year in which the retirement age is adjusted (for the 1967 cohort, the retirement age will be adjusted in 2025, subsequently, for the 1968 cohort in 2026 and so on), LE is the life expectancy (unisex) in year r-13 to r-2 at the retirement age rounded down ($Retage_{c-1}$).

The retirement age for a woman who raised children is lowered by at least 6 months for each child, up to three children.[1]

[1] If the mother is unable to benefit from such early retirement possibility, the right is transferred to the father.

Earnings-related

The pension points are calculated as the ratio of individual earnings to economy-wide average earnings. In addition, there is a "solidarity element" which reduces pension points higher than 1.25. This coefficient has gradually decreased from 84% in 2013 to 68% in 2016. Point values lower than one are increased in a similar way and the coefficient for this increase has gradually increased from 16% to 20% over the same period.

The pension benefits at retirement equal the average of all pension points in the reference period (generally years since 1984) multiplied by the total period of pension insurance and the pension-point value at the point of retirement. In 2022 the pension point value was EUR 15.1300 and in 2023 the pension point value is EUR 16.4764. From 2023 the pension-point value is indexed to 95% of the average earnings growth (the third quarter of each calendar year).

Formula for the indexation of the pension point value since 2023:

$$PPV_t = PPV_{t-1} \times \left[1 + \left(\frac{AE_{t-1}}{AE_{t-2}}\right) \times 0{,}95\right]$$

Where: PPV_t is pension point value at time t, AE are average earnings in the third quarter of each calendar year.

National average earnings in 2021 were EUR 1 211.00 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 increased in 2017 from five times to seven times average earnings. The earnings data are lagged. The lagging means that the ceiling is slightly less than seven times average earnings.

Pensions in payment are indexed to a mix of average earnings growth and price inflation. From 2013 to 2017 the pension benefits were increased by fixed amounts. The share of earnings growth and inflation in the indexation changed from 40:60 in 2014 to 30:70 in 2015 and 20:80 in 2016. However, in 2017 the pensions were indexed by 2%, the minimum percentage, as this is higher than the percentage from 10:90 split through earnings growth and inflation. For each type of pensions (old-age, early old-age, disabled, orphan´s, widow´s/widower´s, etc.), a separate fixed (nominal) amount was calculated to avoid redistribution among different types of pensions. From 2018 indexation followed the development of consumer prices for pensioner's households. From 2018 to 2021 the guarantee of the minimum indexation at fixed amount calculated by 2 % of the average pension for each type of pension is applicable. From 2022, all pensions are indexed solely by pensioner's inflation.

Workers joining the defined-contribution plans have their benefits from the public earnings-related scheme adjusted proportionally.

Minimum

From 1 July 2015 there is a minimum pension benefit for old-age and disability pensioners that have reached retirement age. From 1 July 2015 to 31 December 2019 the conditions for beneficiaries to increase the pension up to the minimum pension were:

1. s/he has completed at least 30 years of qualified pension insurance period[2],
2. the amount of total pension income is lower than the amount of the minimum pension and
3. s/he has claimed all pensions s/he has qualified for.

[2] Qualified pension insurance years are those: completed before 1 January 1993 or from 1 January 1993 if in the calendar year a personal wage point reached at least level 0.241 (the yearly income was at least 24.1% of the average wage).

In the years 2015 to 2019 the qualifying period of the 30 years represented a minimum pension equal to 1.36 multiplied by the amount of the subsistence level (in 2019 it was EUR 278.90 per month).

For every year of qualifying period over the basic level, the minimum pension was increased:

- by two percentage points of the subsistence minimum level for each year between 31 and 39
- by three percentage points of the subsistence minimum level for every subsequent year.

From 2015 to 2019 the indexation of the minimum pension benefit was linked to the minimum subsistence level.

In 2020, the level of the minimum pension is calculated based on number of years an individual has worked and paid pension insurance. The minimum pension for individuals with 30 years of pension insurance contributions in 2020 is 33% of the average wage from two years ago. For each extra year, pensioners receive 2 p.p. of the subsistence level – EUR 214.83 - up to 39 years of career and 3 p.p. thereafter.

Need to be add, that as of 2021, the mechanism determining the minimum pension was dropped, and their value is at the level of 2020. Additionally, from 2021, only those years with contributions from the assessment base above 24.1% of the average wage are taken into account to determine the minimum pension value.

Besides that, there is a minimum assessment base for paying pension contributions that is equal to 50% of the average wage two years before which applies to self-employed persons. The minimum wage was EUR 646.00 for full time workers and the minimum assessment base on pension insurance for self-employed persons was EUR 566.5 from 1 January 2022.

The Parental pension

The parental pension is a new type of pension effective since 1 November 2022 and will be paid by the Social Insurance Agency. Economically active children can transfer part of their pension contributions to their retired parents (old-age and disability pensioners after reaching the pensionable age). The amount of the parental pension per parent is set to 1.5 % (and up to 3 % in case of two or more parents) of 1/12 of the children´s annual assessment base for pension contributions from two years ago. However, the maximum amount of the children salary is restricted to 1.2 times of the average monthly wage in Slovakia from two years ago. The parental pension is paid monthly, except the year 2023 when the whole amount of the parental pension is paid once a year.

Social assistance

The Assistance in Material Need targets those unable to maintain their living conditions. The benefit is universal, non-contributory and financed through general taxation.

On 1 January 2023 the minimum income guarantee for old-age pensioners consisted of:

1. A monthly benefit of EUR 74.00 (single-pensioner) or EUR 128.60 (couple-pensioners without children).
2. A monthly Housing Allowance of EUR 63.90 (single-pensioner) or EUR 101.90 (couple-pensioners without children).
3. A monthly Protection Allowance of EUR 75.70 (single-pensioner) or EUR 151.40 (couple-pensioners without children).

The total monthly amount is EUR 213.60 (single-pensioner) or EUR 381.90 (couple-pensioners without children).

Individuals with low pension benefits can receive the Assistance in Material Need but 25% of the pension amount is disregarded for eligibility. For every insurance year above 25 years an additional one percentage point is disregarded (for example with 40 years of pension contributions 40% of pension income is disregarded). This means that the amounts above are not maximum amounts for pensioners and that they vary according to the amount of income in this case of pension and pension insurance period.

Quasi-Mandatory defined contribution

The contribution rate for the quasi mandatory defined-contribution scheme is 5,50% of earnings in 2022. On 1 September 2012 the contribution rate was lowered from 9% to 4% of gross wage. However, from 1 January 2017 the contribution rate was set to increase gradually by 0.25 percentage points each year. From 1 January 2023 the rate of mandatory contributions to old-age pension savings remains at 5.50% of the assessment base in 2023 and 2024, 5.75% of the assessment base in 2025 and 2026, and 6% from 2027 from the assessment base.

Participation in the defined contribution system was mandatory for workers entering the labour market for the first time from 1 January 2005. Other workers had the possibility to choose by 1 June 2006 to either join the mixed system or remain in the public scheme. From 1 January 2008 to 31 March 2012 participation in the mixed system was made voluntary for new entrants. The previous changes have changed the system into a default auto enrolment with the possibility to opt out within two years. The auto enrolment rules came into force on 1 April 2012. From 1 January 2013 to 30 April 2023 voluntary participation is possible for new entrants and voluntary entrance is possible before the age of 35 years.

From 1 May 2023 will be set up again default auto enrolment with the possibility to opt out within two years. At the same time the upper age limit for entry will be increased from 35 to 40 years. Another important change with effect from 1 May 2023 is the introduction of a default investment strategy, in which during the first phase of saving, the saver's assets are placed exclusively in equity investments through a passively managed index non-guaranteed pension fund. At a certain time horizon (at a specifically determined age) before reaching retirement age, the gradual transfer of the saver's property and contributions to less risky bond and cash investments will subsequently begin. A bond-guaranteed pension fund will serve to stabilize the portfolio as part of the default investment strategy. Upon reaching the specified age, for the year 2023 it is 50 years of age, and upon the completion of each additional year of the saver's age in the default investment strategy, the share of the net value of his/her assets in the index non-guaranteed pension fund will be reduced by 4 percentage points in favour of the share of the net value of his/her assets in the bond guaranteed pension fund.

The defined-contribution pension can be taken as a life annuity, a fixed-term annuity or as programmed withdrawals. For calculation of the life annuity life insurance companies use cash flow models with unisex intergenerational mortality tables accounting for the cost ratio of the system. From 1 January 2024 second pillar savings can be paid in the form of a programmed withdrawal paid by a pension management company and in the form of a lifetime pension (annuity) paid by a life insurance company. Pension from II. pillar is paid in the first part of the payment phase exclusively by programmed withdrawal from half of the saved amount and subsequently, after its end, from the second part in the form of a lifetime annuity. With programmed withdrawal, a retirement pension or an early retirement pension is paid from half of the saved amount for about 10 years (half of the median life expectancy for men and women of the saver's age), while the saver can choose a fixed or variable amount of the pension. During this period, the second part of savings continues to be valued in pension funds, partly also in index funds. Even in this phase, the saver has the opportunity to make voluntary contributions, and if he/she is working, mandatory contributions are also credited to his personal pension account. Subsequently, after the end of receiving the programmed withdrawal, the old-age pension is paid in the form of a lifetime annuity.

Variant careers

Early retirement

Early retirement is possible up to two years before the statutory retirement age and pension benefits are reduced by 0.5% for each 30 days of early benefit withdrawal, equivalent to 6.5% per year. From July to October 2022 early retirement also requires a pension benefit higher than EUR 281.30, equal to 1.2 times the adult subsistence minimum income level. From 1 November 2022, the condition for entitlement to early retirement has been tightened to 1.6 times the adult subsistence minimum income level and early retirement requires a pension benefit higher than EUR 375.07. From 1 January 2011 it was not possible to receive an early old-age pension benefit and also have mandatory pension insurance. Since 1 July 2018 it is possible to receive an early old-age pension benefit and working on agreement performed outside of an employment relationship with income limit of EUR 2 400 per year.

From 1 January 2023 early retirement is possible if he/she has received at least 15 years of pension insurance or he/she has gained at least 40 worked years and the amount of his/her early old-age pension is higher than 1.6 times the amount of the adult subsistence minimum (in the first half of 2023 the amount EUR 375.07). For each month that he/she retires earlier, the amount of his/her pension is reduced by 0.3% when he/she gets at least 40 worked years, or by 0.5% when he/she does not get at least 40 years of service.

Late retirement

Late retirement is possible, and the pension benefit increases by 0.5% for each 30 days of deferral, equal to 6% per year. For individuals that combine pension benefit withdrawal with work the pension benefit is recalculated automatically every year or upon request when the individual eventually retires adding half of the points earned during that period.

Childcare

Individuals caring for children up to age six are given pension credits paid by the state. The assessment base for the pension contributions is 60% of average earnings prior to the caring period. Since 1 January 2011 the assessment base has been adjusted to the general ceiling rules and annual average wage two years before the absence year. The same rules apply for the defined-contribution scheme (old-age pension saving scheme).

Unemployment

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

Self-employed

The self-employed are covered by the same scheme as employees, with the same contribution rate. The contribution rate is set at 67% of income from the self-employed activity before deducting social security contributions.

Personal income tax and social security contributions

Taxation of pensioners

There are no special tax allowances or credits for pensioners.

Taxation of pension income

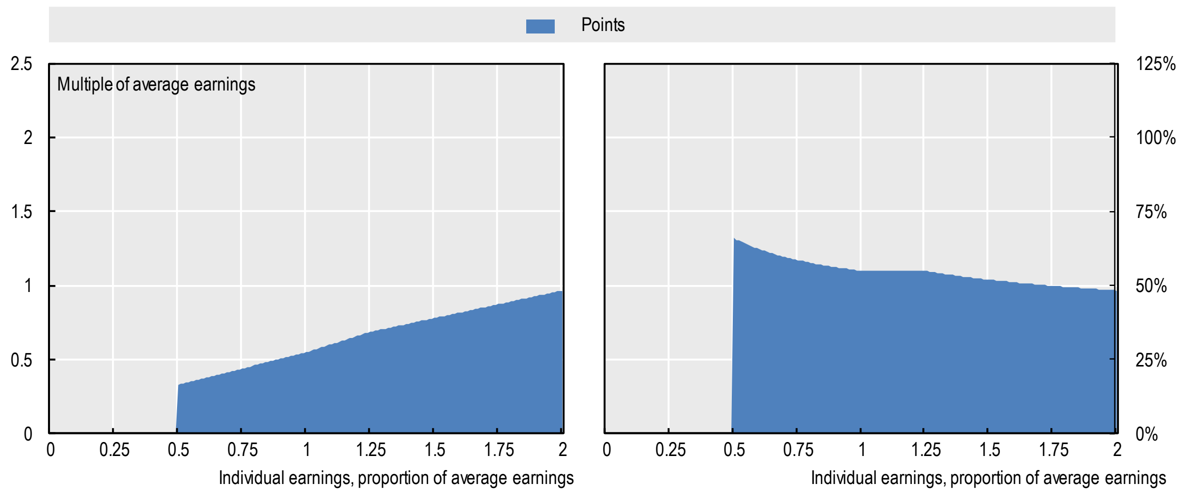
Pensions are not taxed.

Social security contributions paid by pensioners

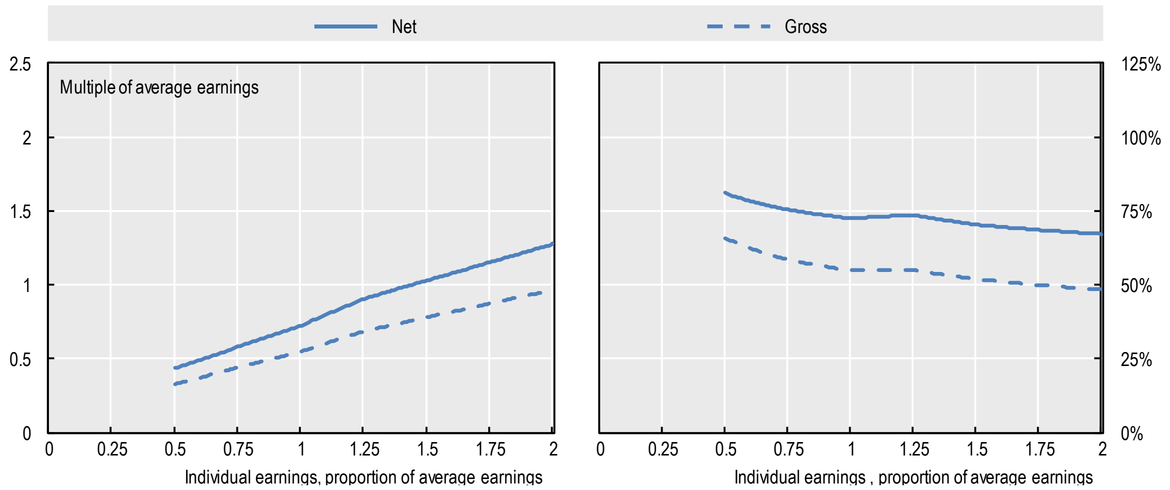
Pensions are not subject to contributions.

Pension modelling results: Slovak Republic in 2069 retirement at age 69

Gross relative pension level **Gross replacement rate**



Net and gross relative pension levels **Net and gross replacement rates**



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	32.9	43.9	54.9	78.0	96.6	134.0
(% average gross earnings)						
Net relative pension level	43.5	58.0	72.5	102.9	127.6	176.9
(% net average earnings)						
Gross replacement rate	65.9	58.6	54.9	52.0	48.3	44.7
(% individual gross earnings)						
Net replacement rate	81.0	75.5	72.5	70.4	67.2	63.9
(% individual net earnings)						
Gross pension wealth	10.6	9.4	8.8	8.3	7.7	7.2
(multiple of individual gross earnings)	11.9	10.6	9.9	9.4	8.7	8.1
Net pension wealth	13.0	12.1	11.6	11.3	10.8	10.2
(multiple of individual net earnings)	14.6	13.6	13.1	12.7	12.1	11.5

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.