

Slovak Republic

Slovak Republic: Pension system in 2016

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 the pension benefit is calculated. 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	10 918	34 803
	USD	11 488	36 622
Public pension spending	% of GDP	7.2	8.2
Life expectancy	at birth	77.0	80.9
	at age 65	17.0	19.7
Population over age 65	% of working- age population	21.5	27.9

StatLink  <http://dx.doi.org/10.1787/888933636130>

Qualifying conditions

The pension age is currently 62 years 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 58.25 in 2016. The pension ages for women are gradually increasing and all women will have a retirement age of 62 years or higher in 2024. From 2017 the statutory pensionable age will be indexed with increases in life expectancy at retirement age. The actual increase will be calculated as the change in average life expectancy compared with the reference period and the result will be presented in days. Statutory retirement age in 2017 is 62 years and 76 days. To be eligible for a pension benefit in DC plans at least ten years of contributions were needed but this rule was cancelled from 1 January 2015.

Benefit calculations

Earnings-related

The pension points are calculated as the ratio of individual earnings to economy-wide average earnings. In addition there is the “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 time 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 2016 the pension point equalled EUR 10.993. The pension-point value is indexed to average earnings growth (the third quarter of each calendar year). National average earnings in 2016 were EUR 910.00 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 in order to avoid

redistribution among different types of pensions. From 2018 indexation will follow the development of consumer prices for pensioner's households.

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 invalidity pensioners that have reached retirement age. The conditions for beneficiaries to increase the pension up to the minimum pension are:

1. s/he has completed at least 30 years of qualified pension insurance period¹,
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.

30 years of qualifying period represents a minimum pension equal to 1.36 multiplied by the amount of the subsistence level (in 2016 it was EUR 269.50 per month).

For every year of qualifying period over the basic level, the minimum pension will be 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.

The indexation of the minimum pension benefit is linked to the subsistence minimum level. 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 405.00 for full time workers and minimum assessment base on pension insurance for self-employed persons was EUR 429.00 from 1 January 2016.

Social assistance

The Assistance in Material Need targets those unable to maintain their living conditions of low income or no income individuals and households. The benefit is universal, non-contributory and financed through general taxation.

On 1 January 2016 the minimum income guarantee for old-age pensioners consisted of:

- 1) A monthly benefit equal to EUR 61.60 (single-pensioner) and EUR 107.10 (couple-pensioners without children);
- 2) A monthly Housing Allowance equal to EUR 55.80 (single-pensioner) and EUR 89.20 (couple-pensioners without children);
- 3) A monthly Protection Allowance equal to EUR 63.07 (single-pensioner) and EUR 126.14 (couple-pensioners without children);

The total monthly amount is EUR 180.47 (single-pensioner) and EUR 322.44 (couple-pensioners without children).

¹ 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).

Individuals with low pension benefits receive the Assistance in Material Need but 25% of the pension's 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 pension insurance period.

Voluntary defined contribution

The contribution rate for the voluntary defined-contribution scheme is 4.25% of earnings. 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 and reach the target level at 6% in 2024. 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 voluntary participation is possible for new entrants and voluntary entrance is possible before the age of 35 years. 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 and take into account the cost ratio of the system.

Variant careers

Early retirement

Early retirement is possible and pension benefits are reduced by 0.5% for each 30 days of early benefit withdrawal, equivalent to 6.5% per year. An early retirement also requires a pension benefit higher than EUR 237.71, equal to 1.2 times the adult subsistence income level. The subsistence income level is equal to EUR 198.09 and has not increased since 1 July 2013. From 1 January 2011 it is not possible to receive an early old-age pension benefit and also have mandatory pension insurance.

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.

Personal income tax and social security contributions

Taxation of pensioners

There are no special tax allowances or credits for pensioners.

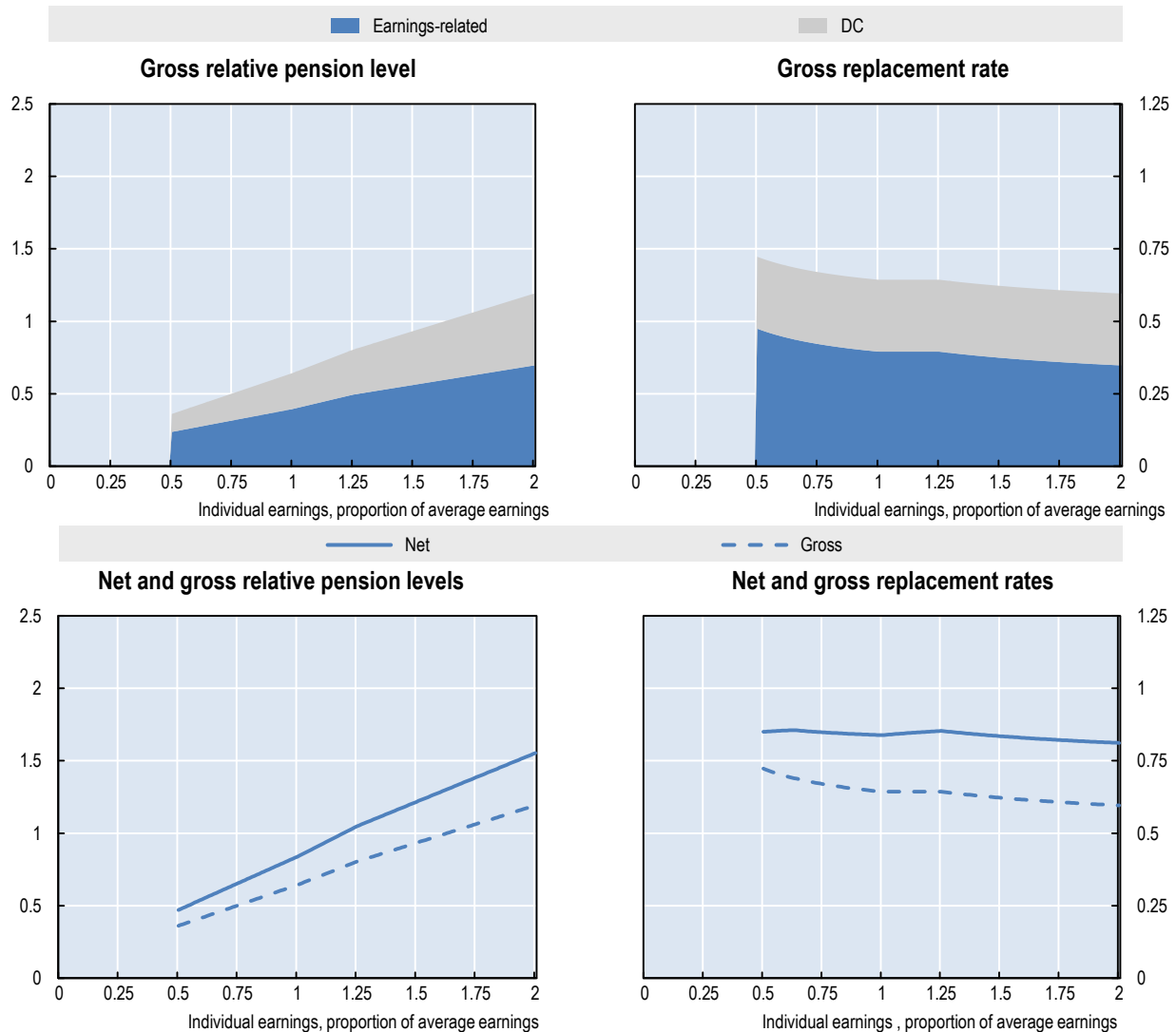
Taxation of pension income

Pensions are not taxed.

Social security contributions paid by pensioners

Pensions are not subject to contributions.

Pension modelling results: Slovak Republic in 2064 retirement at age 68



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	36.1	50.2	64.3	93.4	119.2	170.9
Net relative pension level (% net average earnings)	47.1	65.4	83.8	121.6	155.3	222.6
Gross replacement rate (% individual gross earnings)	72.3	67.0	64.3	62.2	59.6	57.0
Net replacement rate (% individual net earnings)	85.0	84.8	83.8	83.5	81.1	80.1
Gross pension wealth (multiple of individual gross earnings)	10.6	9.9	9.5	9.2	8.8	8.4
Net pension wealth (multiple of individual net earnings)	12.5	12.5	12.4	12.3	12.0	11.8

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 20 in 2016. Tax system latest available: 2015.

StatLink  <http://dx.doi.org/10.1787/888933636149>