



CZECH REPUBLIC

		Key indicators		
		Czech Republic	OECD	
Czech Republic: pension system in 2008 The public pension scheme has a basic element and an earnings-related part calculated according to a progressive formula.	Average earnings	CZK USD	274 500 16 100	693 400 40 600
	Public pension spending	% of GDP	7.4	7.0
	Life expectancy	at birth	76.4	78.9
		at age 65	80.8	83.1
	Population over age 65	% of working-age population	22.6	23.6

Qualifying conditions

The standard retirement age will be gradually increased to 65 for men under phase 1 of the new pension reform. The pension eligibility age will be 62-65 for women, depending on the number of children that they raised. A minimum required 25 years' coverage will be gradually increased to 35 years, by 1 year per year from 2010. However people with 15 years' coverage (gradually increasing to 20 years) can receive a pension from 65 (will change to standard retirement age for males the same year of birth plus 5 years from 2010).

Benefit calculation

Basic

The value of the basic pension is CZK 1 700 (CZK 2 170 from August) per month, equivalent to 7.4% (9.5%) of earnings. There is no statutory indexation requirement for the value of the basic benefit alone. However, total pensions in payment must be increased by at least prices plus one-third of real wage growth.

Earnings-related

The earnings-related pension gives 1.5% of earnings for each year of contributions. The earnings measure currently averages across all years since 1985, but it will gradually reach 30 years (in 2015). Earlier years' earnings are valorised by the growth of economy-wide average earnings.

There is a progressive benefit formula, with the first CZK 10 500 per month replaced at 100%, the slice of earnings between this limit and CZK 27 000 at 30%, with a 10% replacement above this level. The first threshold, below which there is 100% replacement, is equivalent to 45.9% of average earnings, while the second threshold is 118.0% of average earnings. There is no statutory indexation requirement for these thresholds, but both these thresholds change annually.

There is no specific statutory indexation requirement for the earnings-related pension component in payment. However, the combined total pension benefit (flat-rate and earnings-related components) is adjusted to price inflation plus at least one-third of real wage growth.

Minimum

The total value of the minimum monthly newly granted pension benefit is CZK 2 470 (CZK 2 940), which is made up of a minimum earnings-related pension of CZK 770 plus the basic component of CZK 1 700 (CZK 2170). It is worth 10.8% (12.9%) of average earnings.

Social assistance

As of 1 January 2007, the living minimum is composed of one component and created by living minimum ensuring subsistence and other basic personal needs. The living minimum of individual (and therefore also living-alone pensioner) amounted to CZK 3 126 per month. As of 1 January 2007, the part expressing the need for financial sources necessary for covering common costs of household, that is the housing costs and related services, was removed from the structure of living minimum. The social protection in housing is solved within the framework of the state social benefit system, providing housing benefits and in the system of assistance in material need by surcharge for housing.

Voluntary private pensions

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

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, i.e. at 60 for men and 59-60 for women subject to 25 years' coverage, increasing in line with general qualification conditions to 35 years. 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 for the first 720 day of early retirement (3.6% per year), and 1.5% for each 90 days thereafter (6% per year from 2010). For a full-career worker, this is equivalent to a decrement in the pension level (rather than the replacement rate) for early retirement of $3.6 / 64.5$ (1.5% times 43 years) = 5.6%.

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 (from 2010 granted pension (total accrual factor) will be increased by 0.4% for each 360 days of work while receiving full pension). The 1st phase of pension reform will also introduce the possibility of receiving half old age pension. Combination of half old age pension and work will increase total accrual factor by 1.5% for each 180 days of work.

Childcare

Women are entitled to retire earlier depending on the number of children they have had:

Number of children	1	2	3	4+
Early retirement (years)	0	1	2	3

In addition, 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: six months up to age 50, nine months from 50 to 55 and 12 months for over 55s. In addition, up to three years spent unemployed without entitlement to unemployment insurance are also credited (from 2009 only 1 year of unemployment without benefits before the age of 55 will be credited). The unemployment period used for the pension calculation is reduced to 80%, meaning that if an individual had 5 years' unemployment over the career, this would count as 4 years for pension purposes. If the unemployment period is in the decisive (reference) period (last 30 years before retirement starting 1986) 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.

Personal income tax and social security contributions

Taxation of pensioners

Old-age pensions are not taxed up to a value of CZK 198 000 per annum.

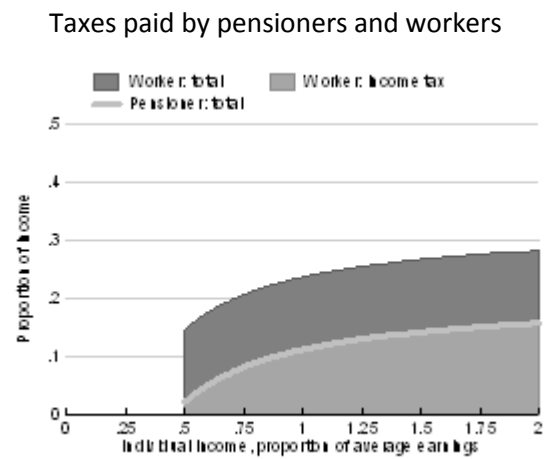
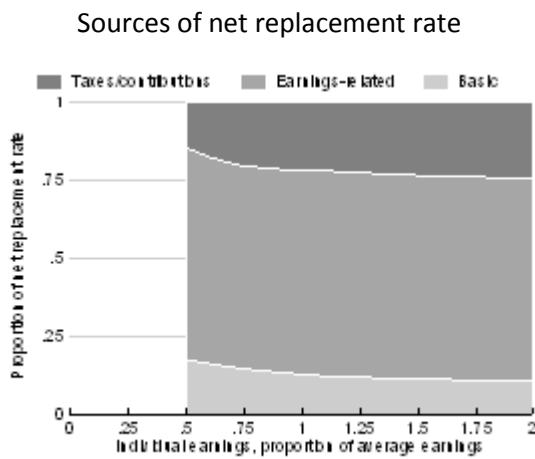
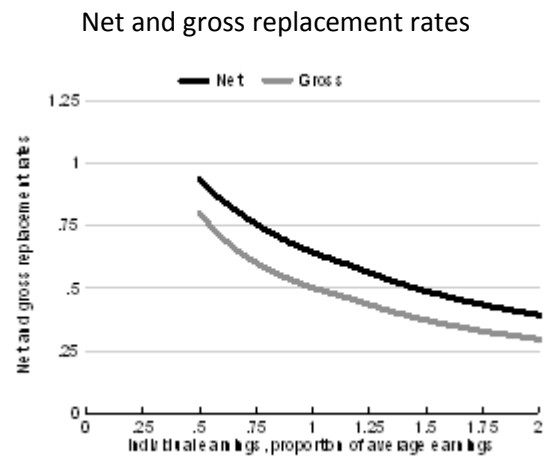
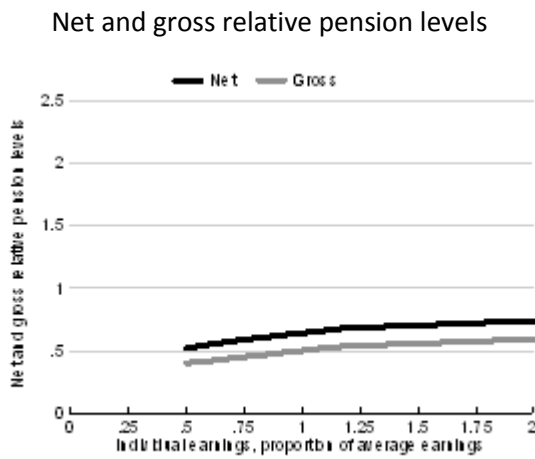
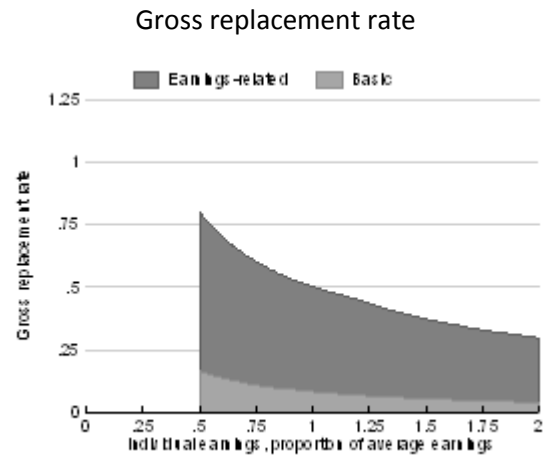
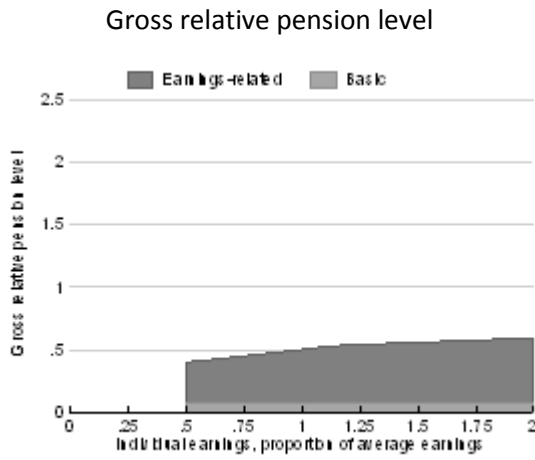
Taxation of pensions

Only part of the pension above the tax-free allowance is taxed by the rules for income from work. 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



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)	46.4	40.1	45.2	50.2	56.0	59.4
Net relative pension level (% net average earnings)	60.3	52.6	59.1	64.4	70.4	74.0
Gross replacement rate (% individual gross earnings)	57.3	80.2	60.2	50.2	37.4	29.7
Net replacement rate (% individual net earnings)	72.5	94.0	75.8	64.4	48.9	39.3
Gross pension wealth (multiple of average gross earnings)	9.0 10.8	12.6 15.1	9.4 11.4	7.9 9.5	5.9 7.0	4.7 5.6
Net pension wealth (multiple of average net earnings)	8.9 10.7	12.6 15.1	9.4 11.3	7.7 9.3	5.6 6.8	4.4 5.3