

Good and Bad Practices/Lessons in Slovak Pension Reforms



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International
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Slovak Pension System



Mandatory pension system - universal

Pillar I

- Mandatory pension insurance, DB, PAYG (*administered by the Social Insurance Agency*)

Pillar II

- Mandatory old-age pension „saving“ (*investment*), DC, Funded (*administered by the Pension Administrator Companies*)

Voluntary supplementary pensions - universal

Pillar III

- Supplementary pension saving, DC, Funded (*administered by the Supplementary Pension Companies*) – *mandatory only for special category of workers (workers in hazardous environment)*
- Special-purpose saving and the life insurance with tax incentive
- There is no special pension for farmers but

Armed forces have special mandatory pension system separated from universal mandatory system (like Chile?)

Mandatory Pension System 1.



First option

One-pillar system

- Contributions at 18% of the assessment base payable solely to the PAYGO system
- Pension age = 62 for men and women
- Minimum 15 years of pension insurance
- (Early) old-age pension paid exclusively by the Social Insurance Agency (SIA)
- Recommended option particularly for people who will not be able to accumulate sufficient pension savings to purchase life annuity at the time of retirement

Second option

Two-pillar system

- Change to the contribution ratio - 9% DB : 9% DC
- Pension age = 62 for men and women
- Minimum 15 years of pension saving
- Contributions for old-age pension saving accrued in individual pension accounts
- Designed primarily for people who will be able to contribute to their pension accounts for at least 30 years

These systems exist next to each other!

- Due to economic crisis - Pillar II. **was temporarily open** (2008, 2009)

3

Mandatory Pension System 2.



Retirement age

- Pension age before pension reform = **60** (men) and **53 – 57** (women depending on how many children they have brought up)
 - After reform = **62** for both men and women – gradually extension.
(reasons = anti-discriminatory EU legislation, in 2024 full application of 62 pension age)

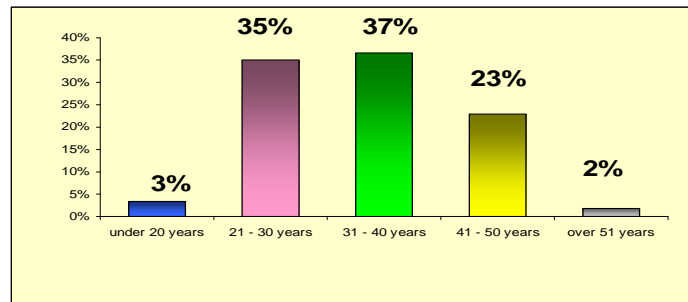
Indexation

- The pensions = annuities from funded system are not indexed
- The pensions from PAYG system are indexed at so called Swiss mechanism
= ½ % inflation + ½ % average wage growth in the same year
 - This mechanism since the reform – 2004

4

II. Pillar Savers Age Distribution

(December 31, 2007)



MOLSAF: “Minimum recommended period for saving in the fully-funded pillar is 30 years!”

5

Collecting the contributions



- Employers do not fulfil their obligation to register and deregister their employees for purpose of social security
- Employers do not notify correctly the assessment base which contributions should be calculated from
- Employers do not pay contributions on behalf of their employees or these contributions are not paid on time
- Employers do not fulfil their obligations in connection with EU regulations
- Self-employed persons register backwards – even some years after their mandatory participation in pension insurance originates
- Some self-employed persons do not cooperate with Social Insurance Agency
- Voluntary insured (social insurance) persons do not pay their contributions for all the time they are insured

6

Additional Pension Credits – Non-Contributory Periods



The pension insurance fees and contributions to funded pension scheme for **non-contributory periods** are paid by:

- **The State** - on behalf of:
 - mothers on maternal leave (with exemptions)
 - persons who are taking care of children (to 6 or 18 years – if the child is seriously ill). This is not the same as parental leave!
 - persons who get allowance for nursing someone
- **The Social Insurance Agency** – on behalf of:
 - persons who get accident allowance

Contributions:

- Contributions at 18% of the assessment base payable solely to the PAYGO system => one pillar system
- Change to the contribution ratio - 9% DB + 9% DC => two pillar system

Non-contributory period = **also the period of service** as policeman, soldier and others, if these periods have not been used for pension for years for service and related pensions.

7

Pension Reform Great Swindle



- Population aging was **misused for „privatization“** of great deal of citizens income. Mandatory regularly passing of the fortune to privileged lobby without any possibility to influence its utilization is more typical for feudalism, it is pure racketing
- Estimations how much this will burden generations, were never a subject of research (120 billions or more?) and all questions from foreign financial institutions in this field were „dealt“ such as it **will be decided magically later** (sources from another privatization, bonds, loans, rationalization - so national debt)
- Introduction of funded pension system **will not stop** the aging of population and **neither solve** it
- Ageing is not an unlimited process

8

Pension Crises Illiteracy



- There was/is **no real chance to distribute fair information**. The media are financially dependant not on readers but on advertising. The pension money were/are used to buy an independent experts (comprador intelligentsia), specialists for public opinion, media, politicians. National government tries to deal with this problem. Its work has strong rival with money and the public opinion, which is manipulated.
- **Nobody has heard:**
- **Joseph E. Stiglitz**, the recipient of the Nobel Memorial Prize in Economic Sciences (2001) „The private pension system is in many cases combination of **bad accounting, greediness** and faint governmental control. The private pension system, not the public, is facing immediate problems.“.
- **Franco Modigliani**, the winner of the Nobel Memorial Prize in Economics in 1985 for his work on the dynamics of financial markets „In many cases the reforms accentuating the three pillar system with mandatory funded defined contribution (DC) second pillar led to the wasting of sources and **brought savers to poverty** along with enriching of the fund managers“.

9

1. Funded Pension System for Dummies



- Business **investing** not insurance against the risk of old age
- Business **without** any **guaranties** and **no solidarity**
- The current financial crisis is extending the number of people who will **not** be **able to accommodate** sources for decent retirement
- Due to crisis the **value of assets** in pension funds is **declining** (from cca. 20 % to 4,2% in May 2009), which means further losses towards pensions from funded pension system
- New = bigger problem (**poverty of population**) which will on a large scale burden the future public finances and future generations

10

2.Funded Pension System for Dummies



- **Alternative is a system which retains the principle of solidarity**, so large groups of population will not be endangered by poverty in the old age
- Matured **funded pension** system behaves as a **typical PAYG**
- The real value of annuity **depends on assets created by economically active population = PAYG**
- **Gender discrimination** (*different earnings = different contributions, different actuarial calculations = different level of annuities*)

11

How to Master Ageing?



- Higher employment rate (*70% EU Lisbon targets 2010*)
- Employment of older people (*50%*) and women (*60%*)
- Extension of retirement age
- Abolition of early old-age pension
- **Universally:** Establishment/Implementation of social schemes (also pensions) which would protect those who need this protection and which would be sufficiently flexible and motivating for those who want to stay active or who want to come back into the productive process

12

H.E. VIERA TOMANOVÁ

Minister of Labour, Social Affairs and Family

„Population ageing is a gift not a curse and we should treat it like a chance to be longer with our beloved“



Thank you!

A handwritten signature in blue ink, appearing to read "Tomanová".