



VYSOKÁ ŠKOLA
FINANČNÍ
A SPRÁVNÍ

CZECH PENSION REFORMS: ECONOMICS, INTERESTS, POLICIES

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**Social Security Systems in the Light of Demographic, Economic and
Technological Challenges**

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Overview

- **Inflation as an instrument of liberal policy: from Bismarck to Beveridge in several years**
- **Concealing of 2002/2003 World Bank recommendations and rent-seeking**
- **NDC and failure of Czech Social Democrats**
- **Small and large neo-liberal Czech pension reforms**
- **Czech second pillar failure**

Inflation as an instrument of liberal policy: from Bismarck to Beveridge

- **1989: state pensions strongly earnings-related**
 - Newly assessed full old age pensions: 85-90% net NAE
 - Insufficient ad hoc indexation: due to hidden inflation (→ after 20 years: 37% net NAE)
- **1990-1995: speedy inflation, insufficient valorization of bend points, state compensatory allowance ...**
- **1996 reform: „pension insurance“ with mostly not earnings-related benefits (∅ full male old age pension: earnings-related by 33%)**
 - „Percentage amount“: earnings-related by 50%
 - „Basic amount“ of all pensions: not earnings-related, world rarity

WB recommendations (2002 and 2003)

- **Lasagabaster et al.: 2 main alternative reforms:**
 - **Parametric reforms of DB systems: more difficult to implement**
 - **Transition to NDC (complex system with built-in stabilizers)**
 - **Tighter link between benefits and contributions may be an objective of the reform**
 - **Separation of a solidary pillar (tax-financed)**
- **Chłoń-Domińczak: transform DB system to:**
 - **NDC**
 - **Solidary pillar:**
 - **Minimum pension or**
 - **Flat-rate pension (25% NAE)**

1st Bezděk Commission (2004/2005)

- **Evaluation of reform proposals of political parties**
 - **Social democrats: NDC**
 - **Christian democrats and Neo-liberals: parametric reform + partial opt-out to private FF system**
 - **Civic democrats (liberals): flat-rate pension**
 - **Communists: parametric reform**
- **Bezděk: support of „Security through Diversity“ (PAYG vs. FF, DC vs. DB)**
 - **No interest in WB recommendations**
 - **WB from 2003: 3-pillar Pan-European pension system (NDC: core pillar)**

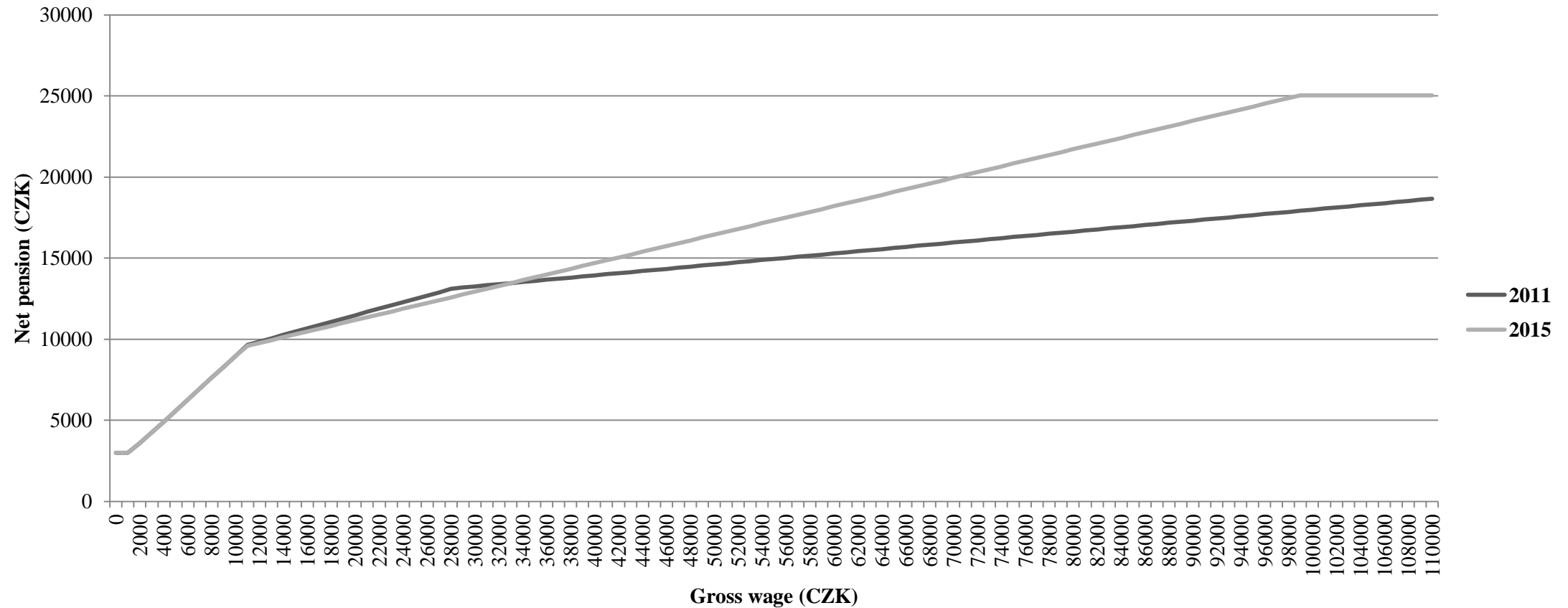
Czech NDC case: everything can be ruined and abused

- **Hájek and Samek on behalf of the Social democrats:**
 - Combine NDC and a minimum pension (29.45% gross NAE)
 - Statutory retirement age max. 65 years from 2030/2033
- **Bezděk 2005 projection: replacement rate decrease up to 27% in 2100 (mainly due to fixation of the statutory retirement age)**
 - „Summary“: 60% of newly assessed NDC pensions: under the poverty level
 - NDC administration costs: 2.1% of pension expenditures
- **Bezděk 2010, 2013: NDC does not turn out well under Czech conditions:**
 - Huge range of pensions
 - Many seniors under the poverty line
- **Bezděk and Samek 2010-2017: support of the private sector**

Small pension reform (2011)

- **Constitutional Court 2010: valid bend points are unconstitutional, as "in their effects, and in combination with other parameters and existing design of the pension system they do not guarantee the constitutionally granted right to adequate material security ... and result in an unacceptable inequality among different groups of the pension insured"**
→ CC abolished bend points
 - CC 2010: „whole complex design of the pension system is non-transparent to a degree that it is de facto incomprehensible for its addressees; and for the majority of the insured the calculated amount of the pension benefit becomes unverifiable“
- **2011: bend points reintroduced and parameterized**
 - New second bend point at 400% NAE → high pensions are more earnings-related
 - First bend point: 44% NAE, higher wages reduced to 26%
 - Czech „pension insurance“: predominantly non-insurance system (Beveridge)

Net pension dependence on monthly gross wage in 2011 and 2015 (45 years of insurance)



2nd Bezděk Commission (2010)

- **Lobbyists from small and medium private pension funds**
- **No interest in paradigm reform of „pension insurance“**
- **Divert 3% of wages only**
- **Blind accounts (Swedish premium pension)**
- **Compulsory for employees under 40 years**
- **Annuities: private life insurers**
- **Strict limitation of number of product providers (basically: existing private pension funds)**

2nd pillar political plays

- **Coalition government decided to realize Bezděk Commission proposals (2011)**
 - (Liberal) President Klaus: no mandatory earnings-related pillar!
 - Smallest coalition party boss (Bárta) insists to change the govt decision
- **New concept prepared by former managers of large financial groups → no Swedish elements, „voluntary“ opt-out 3% of wage + add-on 2 % of wage (paid by participants)**
 - President Klaus: product is similar to existing voluntary pension savings, he did not sign the laws
 - Small majority of votes in the Parliament (2011)
- **2013: take-off of large pension reform**
- **Lies in the government campaign to support the reform**
- **2016: new government cancelled the new pillar (with 85,000 participants)**
- **Winners: 85,000 participants receiving full contributions (3% + 2%), pension companies (approval of higher margins)**

Neo-liberal policy of Social-Democratic Party

- **Samek 2010: „minority“ alternative to 2nd Bezděk Commission recommendation**
 - New „reformed“ private pension funds/companies for 2nd pillar
 - Soft compulsion: voluntary opt-in 3% of wage (exit not possible), state contribution 3% from wage
- **Samek 2017: existing public pensions need no reform**
- **Potůček Pension Commission 2014/2017: several negligible recommendations for the govt (mostly new sales arguments)**
- **Social-Democratic Party bosses in Parliament: submission and strong support of proposals prepared by pension companies**

Personal pensions

- **1994/2012: private pension funds = special life insurance companies for a simple savings product (universal life)**
 - Main aim: tax optimization
 - **From 2013: private pension companies with more mutual funds savings products/plans**
 - Former simple savings products put into „transformed“ funds of new pension companies
 - Extreme state subsidies („state contributions“ + tax deductions), yields taxed only
 - **Life insurance products: tax deductions for citizens, yields taxed only**
 - **Employer contributions to employee contracts: no taxes and SSC paid**
- = unconstitutional system: different conditions for different products and different providers**
- = 2nd pillar (soft compulsion)**

Conclusions

- **Government failure: lobbyists prepare pension reforms**
- **Bad parameters may betray any product**
- **Solidary pillar is no Bismarckian social insurance**
- **Czech public pensions should be divided into 2 pillars**
- **Voluntary personal pensions need no special providers**
- **Czech personal pensions pillar is an unconstitutional „second“ pillar**

Thank you for your attention!

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