

IOPS COUNTRY PROFILE: CROATIA

DEMOGRAPHICS AND MACROECONOMICS



GDP per capita (USD)	17 500
Population (000 000 s)	4 483
Labour force (000s)	1 762
Employment rate	82.4
Population over 65 (%)	16.9
Dependency ratio ¹	42.9

Data from 2010 or latest available year.

1. Ratio of over 65-year-olds / labour force.

Source: OECD, various sources.

CROATIA: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The social insurance system was reformed in 2002, and the new system covers both employed and self-employees.
- No minimum pension exist

Private pensions: personal (mandatory)

- This is funded individual account, and the contribution is converted from the contribution to the public social insurance system
- Employees older than 40 years at the time of reform were allowed to choose to stay in the old system

Private pensions: personal (voluntary)

- It is voluntary for those who want additional retirement benefits
- Both open and closed pension funds exist

Source: OECD Global Pension Statistic

CROATIA: PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007
Assets							
Total investments (National currency millions)	ND	2,334	5,282	8,770	11,668	ND	ND
Total investments, as a % of GDP	ND	1.29	2.66	4.12	5.09	ND	ND
Of which Assets overseas, as a % of Total investment:							
• Issued by entities located abroad	ND	ND	ND	ND	ND	ND	ND
• Issued in foreign currencies	ND	ND	ND	ND	ND	ND	ND
By financing vehicle (as a % of Total investments)							
• Pension funds	ND	100.00	100.00	100.00	100.00	ND	ND
• Book reserves	ND	ND	ND	ND	ND	ND	ND
• Pension insurance contracts	ND	ND	ND	ND	ND	ND	ND
• Other financing vehicle	ND	ND	ND	ND	ND	ND	ND
By pension plan type							
• Occupational assets	ND	0.00	0.00	0.00	0.00	ND	ND
• % of DB assets	ND	ND	ND	ND	ND	ND	ND
• % of DC (protected and unprotected) assets	ND	ND	ND	ND	ND	ND	ND
• Personal assets	ND	2,334	5,282	8,770	11,668	ND	ND
Structure of Assets (as a % of Total investments)							
Cash and Deposits	ND	ND	ND	ND	ND	ND	ND
Fixed Income	ND	ND	ND	ND	ND	ND	ND
Of which:							
• Bills and Bonds issued by the public and private sector	ND	ND	ND	ND	ND	ND	ND
• Loans	ND	ND	ND	ND	ND	ND	ND
Shares	ND	ND	ND	ND	ND	ND	ND
Land and Buildings	ND	ND	ND	ND	ND	ND	ND
Other Investments	ND	ND	ND	ND	ND	ND	ND
Contributions and Benefits							
Total Contributions, as a % of GDP	ND	ND	ND	ND	ND	ND	ND
• Employer Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND
• Employee Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND
Total Benefits, as a % of GDP	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND	ND
Membership (in thousands of persons)¹							
Total membership	ND	938	1,080	1,201	1,306	ND	ND
• % of Active membership	ND	100.00	100.00	100.00	100.00	ND	ND
Of which: % of Deferred membership	ND	ND	ND	ND	ND	ND	ND
• % of Passive membership	ND	0.00	0.00	0.00	0.00	ND	ND
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND
Number of Pension Funds/Plans							
Total number of funds	ND	ND	ND	ND	ND	ND	ND
Total number of plans	ND	ND	ND	ND	ND	ND	ND

Note: Data refer only to Croatian pension funds.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

CROATIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

When the social insurance system was reformed in 2002, those over the age of 50 remained in the then existing pension system, whilst those between 40-50 could choose whether to join the new individual account system and those under 40 were required to join the new system. Total social security contributions are 20%, with 5% diverted to individual accounts for those who joined that system. Contributions are paid by employees and the self-employed. Minimum earnings for contributions are HRK 2,269.65, while the maximum is HRK 37,194. The retirement age will be raised to 65 for men and 60 for women in 2009, when the minimum number of years required to receive a pension will be reduced to 15. Early retirement is possible by 5 years conditional on 35 years service for men and 30 years for women. Benefits are based on a points formula (changing from the 10 consecutive best years to a full career in 2008). The pension is 0.25% of individual earnings divided by average covered earnings plus 0.25% of average covered earnings for each year of service. No minimum pension or pension ceiling exist. Pensions are indexed 50/50 to wages and prices. The tax allowance for pensioners is 1.7 times that for workers.

PERSONAL MANDATORY

Coverage

The mandatory pension scheme is an individual capitalized savings system. Those under 40 had to participate in the mandatory private scheme, while those between the ages of 40-50 could opt either to remain in the PAYG system or to divert part of their contributions to one of a number of competing individual savings funds. Insured persons who were younger than 40 and failed to select a fund within the legally prescribed period (three months from the beginning of compulsory pension insurance) were assigned by REGOS (the Central Registry) in accordance with a prescribed algorithm. The first such assignment took place in early April 2002. In 2003 REGOS continued to assign insurance persons who had not chosen a fund within three months of the inception of their employment.

Contributions

Contributions amount to 5% of members' social security contributions and are diverted to individual accounts.

Benefits

Upon retirement, individuals must use the accumulated balance in their accounts to purchase a life annuity from an authorised insurance company.

Taxation

All contributions and investment income are tax-exempt. Pension benefits are taxed but are granted a tax allowance.

Fees

The fees that mandatory pension funds can charge are determined by the Mandatory and Voluntary Pension Fund Act and by HANFA. There are four types of fees: an entry fee, a

management fee, an exit fee and a custody fee. The entry fee can amount to a maximum of 0.8% of contributions. The management fee is 0.95% (start 2007). Exit fees can only be charged during the first 3 years of membership. The custody fee that pension funds are charged can be no more than 0.1% of the managed assets. Transaction fees and costs are charged over the fund assets.

PERSONAL VOLUNTARY

Coverage

The voluntary pension scheme is a savings system based on capitalization for those who want additional insurance against the risks of old age, disability and death. Not only private pension companies but also trade unions and employers may establish voluntary pension funds. There are therefore both open and closed funds. The state provides an annual subsidy of up to HRK 1,250 and allows a deduction of up to HRK 1,050 per month from personal taxable income. This means that there is a double benefit – state subsidy and tax deduction – for these contributions.

Contributions

The insurance operates according to the same principles as the mandatory savings accounts with one exception: the insured person decides on the amount of contributions he makes.

Benefits

Benefits are paid as annuities. Member may not withdraw their benefits until they reach the age of 50.

MARKET INFORMATION

Personal mandatory

Mandatory funds are managed by mandatory pension fund management companies (OMFs), which can only manage one mandatory fund each. By law, these funds must invest at least 50% of their assets in conservative government securities issued by the Republic of Croatia or the Croatian National Bank. In addition, no more than 45% of pension fund assets may be invested outside Croatia. Persons have a free choice of pension management company. Mandatory funds are legally required to have 80,000 members two years after their establishment. On 31 December 2006, 1,322,010 members participated in the four pension funds active on the market. On 31 December 2006, the total net assets of all four funds together amounted to HRK 15,9bn. Net assets grew by 35,9% in 2006.

Mandatory pension fund management companies are required to guarantee a minimum rate of return. Every member is guaranteed a rate of return of 1/3 of the reference yield, which is determined by the regulatory agency (HANFA), if the reference yield during one calendar year is positive. If the reference yield during one calendar year is negative, every member is guaranteed a rate of return of 3x the reference yield of the previous three calendar years, as determined by the regulatory agency (HANFA). Performance measurement of the pension funds is provided by using accounting units. The index used to calculate returns is called MIREX. The reference rate of return is defined as a weighted arithmetic mean of all mandatory pension funds average rates of return in the previous three calendar years, reduced by 2 percentage points.

Personal voluntary

Voluntary pension fund management companies must be based in Croatia. They can provide both personal pension plans and occupational pension plans. Voluntary pension funds must have at least 2,000 members two years after their establishment. Voluntary pension funds are not required to purchase reinsurance or to achieve a minimum rate of return. In December 2006, 1.3m people were members of voluntary pension funds. There are six open voluntary pension funds run by six fund management companies, and six closed pension funds (ZDMF), which were managed by three management companies.

REFERENCE INFORMATION

KEY LEGISLATION

- Act on Croatian Financial Services Supervisory Agency
- Mandatory and Voluntary Pension Funds Law (Official Gazette 49/99) and subsequent amendments;
- The Law on Pension Insurance Companies and Payment of Pension Annuities based on Individual Capitalised Savings (Official Gazette 106/99) and subsequent amendments;
- Pension Insurance Law (Official Gazette 102/98) as subsequently amended.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Croatian Financial Services Supervisory Agency: www.hanfa.hr