IOPS COUNTRY PROFILE: CZECH REPUBLIC



DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD, PPPs)	34,700
Population (000s)	10,580
Labour force (000s)	5,380
Employment rate (15-64)	73.6
Population over 65 (%)	18.8
Dependency ratio ¹	37

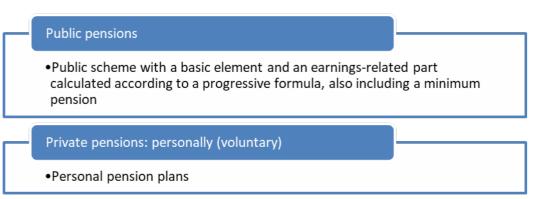
Data for 2016.

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

Source: OECD, Czech statistical office.

CZECH REPUBLIC: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM



Source: OECD Global Pension Statistic

CZECH REPUBLIC: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The statutory defined-benefit, PAYG pension scheme (the so-called first pillar) is based on compulsory pension insurance. This pillar is universal and compulsory for employees and self-employed persons, and also allows restricted voluntary participation. The contributory principle is reflected only to a limited extent due to application of the principle of income solidarity.

The pensionable age is 63 years and 4 months for men and 62 years and 8 months for women without children in 2018 (lower by up to 4 years for women, depending on the number of children raised). The pensionable age is being increased since 1996, while the pace of increase has been modified several times. The legislation approved in 2017 proposed a measure raising the retirement age in a way that would better reflect the changing life expectancy. According to the approved law, the present increase of pensionable age will continue until it reaches 65 in 2030. The approved law does not include an absolutely automatic mechanism for changing/increasing the pensionable age; therefore in the future pension system will be exposed to ad hoc political decisions.

The pension consists of two elements: a universal basic amount (flat-rate), which is equal to 9 percent of the national average wage, and an individual earnings-related component. The latter is based on the length of the insurance period – there is an accrual rate of 1.5 percent of the reduced personal calculation basis for each year of insurance. The contribution rate is 28 percent and is split between employees (6.5%) and employers (21.5%). Generally, pensions in payment are indexed on an annual basis (consumer or pensioners price index growth plus 50 percent real wage growth; see the section on reform trends for exception and recent developments).

The PAYG pillar allows for a flexible retirement option with actuarial adjustment (early or deferred retirement).

PERSONAL VOLUNTARY

Coverage

System of voluntary personal pensions is available to everyone, nevertheless conditions are set by law to be eligible for the state subsidy.

There are approximately 4.46 million of participants in the system (March 2018).

Contributions

Participants make contributions which the state matches up to a certain threshold. Employer does not have to contribute. Employers can choose to pay all, or part, of an employee's contribution if he or she consents, while collective bargaining agreements may also stipulate that employers contribute.

When entrants sign a contract with a pension company, they commit to pay a minimum monthly contribution of CZK 100. The total contribution level is set in the contract with the pension fund managing company. The state provides subsidies in accordance with the monthly amount paid by the participant. The maximum state subsidy is 230 CZK per month (in case that participant contributes 1000 CZK and more per month).

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Participants' monthly contributions are on average 670 CZK. Around 21 % of participants are receiving employers' contributions.

Benefits

Main conditions for payment of benefits are set by law. Pensions, lump sum and early termination are available.

Taxation

Taxation of participant contributions

Participants are entitled to a tax deduction, if they contribute more than 1000 CZK per month (more than 12 000 CZK per year). The tax-deductible amount may not exceed 24 000 CZK. Participants can reach this maximum amount, if they contribute 36 000 CZK per year or more.

Taxation of employer contributions

Tax-exempt up to 50,000 CZK per year.

Employers may deduct from their tax base the contributions they make to their employees' pension plans.

Taxation of investment income

Currently taxed at a rate of 0% at the fund level.

Taxation of benefits

Income tax regarding investment income only in case of a pension which is shorter than 10 years and for the lump-sum benefits and surrender value. Life time annuities and pensions paid for at least 10 years are tax-exempt.

MARKET INFORMATION

Personal voluntary

In March 2018, there were 8 pension management companies in the Czech market, managing 28 participating funds and eight transformed funds. Pension management companies were managing assets totalling CZK 445.4 billion in third-pillar funds (the end of 2017).

POTENTIAL REFORM

Major reform of private pension system is not expected in the short term.

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REFERENCE INFORMATION

KEY LEGISLATION

-- 1994: Act 42/1994, which sets out issues related to contributory supplementary personal insurance.

-- 1992: Act 586/1992, including amendments relating to income tax, which sets forth tax rules.

-- Act No. 427/2011 Coll. on Supplementary Pension Savings; covers all aspects of the system, e.g. conditions and approval process for the establishment of the pension management company and the managed funds, conditions for benefits, investment rules, rules for sale of the contracts, provision of information, supervisory powers, sanctions etc.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

-- Czech National Bank: www.cnb.cz/en/.

KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

-- Ministry of Finance: https://www.mfcr.cz/cs/soukromy-sektor/soukrome-penzijnisystemy/iii-pilir-doplnkove-penzijni-sporeni-a-p/vyvoj-penzijniho-pripojisteni/2018/zakladniukazatele-vyvoje-penzijniho-pri-32005

-- OECD, Global Pension Statistics project, <u>www.oecd.org/daf/pensions/gps</u>.

-- Pension Management Companies Association, <u>http://www.apfcr.cz/ctvrtletni-vysledky-2018/</u>