IOPS COUNTRY PROFILE: CROATIA

DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	**14,522**
Population (000s)	**4,076.2**
Labour force (000s)	**1,672**
Employment rate	**92.12**
Population over 65 (%)	**20.57**
Dependency ratio[1]	**31.6**

Data from 2019 or latest available year.

1. Demographic dependency ration (65+/(15-64))

Source: Eurostat and Croatian Bureau of Statistics

CROATIA: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The social insurance system was reformed in 2002. The new system covers employees in public and private sectors, civil servants, military and policy personnel, judiciary officers, as well as self employed persons, including farmers

Private pensions: personal (mandatory)

- A mandatory funded pension system (2nd pillar), based on individual capitalised savings
- Financed from individual contributions paid on all taxable earnings from employment and self-employment
- Separates the accumulation phase from the pay-out phase (financially and institutionally)

Private pensions: personal (voluntary)

- Fully-funded, privately managed pension scheme (3rd pillar)
- Contributions are voluntarily paid by the members themselves and/or by their employers with the aim of providing additional retirement benefits
- Both open-ended or closed-ended pension funds exist (occupational or individual, defined contribution arrangements)

Source: OECD Global Pension Statistic

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 3,047.60, while the maximum is HRK 48,120. The retirement age is 65 for men and 62 and 6 months for women in 2020 (gradually rising by three months a year until reaching age 65 in 2030), with the minimum 15 years of contributions required to receive a pension. Early retirement is possible for men at age 60 with at least 35 years of contributions or age 57 and 6 months for women in 2020 (gradually rising by three months a year until reaching age 60 in 2030) with at least 32 years and 6 months of contributions (gradually rising by three months a year until reaching 35 years in 2030). Social insurance benefits are calculated based insured's earnings, the average wage of all employed persons, and the duration of insured's contribution period[1].

PERSONAL MANDATORY

Coverage

The mandatory pension scheme is based on individual capitalized savings system and is obligatory for all persons insured under the mandatory pension insurance scheme based on generational solidarity (public pension system) and who are under the age of 40. Insured persons have to choose a pension fund of a particular category - A, B or C, depending and in accordance with age restrictions specified by law, within a month since commencement of their mandatory pension insurance. The Mandatory Pension Funds Act of 2014 introduced a life-cycle approach by establishing three different categories of pension funds - A, B and C - with an intention to lower the investment risk as the member approaches the retirement age. The categories differ by their investment and risk profile, with A category funds bearing greater risk level and C category being the least risky.

Contributions

Contributions amount to 5% of gross salary of every insured person (member of a fund) and are diverted to individual accounts.

Benefits

Decumulation or pay-out phase of mandatory pension schemes in an individual capitalized savings system is carried out only by authorized Pension Insurance Companies.

Upon retirement, individuals can opt to receive a partial one-time payment of up to 15% of the accumulated balance in their accounts (if certain predetermined conditions are met), while the remaining portion of the accumulated balance or total balance in their accounts (if the previously mentioned option of a one-time payment is not consumed) will be transferred to the selected authorized Pension Insurance Company and must be used to purchase a life annuity from said authorized Pension Insurance Company.

[1] https://www.issa.int/en/country-profiles; available data provided by HANFA, Croatia

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 Pension Fund Act and Voluntary Pension Fund Act and by the Croatian Financial Services Supervisory Agency (HANFA). There are four types of fees: an entry fee, a management fee, an exit fee and a fee payable to depositary. The entry fee can amount to a maximum of 0.5% of contributions. The management fee is 0.338% (starting from 2019). Exit fees can only be charged during the first 3 years of membership. The depositary fee that pension funds are charged can be no more than 0.025% of the net asset value of managed assets (starting from 2019). Transaction fees and costs are also charged over the fund assets.

The fees that Pension Insurance Companies, authorized to carry out the pay-out phase of mandatory pension schemes, can charge are determined by the Act on Pension Insurance Companies and by HANFA.

There are three types of fees: a one-time fee, an annual fee and a management fee. The one-time fee is charged on the total accumulated balance in the individual's account (excluding the amount paid out in the form of a one-time payment) which was transferred to the Pension Insurance Company. This fee may not exceed 1.5% of the total accumulated balance in an individual's account. The annual fee may not exceed 0.17% of the total accumulated balance in the individual's account. The management fee could be charged in the amount of up to 0.6% of the annual total assets covering technical provisions minus the financial liabilities of assets covering technical provisions in 2019, 2020 and 2021. For each subsequent year, the reimbursement rate is reduced by 10% compared to the rate that was applied in the previous year, taking into account that it cannot be lower than 0.3%.

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-ended funds. Contributions to voluntary pension arrangements up to a limit of HRK 6,000 per year per person paid by the employer are exempt from income tax, Fund members are given a contribution subsidy – state incentive - amounting to 15% of the total contribution paid over one calendar year, up to a maximum contribution of HRK 5,000, meaning that the maximum subsidy is HRK 750 per fund member.

Contributions

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

Benefits

Decumulation or pay-out phase of voluntary pension schemes in an individual capitalized savings system is carried out by Pension Fund Management Companies (only applicable to a limited amount of the accumulated balance in an individual's account of up to HRK 100.000, along with other predetermined criteria being met), authorized Pension Insurance Companies (without limits), life insurance companies (without limits) or IORPs (only applicable to closed-ended voluntary pension schemes).

Benefits are paid as temporary payments or annuities. A new legislation that entered into force on 1 January 2019 – amendments of Voluntary Pension Funds Act – brought innovation in terms of retirement age in voluntary pensions, both occupational and personal. The minimum pay-out age is increased and now it is 55 years (previously it was 50). Members may not withdraw their benefits until they reach the age of 55 (for temporary pay-out schemes) or 60 (for life-time annuities).

Upon retirement, individuals can opt to receive a partial one-time payment of up to 30% of the accumulated balance in their accounts (payment is received from the Pension Fund Management Company) or 30% of the balance which was transferred to the authorized Pension Insurance Company (payment is received from the Pension Insurance Company). For the remaining portion of the accumulated balance or total accumulated balance in their accounts (if the previously mentioned option of a one-time payment is not consumed), they have the option to:

- contract a temporary pay-out scheme with the Pension Fund Management Company for the period not shorter than 5 years (only up to a total amount of HRK 100.000, the excess of balance must be transferred to other companies listed further);
- contract a temporary pay-out scheme (for the period not shorter than 5 years) or life annuity with the authorized Pension Insurance Company;
- contract a life annuity from life insurance company or
- contract a pay-out scheme with an IORP (only applicable to closed-ended voluntary pension schemes).

MARKET INFORMATION

Personal mandatory

Mandatory funds, which were introduced in 2002, are managed by Mandatory Pension Fund Management Companies and are financed from individual contributions paid on all taxable earnings from employment and self-employment. A new legislation that entered into force on 1 January 2019, 'Amendments of Mandatory Pension Funds Act' introduced a reduction of the management fees in the mandatory private system, as well as improved and widened the scope of investment possibilities for Pension Companies, and set the obligation towards enhancing the financial literacy. There are four (4) mandatory pension funds of each category (A, B, C). Their asset grew from 91,9 billion HRK at the end of 2017 to 97,5 billion HRK on 31 October 2018. Assets are dominantly invested in (domestic) government bonds. Main reasons for this exposure is due to the fact that according to the Mandatory Pension Funds Act, pension funds have to invest significant parts of their portfolio in assets denominated in Croatian Kuna, also by taking into account limitations on investments, e.g. in equities.

Mandatory pension fund members are guaranteed a minimum rate of return. This return is equal to the reference rate of return of the relevant pension fund category reduced by 12 percentage-points for an A-fund, 6 percentage-points for a B-fund and 3 percentage-points for a C-fund. The reference rate of return for a given fund category is the weighted average of returns over the past three years for each fund separately. If the average return for a pension fund over the past three years is lower than the guarantee (based on the average for all funds), the pension fund company has to pay the difference up to the guaranteed rate of return. As of 2014, data on the values of mandatory pension funds' accounting units may be found on the website of the Central Register of Insured Persons (REGOS) and on mandatory pension funds' websites.

On the other hand, the Pension Insurance Companies are the specialized institutions authorized to carry out the decumulation or pay-out phase of personal pension schemes. In case of the personal mandatory pension schemes, they are the only institutions authorized to carry out the pay-out phase. At the moment of retirement, the individuals must sign a pension contract with the Pension Insurance Company after which the total accumulated balance in an individual's account is transferred to the Pension Insurance Company, for which the Pension Insurance Company must form the technical provisions. As prescribed by the national legislation, these companies must invest at least 70% of the assets covering technical provisions in conservative government securities issued by the Republic of Croatia or the Croatian National Bank, other Member States (or their central banks) or OECD Member States (or their central banks). In addition, the investment of assets covering technical provisions is subject to restrictions and limitations set forth in the Act on Pension Insurance Companies and the Ordinance on permitted investments and investment limits relating to assets covering technical provisions of the Pension Insurance Company (and their subsequent amendments). On 31 December 2018, 347[2] members received benefits through mandatory pension scheme pay-outs. On 31 December 2018, the total assets covering technical provisions regarding personal mandatory pension schemes in the only existing Pension Insurance Company in Croatia amounted to HRK 134,54 million. Total assets covering technical provisions grew by 39,9% in 2018.

Personal voluntary

Voluntary pension fund management companies offer voluntary pension arrangements, both occupational and personal. Open-ended pension funds are open to any natural person residing in Croatia, and accounts are often sponsored by employer contributions. Closed-ended pension funds are set up by a plan sponsor and managed by a Pension Fund Management Company. Four pension fund management companies are established in Croatia, managing 6 open-ended and 22 closed-ended voluntary pension funds. Their asset grew from 4,7 billion HRK at the end of 2017 to 5 billion HRK on 31 October 2018.

Pension Insurance Companies are specialized institutions authorized to carry out the decumulation or pay-out phase of personal pension schemes.

At the moment of retirement, the individuals can sign a pension contract with the Pension Insurance Company after which the total accumulated balance in an individual's account or the remaining excess of total accumulated balance (in case the individual opted to receive pay-out from the Pension Fund Management Company to a limited amount of up to HRK 100.000) is transferred to the Pension Insurance Company, for which the Pension Insurance Company must form the technical provisions. Act on Pension Insurance Companies proscribes the following

[2] This shows the number of members that have reached retirement and started receiving pay-out from mandatory pension schemes in the individualised capitalised savings system, and does not in fact show the number of persons in the accumulation phase of mandatory pension funds (these are not members of Pension Insurance Companies, but instead are members of mandatory pension funds). The number further declined due to the option of transferring the balance accumulated in an individual account to the Country's budget in order to only receive the (higher) public pension from the generational solidarity pension system if said transfer resulted with the higher amount of pension received. This was an available option for recent retirees (due to short accumulation time) and is no longer available. Consequently, the above mentioned number of members is expected to increase significantly in future years (source: HANFA, Croatia).

types of pension schemes that the Pension Insurance Company can offer:

- life-time pension (mandatory option),
- temporary pension,
- variable pension and
- one-time partial pension payments (limited, up to 30% of total accumulated balance transferred to the Pension Insurance Company).

The investment of assets covering technical provisions is subject to restrictions and limitations set forth in the Act on Pension Insurance Companies and the Ordinance on permitted investments and investment limits relating to assets covering technical provisions of the Pension Insurance Company (and their subsequent amendments). On 31 December 2018, 10,024 members received benefits through voluntary pension scheme pay-outs. On 31 December 2018, the total assets covering technical provisions regarding personal voluntary pension schemes in the only existing Pension Insurance Company in Croatia amounted to HRK 342,39 million. Total assets covering technical provisions grew by 1,9% in 2018.

Alternatively, an individual can opt to sign a pension insurance contract with a life insurance company after which the total accumulated balance in his/her account or the remaining excess of total accumulated balance (in case the individual opted to receive pay-out from the pension fund management company to a limited amount of up to HRK 100.000) is used to purchase a life annuity.

In case of closed-ended voluntary pension schemes only, an individual can opt to sign a pension scheme contract with an IORP authorized in other Member States.

REFERENCE INFORMATION

KEY LEGISLATION

-- Act on Croatian Financial Services Supervisory Agency

Mandatory Pension Funds Act (Official Gazette 19/14, 64/18, 115/18)
- Voluntary Pension Funds Act (Official Gazette 19/14, 29/18, 115/18)

-- Act on Pension Insurance Companies (Official Gazette, No. 22/14) 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