SLOVAK REPUBLIC

DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR bn)	**2 028**
GDP per capita (USD)	**17 537**
Population (000s)	**5 412**
Labour force (000s)	**2 691**
Employment rate	**90.4**
Population over 65 (%)	**12.8**
Dependency ratio[1]	**24.3**

Data from 2008 or latest available year.
1. Ratio of over 65-year-olds the labour force.
Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The earnings-related, public scheme has been transformed from a standard defined-benefit formula to a point system.
- There is a minimum annual pension accrual related to the minimum wage.

Private pensions: occupational (mandatory)

- Privately mangaged mandatory pension system

Private pensions: personal (voluntary)

- Voluntary personal pension plans

Source: OECD Global Pension Statistic.

PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008
Assets								
Total investments (National currency millions)	*0*	*0*	*272*	*ND*	*9,085*	*45,564*	*76,621*	*95,385*
Total investments, as a % of GDP	*0.00*	*0.00*	*0.02*	*ND*	*0.62*	*2.78*	*4.20*	*4.70*
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	*12.04*	*7.10*	*10.00*	*ND*	*ND*	*ND*	*ND*	*ND*
• Issued in foreign currencies	*12.04*	*7.10*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*
By financing vehicle (as a % of Total investments)								
• Pension funds	*100.00*	*100.00*	*100.00*	*ND*	*100.00*	*100.00*	*100.00*	*100.00*
• Book reserves	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
• Pension insurance contracts	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
• Other financing vehicule	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
By pension plan type								
• Occupational assets	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*
• % of DB assets	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*
• % of DC (protected and unprotected) assets	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*
• Personal assets	*0*	*0*	*272*	*ND*	*9,085*	*45,564*	*76,621*	*95,385*
Structure of Assets (as a % of Total investments)								
Cash and Deposits	*28.97*	*34.43*	*31.39*	*ND*	*81.86*	*43.13*	*ND*	*ND*
Fixed Income	*50.47*	*51.91*	*53.51*	*ND*	*11.23*	*44.35*	*ND*	*ND*
Of which:								
• Bills and Bonds issued by the public and private sector	*48.60*	*51.37*	*53.51*	*ND*	*11.23*	*44.35*	*ND*	*ND*
• Loans	*1.87*	*0.55*	*0.00*	*ND*	*0.00*	*0.00*	*ND*	*ND*
Shares	*0.93*	*1.09*	*10.66*	*ND*	*6.26*	*8.56*	*ND*	*ND*
Land and Buildings	*3.74*	*2.73*	*4.06*	*ND*	*0.00*	*0.00*	*ND*	*ND*
Other Investments	*15.89*	*9.84*	*0.38*	*ND*	*0.64*	*3.96*	*ND*	*ND*
Contributions and Benefits								
Total Contributions, as a % of GDP	*0.00*	*0.00*	*1.52*	*ND*	*ND*	*ND*	*ND*	*ND*
• Employer Contributions, as a % of Total contributions	*52.25*	*50.80*	*2.39*	*ND*	*ND*	*ND*	*ND*	*ND*
• Employee Contributions, as a % of Total contributions	*46.85*	*48.66*	*97.61*	*ND*	*ND*	*ND*	*ND*	*ND*
Total Benefits, as a % of GDP	*0.00*	*0.00*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*
• % of benefits paid as a Lump sum	*55.56*	*45.00*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*
• % of benefits paid as a Pension	*33.33*	*55.00*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*
Membership (in thousands of persons) [1]								
Total membership	*282*	*460*	*ND*	*ND*	*1,112*	*2,364*	*2,350*	*2,331*
• % of Active membership	*93.13*	*92.47*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*
Of which: % of Deferred membership	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*
• % of Passive membership	*6.87*	*7.53*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*
Other beneficiaries	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*	*ND*
Number of Pension Funds/Plans								
Total number of funds	*4*	*4*	*5*	*ND*	*24*	*24*	*11*	*11*
Total number of plans	*ND*	*ND*	*ND*	*ND*	*ND*	*21*	*1*	*1*

Note: The break in series in 2006 is due to the inclusion of voluntary pension plans, not included in previous years.
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 time, 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

SLOVAK REPUBLIC: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

Since the 2005 reforms, young people first entering the labour market and the self-employed are obliged to participate in the reformed system, which consists of a social insurance public pension tier and a mandatory individual account (private pension tier). Those under the age of 52 who already paid public pension contributions had the choice, up until the end of June 2006 to enter to the mandatory private pension savings tier. Those who decided to join cannot return to the old system, but they keep the benefits acquired under the old system.
Contributions to the public pension system for those who have not joined the private pension tier amount to 14% of the employee's assessment base for the employer and 4% of the employee's assessment base for the employee. The minimum assessment base for employers is equal to the minimum monthly wage of 7,600 Sk as of 1st January 2007, giving a minimum contribution of 1,064 Sk. The maximum assessment base for employers equals three times the average monthly salary and amounts to 51,822 Sk (maximum contribution: 7,256 Sk). The minimum assessment base for employees is 7,600 Sk (minimum contribution 304 Sk), while the maximum assessment base is 51,822Sk (maximum contribution: 2,073Sk). Those who have joined the individual account system pay a reduced contribution rate towards the public pension system: 5% of the assessment base (minimum and maximum are the same as above) for employers and 4% for employees.
The legal retirement age is 62 for men and will gradually increase to 62 for women by 2015 (in 2006, the retirement age was 55 years and 3 months). Pension eligibility depends on making at least 10 years of contributions. Pension benefits accrue on the basis of a point formula. Each pension point is worth 214.68 Sk (2006) and this point value is indexed to average earnings. Pensions in payment are indexed to the arithmetic average of earnings growth and price inflation. There is no minimum pension, but a mechanism exists to lift low pensionable earnings to the level of the minimum wage (2006: 6,900 Sk). There is no maximum pension. The system provides incentives for deferred retirement. Early retirement is allowed under the old social security system (with at least 10 years of insurance coverage regardless of age). The pension must be equal to at least 1.2 times the subsistence monthly minimum. The pension is reduced or increased by 0.5% for each 30 day period worked less than or beyond the retirement age.

PERSONAL MANDATORY

Coverage

The mandatory pension system covers everyone who has entered the labour market since 2005. Coverage is voluntary for the self-employed and employees who arrived on the labour market before 2005. In 2006 around 71.7% of the employed population was covered.

Contributions

Social insurance contributions account for 18% of an employer's salary. Of that percentage 9% goes into the public pension scheme (5% from the employer, 4% from the employee), while the other 9%, paid in its entirety by the employer, goes to the PAMC chosen by the member. Employees do not, therefore, make contributions to their individual accounts.

Benefits

Benefits are paid to savers who have reached retirement age and saved for ten years. Retirement – and early retirement – benefits can be paid as a programmed withdrawal with a life annuity, or as a life annuity. A programmed withdrawal with life annuity is a mode of payment whereby a PAMC pays the balance of the (early) retirement account at regular intervals for an agreed, programmed duration, while an insurance company pays the life-long retirement pension benefits.

Early retirement benefits are paid if a saver has been granted early social security retirement benefits and has saved enough to yield a life-long pension of no less than 0.6 times adult "subsistence minimum" (a benchmark below which a person is considered in material need).

Fees

PAMCs may charge a management fee of up to 0.065 % of monthly assets for every fund that they administer. However, not all fund managers levy such a fee. During the first three years of a PAMC's existence, it may charge the slightly higher fee of 0.075%.

The fee for administering personal pension accounts is 1% of the amount of monthly contributions, regardless of the type of fund. A PAMC may not charge any other fees, such as switch fees, and members can change provider once every two years free of charge.

Taxation

The mandatory private pension system enjoys EEE tax treatment: contributions, investment income, and pension benefits are all tax-exempt.

PERSONAL VOLUNTARY

Coverage

The scheme is open to anyone over the age of 18.

Contributions

Employees and employers can contribute to voluntary savings accounts, with most employers making contributions under the terms of collective agreements. Employees and employers sign separate contracts with an SPMC. The self-employed and individuals whose employers do not contribute may also take out a voluntary pension arrangement, independently of their employment arrangements.

Benefits

A supplementary retirement pension is paid out to a participant when:

- He or she completes the minimum supplementary pension saving period and reaches the age stipulated by the plan (at least 55). The minimum period of supplementary pension saving may not be shorter than 10 years.

- He or she completes the minimum period of supplementary pension saving for occupations recognised by legislation as hazardous, and has reached the necessary age stipulated by the benefit plan (at least 40). The minimum period of supplementary pension saving may not be shorter than five years.

A supplementary retirement pension is paid in the form of a life annuity, or as a fixed-term supplementary retirement pension. A lump sum may be paid upon a member's request, or in a limited number of special circumstances. Participants receive a termination settlement if they have not fulfilled the conditions for payment of a supplementary retirement pension. The amount of a termination settlement is determined by the benefit plan, and is at least 80% of the balance of the participant's personal account on the date the request for payment was submitted.

Fees

An SPMC may charge fees:

- For managing a supplementary pension fund, The maximum fee is 3% of the average net value of assets in the supplementary pension fund in each year that the company managed the fund.
- When savers transfer their accounts to other SPMCs. If a saver switches within three years of taking out a contract, the fee can be as much as 5% of the balance on his or her personal account on the day of the switch. It is 1% if the switch is made after the three-year period has elapsed.
- For a termination settlement. The fee can be up to 20% of the balance of a participant's personal account on the date he or she submitted a request for payment of the termination settlement.

Taxation

Employee contributions are tax-deductible up to a ceiling of SKK 12 000 per year, while employer contributions of up 6% of an employee's salary enjoy tax relief.

MARKET INFORMATION

Personal mandatory

All PAMCs must offer the following funds (each of which has its own statutes) in their portfolios:

- growth fund (high risk, high return)
- balanced fund (moderate risk)
- conservative fund (low risk).

Employees may be members of one fund only, but they are free to choose the one they wish – as long as they are not within 15 years or less of the legal retirement age, *i.e.* under 47. Members over 47, with 15 years to go before retirement, may no longer place their assets in a growth fund, and when they are seven years from retirement, they are required to invest their assets in a conservative fund. The Social Insurance Agency also assigns a conservative fund, administered by a PAMC, to members who fail to make a choice.

The market currently comprises six PAMCs: Allianz (30% market share in terms of numbers of savers), Winterthur (27%), VUB Generali (13%), Aegon (13%), ING (10%), and CSOB (7%). In December 2007 participants numbered 1.6 million. Total assets managed by PAMCs were SKK 51.6 billion (USD 2.1 billion).

Personal voluntary

Licences have been granted to four SPMCs, three of which were in operation in 2007. They are: ING Tatry-Sympatia (55% market share in terms of savers in March 2007), Tatra Banky (26%) and Winterthur (19%). A fourth company is due to start operating under the terms of a law passed in 2007.

SPMCs must provide at least two funds. One is an accumulation, or contributory, fund, where contributions earn interest, and the other is a distribution fund, which handles benefit payouts. The investment strategy for an accumulation fund is determined by an asset management company, in compliance with the investment regulations prescribed by law. Life insurance companies offer products which are similar to supplementary pensions (and include tax relief on contributions of up to SKK 12 000).

In 2007 SPMCs covered 792 368 participants in total and managed SKK 25.2 billion assets (USD 1.0 billion).

POTENTIAL REFORM

No major reforms are foreseen at the time of writing as the reform process introducing the voluntary personal pensions tier has just been implemented. Given that more people than expected joined the individual account system the liquidity of the Social Insurance Agency may be impacted. Suggestions have therefore been made that the proportion of the contribution could be changed or to allow individuals as one-off option to switch back into the old public pension system.

REFERENCE INFORMATION

KEY LEGISLATION

2004:

- the Old-Age Pension Savings Act (No. 43/2004 Coll.) regulates the mandatory pension tier;
- the Supplementary Old-Age Pension Savings Act (No. 650/2004 Coll.) regulates the voluntary pension system.

2003:

- the Income Tax Act (No. 595/2003) regulates the tax-related aspects of the pension system;
- the Social Insurance Act (No.461/2003 Coll.), reformed the public pension system.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The National Bank of Slovakia: integrated financial regulator in charge of supervising pension funds and insurance companies;

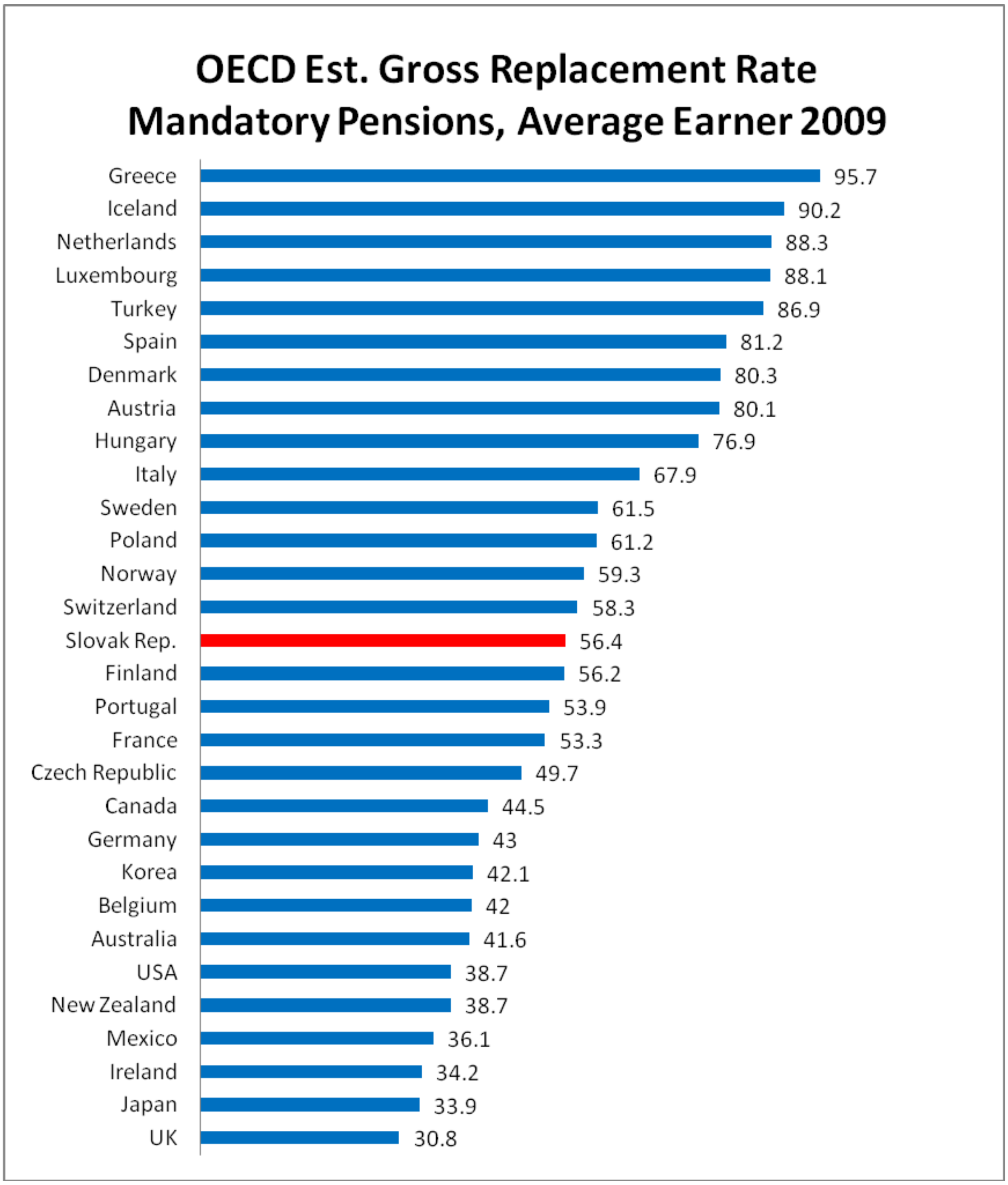
http://www.nbs.sk/INDEXA.htm.

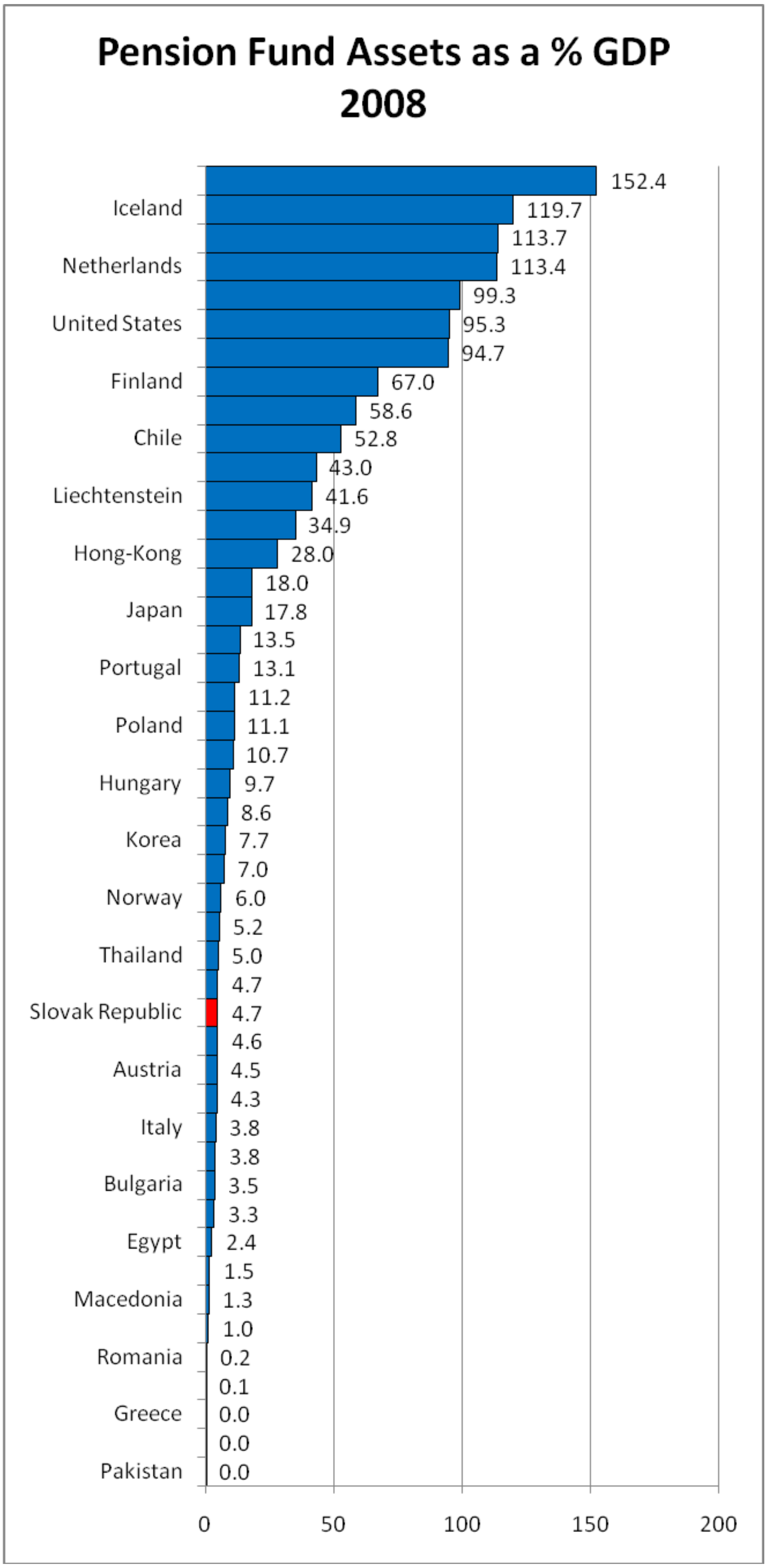
KEY OFFICIAL STATISTICAL REFERENCE

National Bank of Slovakia;

http://www.nbs.sk/INDEXA.htm.

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.


OECD Est. Gross Replacement Rate
Mandatory Pensions, Average Earner 2009
Greece 95.7
Iceland 90.2
Netherlands 88.3
Luxembourg 88.1
Turkey 86.9
Spain 81.2
Denmark 80.3
Austria 80.1
Hungary 76.9
Italy 67.9
Sweden 61.5
Poland 61.2
Norway 59.3
Switzerland 58.3
Slovak Rep. 56.4
Finland 56.2
Portugal 53.9
France 53.3
Czech Republic 49.7
Canada 44.5
Germany 43
Korea 42.1
Belgium 42
Australia 41.6
USA 38.7
New Zealand 38.7
Mexico 36.1
Ireland 34.2
Japan 33.9
UK 30.8


Pension Fund Assets as a % GDP
2008
Iceland
Netherlands
United States
Finland
Chile
Liechtenstein
Hong-Kong
Japan
Portugal
Poland
Hungary
Korea
Norway
Thailand
Slovak Republic
Austria
Italy
Bulgaria
Egypt
Macedonia
Romania
Greece
Pakistan
152.4
119.7
113.7
113.4
99.3
95.3
94.7
67.0
58.6
52.8
43.0
41.6
34.9
28.0
18.0
17.8
13.5
13.1
11.2
11.1
10.7
9.7
8.6
7.7
7.0
6.0
5.2
5.0
4.7
4.7
4.6
4.5
4.3
3.8
3.8
3.5
3.3
2.4
1.5
1.3
1.0
0.2
0.1
0.0
0.0
0.0
0
50
100
150
200