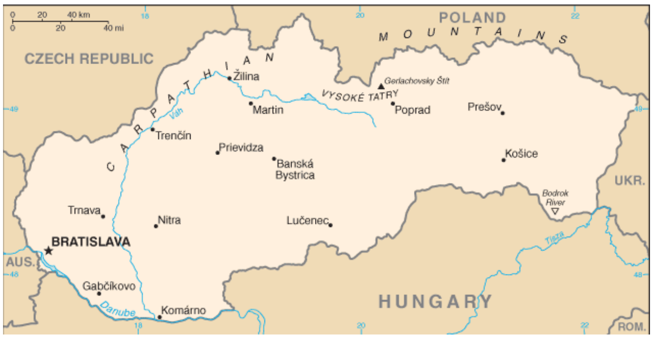
IOPS COUNTRY PROFILE: SLOVAK REPUBLIC



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR mil)[1]	**84 985**
GDP per capita (EUR)[2]	**15 600**
Population (000s)	**5 443**
Labour force (000s)	**2 726**
Employment rate (%)[3]	**72.1**
Population over 65 (%)	**15.0**
Dependency ratio (%)[4]	**21.55**

Data from 2017 or latest available year.

1 and 2. The values of nominal GDP (in million EUR) and GDP per capita are at market prices.
3. Employment rate is defined as a percentage of total working age population.
4. Ratio of over 65-year-olds to the labour force. Source: OECD, Eurostat, various sources.

SLOVAK REPUBLIC: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The earings-related, public scheme has been transformed from a standard defined-benefit formula to a point system
- There is a minimum annual pension accrual based n the annual growth of consumer prices

Private pensions: retirement pension saving

- Privately managed quasi-mandatory personal pension system

Private pensions: personal (voluntary)

- Voluntary personal pension plans

Source: OECD Global Pension Statistic.

SLOVAK REPUBLIC: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

Since the 2005 reforms, the pension system is based on three pillars representing important mandatory public pensions (1st pay-as-you-go pillar), retirement pension savings system (2nd pillar) and voluntary supplementary pension savings system (3rd pillar). Young people under 35 first entering the labour market and the self-employed have the choice to enter to the private retirement pension savings tier. Those who decided to join the 2nd pillar 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. From 1st January 2018 the maximum assessment base for employers and for employees equals seven times the average monthly salary and amounts to 6 384,00 EUR (maximum employer´s contribution: 255,36 EUR, maximum employee´s contribution: 893,76 EUR).The minimum assessment base is set up only for self-employed persons and amounts to 456,00 EUR. Those who have joined the retirement pension savings system pay a reduced contribution rate towards the public pension system: 9,50% of the assessment base (maximum is the same as above) for employers and 4% for employees.

Since January 2008, 15 years of pension insurance are needed to be eligible for a benefit. The legal retirement ages are being increased gradually and were 62 for men and for women in 2016 with some exceptions. From 2017 and onwards the statutory pensionable age is being indexed in line with increases in life expectancy at retirement age. The result is presented in days. In 2018 the retirement age for men and women is 62 years and 139 days[1].

Pension benefits accrue on the basis of a point formula. Each pension point is worth 11,9379 EUR (2018) and this point value is indexed to average earnings. Pensions in payment are indexed with regard to the annual growth of consumer prices. From July 2015 some pension beneficiaries after satisfying other qualifying conditions are entitled to the pension increase up to the level of the minimum pension. There is no maximum pension. The system provides incentives for deferred retirement. Early retirement is allowed when the conditions of at least 15 years of pension insurance and lacking maximum two years to reach the retirement age are met. The early old-age 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 days period worked less than or beyond the retirement age.

RETIREMENT PENSION SAVING (PERSONAL QUASI-MANDATORY)

Coverage

The scheme is open to individuals, the employees and self-employed, younger than 35 years old. The participation into retirement pension savings system is mandatory once the individual has decided voluntarily to join the system. The number of savers enrolled in this scheme as of 31 December 2017 was 1,425,843.

[1] There is a legislative proposal to set up the retirement age annually and for the following period of five years to ensure that people would be aware of their retirement age in advance. According to this amendment the retirement age in 2019 would be 62 years and 6 months. The draft was adopted by Parliament but the signature of the President is needed.
There is also a legislative initiative to set up an upper limit of retirement age.

Contributions

Social insurance contributions account for 18% of an employee's salary. In 2018 13,50% of that percentage goes into the public pension scheme (9,50% from the employer, 4% from the employee), while the other 4,50%, paid in its entirety by the employer, goes to the pension fund management company (PFMC) chosen by the member. The contribution rate will increase on a yearly basis by 0,25% each year and reach the target level 6% in 2024. Employees do not make contributions to their individual accounts with exception of voluntary contributions.

Benefits

The retirement benefits are paid to savers who have reached retirement age. 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 PFMC 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 or when the amount of the early social security retirement and the amount of the saver's early retirement annuity is more than 1.2 times the subsistence minimum for one adult natural person (a benchmark below which a person is considered in material need).

Fees

PFMCs may charge a management fee of up to 0,30 % of the average annual preliminary net assets for every fund that they administer.

The fee for administering personal pension accounts is 1% of the amount of monthly contributions, regardless of the type of fund. The PFMC may also charge a performance fee if the amount of pension fund calculated on each working day is positive. A PFMC 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.

SUPPLEMENTARY PENSION SAVING (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 a supplementary pension management company (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 is entitled to receive a social security retirement or early retirement pension or attains the retirement age.
- He or she completes the minimum period of supplementary pension saving for occupations recognised by legislation as hazardous, and has reached the necessary age of 55 years. The minimum period of supplementary pension saving may not be shorter than ten years.

A supplementary retirement pension is paid in the form of a life annuity, or as a fixed-term temporary supplementary retirement pension. A lump sum may be paid upon a member's request, or in a limited number of special circumstances. There is also an option of early withdrawal if the participants do not meet the conditions for the payment of life annuity or temporary supplementary retirement pension.

Fees

An SPMC may charge fees:

- For managing a supplementary pension fund, in 2018 the maximum fee is 1,40% of the average annual net value of assets in the contributory supplementary pension fund and 0,70% in the distribution supplementary pension fund (the maximum fees will decrease in next years to reach 1,20% and 0,60% in 2020).
- When savers transfer their accounts to other SPMCs. If a saver switches within one year of taking out a contract, the fee can be as much as 5% of the balance on his or her personal account as the day preceding the switching date. SPMC may not charge a switching fee if the switch is made after the one-year period has elapsed.
- A performance fee up to 10% of the yield if the amount of pension fund calculated on each working day is positive.

Taxation

Employee contributions are tax-deductible up to a ceiling of EUR 180 per year (excess contributions are taxed at the marginal rate of income tax), while employer contributions of up to 6% of an employee's salary enjoy tax relief.

MARKET INFORMATION

Retirement pension saving (personal quasi mandatory)

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

- one guaranteed bond pension fund (low risk),
- one non-guaranteed equity pension fund (high risk, high return),
- other pension funds.

Employees may be members of maximum two pension funds at the same time. Where a saver saves in two pension funds, one of funds must be a guaranteed bond pension fund. In relation to members over 52, it is laid down to have a prescribed percentage of the value of assets in a guaranteed bond pension (the prescribed limits start at 10% for members aged 52 years and are increasing by 10% to reach 100% for members aged 61 years).

The market currently comprises six PFMCs: Allianz (30% market share in terms of numbers of savers as of 31th December 2017), AXA (25%), VUB Generali (18%), NN (10%), Aegon (10%), and DSS Poštovej banky (7%). In December 2017 participants numbered 1 425 843. The net asset value managed by PFMCs was EUR 7.6 billion.

Supplementary pension saving (personal voluntary)

Licences have been granted to four SPMCs. They are: NN Tatry-Sympatia (38% market share in terms of savers as of 31th December 2017), Tatra banka (27%), Stabilita (18%) and AXA (17%).

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 pay-outs. The investment strategy for a contributory fund is determined by an asset management company, in compliance with the investment regulations prescribed by law.

In December 2017, SPMCs covered 757 000 participants in total and managed EUR 1.92 billion of net asset value. More than 70% of that total assets was accounted for by the four largest contributory funds, which each have a balanced investment policy.

POTENTIAL REFORM

No major reforms are foreseen at the time of writing. From 2005, when the three pillar system was introduced, there were some minor and major changes regarding especially the retirement pension savings scheme (e.g. the shift from the mandatory 2nd pillar to quasi mandatory with voluntary entry, the change of contribution rate to the 2nd pillar system, several openings of 2nd pillar to enable the savers to return to the old system).

REFERENCE INFORMATION

KEY LEGISLATION

2004:

- the Old-Age Pension scheme Act (No. 43/2004 Coll.), regulates the quasi mandatory pension tier;
- the Supplementary pension scheme 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.), regulates 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

KEY OFFICIAL STATISTICAL REFERENCE

- The National Bank of Slovakia: http://www.nbs.sk
- OECD, Global Pension Statistics project: www.oecd.org/daf/pensions/gps.