

Jaroslav VOSTATEK\*

## CZECH PENSION REFORMS AND THEIR BACKGROUND

DOI: 10.21008/j.0239-9415.2016.073.19

Czechoslovak old-age pensions were heavily earnings-related. The 1996 reform confirmed the trend to the flat-rate pensions. The Executive Team for the preparation of the reform (2005) analysed the reform concepts of individual political parties, mainly by the modelling of expenditures and receipts, not by their systemic analysis. They blew away the NDC scheme, recommended by the World Bank to us, with inappropriate parameters. Later the lobbyists' Expert Advisory Forum (2010) concentrated on the support of „diversification“, aiming at the introduction of mandatory pension savings. Under the influence of different political and economic interests the Government decided for the „voluntary“ opt-out + add-on, its successful realization was made impossible basically by the very existence of, in a sort of way, a strong supplementary pension insurance and by not permitting the use of life insurance sales model in the new „retirement savings“ scheme. Today no political party struggles for a paradigm pension reform, unsystematic partial parametric changes are practised only. The main pension expert of the Trade Unions Chamber and of the Czech Social Democratic Party has favoured a neo-liberal soft-compulsion type of personal pensions.

**Keywords:** pension reform, public pensions, personal pensions, World Bank, Czech pension insurance, pension funds

### 1. INTRODUCTION

In its relatively brief history, Czechia has made several pension reforms of different shapes and sizes, motivated by various economic, political and social interests. Very different and changing positions can also be seen with individual influential political parties. The aim of this paper is to analyse the direction and influence of the main actors on the pillars of the Czech pension system, in the context of development of the pension theory.

---

\* University of Finance and Administration, Prague, Czechia.

## 2. PUBLIC PENSIONS

In the previous, predominantly uniform communist pension system, the newly awarded old-age pensions were mostly dependent on final salary, the system included also “preferred work categories” (miners and other higher risk-involving professions) and it discriminated almost non-existent private farmers and entrepreneurs. With these exceptions, it was a universal defined benefit pension system and the pensions were calculated from the final salary (average salary of the best three years in the last ten years). In 1989, after 45 years of covered years, a common employee with national average earnings (NAE) received a rather high pension of 85-90% from the net wages. However, after 20 years of receiving the pension, he/she may have expected a pension at the minimum level (“social pension”), which would be equivalent to current CZK 8,000 (37% net NAE). The relation of the nation-wide average pension and net salary was then at 64%, the relation to gross salary was at 50%, with a typical phenomenon being an inadequate indexation of pensions; their insufficiency was mostly caused by the so-called hidden inflation (long-term average of the hidden increase of retail prices was approx. 2.5% annually); one-off campaign-like increases of pensions did not take these price increases into account. Bend points were applied to reduce higher earnings for the pension calculation; the existing reduction coefficients (percentages) have been kept until 2010, with a minor variation. However, the first bend point in 1989 was at 92% of the median salary, which was by 78% more than in 2010. Up to the first bend point, the salary has not been reduced when calculating the pension. Officially, the Communist system was defined as a state “pension security”: not a social insurance scheme but a public expenditure program financed from state budget, with a strongly Bismarckian construction of pensions.

### 2.1. Inflation as an instrument of liberal policy

After the Velvet Revolution, the discrimination of entrepreneurs was abandoned and in principle, the privileged categories of workers were cancelled. The real level of paid-out pensions in relation to salaries dropped, despite the introduction of regular indexation of pensions. The social pension has not been indexed until its cancellation in 1995, and its real value in this period dropped to 16% net NAE. Following 1992, there have been deliberate shifts in progressivity (solidarity) in the universal system of pension security because of significant shift of real bend points downwards (to the level almost comparable with the basic pension system in the USA). This can be related to promoted liberal tendencies that may have resulted in the transformation of pension security into a flat-rate, universal pension.

Since the 1996 reform, the Czech “pension insurance” has included a uniform, flat-rate “basic amount” of all pensions. By the recent “small” pension reform, this basic amount was parametrised to 9% of the general assessment base, or NAE respectively. The “percentage amount” of the pension is the second component; for old-age pensions it is calculated from average earnings (since 1986), valorised to the current salary level and subsequently reduced by applying reduction rates. The percentage amount of the old-age pension is significantly a “progressive” allowance, owing to the system of bend points and coefficients that was formally taken over from the pre-revolution pension security and in fact, regarding its content, it is a variant of the basic US public pension system, being a derivative of a liberal, Beveridgean state pension. Following 1996, there have been minor corrections of the relation of the basic and percentage amounts in the framework of their indexation.

The Czech basic amount of pensions is a rarity all around the world. We know how it came to being – from the state compensatory allowance; which continues to exist in this form for more than 20 years, for no reason. 9% NAE (CZK 2,550 monthly in 2017) is a significant amount for pensioners, however it is not enough to cover sustenance, not to mention housing costs. The basic amount of pensions is not comparable with basic pension assessments in former worker systems of pension insurance. The major difference lies in the fact that the basic assessment (in the given amount) was added to the “percentage assessment” of the pensions (dependent on earnings, naturally with no reduction applied) in the total undivided assessment of the pension when calculating the pensions; the assessed pension was (or was not) indexed as a whole. This is a major difference which influences the illogical and incomprehensible nature of Czech indexations when the index of the increase of the total average old-age pensions is defined and the increase of the basic amount arises from updating the amount of 9% NAE. From the mathematical point-of-view, it may be an unsolvable exercise, as the index of increase of percentage amount of pensions is in fact derived from what remains after updating the basic amount of pensions.

## 2.2. Proposed concepts of pension reforms

In the world, social pension insurance systems have undergone changes in recent decades that strengthen links to life-long earnings, including the transition to NDC schemes with personal client accounts where valorisation of the paid premiums is performed, e.g. according to the development of the volume of nominal salaries in the economy, until such (notional) funds are finally converted to old-age pensions using actuarial principles. When reconstructing the defined benefit (DB) system to a NDC scheme, the system is significantly “cleared” from different, even politically motivated “innovations” of DB systems, such as dual statutory retire-

ment ages, connected with dual minimum insurance periods. That is why I considered NDC as one of the main opportunities to modernize social pension insurance in our country (Vostatek, 2002). „From a political economy point of view the NDC pension scheme is by far superior to the traditional pension schemes, just for its rule-oriented institutional characteristics. ... the traditional parametric approach allows for discretionary measures, whereas the NDC rate of return is generated directly by economic and demographic factors and there is no administrative discretion involved other than what can be applied to fully funded schemes” (Chłoń-Domińczak, Mora, 2006, p. 558).

In 2002, the World Bank prepared a comprehensive analysis of the Czech pension system. „The paper examines two main alternative reforms to the PAYG scheme that would bring stability to the pension system in the long-run. The first would involve a set of strong parametric reforms to the DB scheme. ... Alternatively, the DB system could be gradually transformed into an NDC system. ... The NDC scheme would also automatically ensure a tighter link between benefits and contributions, which may be an objective of the reform. Attaining the same results in the DB scheme would require more changes in the benefit formula which may be more difficult to implement” (Lasagabaster et al., 2002, pp. 24-25).

The combination of NDC scheme with flat-rate pension was recommended to the Czech Ministry of Labour and Social Affairs by the advisor to the World Bank, Chłoń-Domińczak (2003), as an alternative to NDC, supplemented by a minimum pension. The same proposal was published by Chłoń-Domińczak together with Mora (2006) in an extensive monograph of the World Bank. The proposed flat-rate pension should have been at 25% NAE and the rate of premiums paid into the NDC pillar should have been 12%.

In June 2004, a team of experts of political parties was established, with Bezdek becoming the coordinator of the Executive team for the preparation of documents. „The main objective of the independent group of experts is to carry out calculations of the pension reform proposals put forward by the political parties. The Social Democrats propose a shift to a notional defined contribution (NDC) PAYG system. The Christian Democrats and Liberals suggest a parametric reform of the PAYG system and a possibility of partially opting out to a FF system. The Civic Democrats support the introduction of a flat-rate pension, while the Communists would like to continue with parametric reforms of the current PAYG system” (Mora, 2005, p. 5).

In their general form, all the above concepts of pension reforms are fully legitimate – from the perspective of pension theory and policy. The flat-rate pensions at 20-40% NAE is a modern liberal pension welfare regime, and the same flat-rate pension in combination with a universal social insurance scheme represents the original version of the social democratic pension welfare regime. The NDC scheme is a modern universal social insurance system which is fully compatible with the flat-rate or means-tested pensions. Even though, parametric reforms of the current Czech system are possible, but not effective enough, since (former and current)

public pensions are an incomprehensible mix of solidary and insurance pillars – in a situation when pension theory recommends their strict separation – into two independent pillars. Even the neo-liberal welfare regime (based on mandatory private savings), ideally without state regulation, can be considered legitimate. The fundamental problem of the neo-liberal pension welfare regime is its low (even negative) effectiveness for clients.

### **2.3. NDC case: everything can be ruined and abused**

Hajek and Samek, the experts of the Czech Social Democratic Party (CSSD), proposed to introduce gradually a NDC scheme in combination with the minimum pension at 29.45% (since 2040 27%) NAE. The assignment for the Executive Team counted with increasing the retirement age until 65 years by 2030 (men), or 2033 (women). In the projection, the team concluded that there will be a drop in the replacement rate down to 27% in 2100. The drop is caused mainly by capping the statutory retirement age in circumstances of continuously extending life expectancy. The team also explicitly noted that in reality it may be possible that the people would postpone the retirement with an aim to increase their replacement rate. Thus, there may be cases of people voluntarily extending their effective retirement age which is promoted by the system settings. Longer contributory period will be fully reflected in the amount of the assessed pension (Bezdek et al., 2005). The text of the following paragraph is as follows: “Approximately 60% of newly granted NDC pensions will be in the long run under the poverty line (approx. one fourth of the average salary in the economy)”. This sentence alone only reproduces the preceding text, but it fails to repeat the fundamental assumptions, that it concerns the end of century and that the reason of this is the statutory retirement age cap. The artificially increased NDC overhead costs to 2.1% from the expenditure of pensions were a secondary reason.

The NDC scheme alone has no relation to any specified poverty line. Yet, NDC pension is fully dependent on how high premiums are or would be paid in the long run – under the given economic and demographic conditions. Also, the state (and other insurance systems) contribute to client NDC accounts, e.g. in the period of early child care.

In recent years, Bezdek tries to disqualify NDC referring to analyses of the Executive Team: “We considered the NDC system as early as in 2005. This system does not simply turn out well in the Czech circumstances, because it would result in enormous range of the pension amounts, and in addition, it would get majority of people under the poverty line” (Taborsky, 2010). However, nowhere in the world the NDC scheme provides an “enormous range of pensions amounts”, as in practice (also here) earnings caps are used; the World Bank recommends setting the cap at 150-200% NAE. At the same time, the NDC scheme gets nobody under the poverty

line, as this is not relevant to a NDC product at all; solidarity belongs to solidary pillar. NDC system may not “turn out” bad, the NDC scheme can only be fed with improper parameters and supplements, which exactly happened in projections in 2005. Clearly, capping the retirement age at 65 years of age was a wrong parameter.

Samek provides similar arguments as Bezdek: “An NDC option for the Czech Republic was analysed in detail based on the assignment by CSSD already by the first Bezdek Commission in 2005 when it appeared that the taking of costly compensatory measures in the Czech Republic (e.g. introduction of the minimum pension) would result in the increased number of very low pensions (below the subsistence level) and thereby to the fall of many pensioners into poverty at the time of the pension award. The new Bezdek commission took this into account and as a result, decided not to recommend the NDC reform to be deployed in the Czech Republic” (Samek, Hajek, 2010).

The combination of the pension fully dependent on earnings or paid premiums with a relatively high minimum pension can be deemed as problematic – in principle, the link of the pension to earnings disappears with most insureds. E.g. the income-tested pension benefit in the form of a guarantee pension in Sweden or similarly designed pensions e.g. in Norway, Finland or Chile which do not pose practical problems argued by Bezdek are something different. At the same time, 55% of pensioners in Sweden receive guarantee pensions, in Australia, the means-tested Age pension was received by 75% of the elderly. NDC and other products of social old-age insurance is exclusively earnings-related and may not pose problems in combinations with the solidary pillar.

The assignment of the pension reform by CSSD in 2005, evaluated by Bezdek team, did not sufficiently correspond to the then state of the art and recommendations by the World Bank. For these reasons, the “result” arrived at by Bezdek team is irrelevant even today. NDC is a superior product. The second Bezdek Commission was dominated by lobbyists – and they clearly defy the transparent NDC scheme with a relatively low premium rate: they prefer current non-transparent Czech “pension insurance”. The worse public pensions, the better they explain that mandatory private pension savings working, as a model, on the principle of equivalence, must be introduced.

The treatment of the NDC system by Bezdek team proves that every model of public (and private) pensions may not “turn well”, if it is fed (knowingly or unknowingly) with improper parameters. In Sweden and other countries, the NDC system proved successful.

#### **2.4. Enforced small pension reform**

The Constitutional Court of the Czech Republic came down to the history of the Czech pension policy by its ruling in 2010. The court declared the valid bend

points unconstitutional, as “in their effects, and in combination with other parameters and existing design of the pension system they do not guarantee the constitutionally granted right to adequate material security ... and result in an unacceptable inequality among different groups of the pension insured” (Constitutional Court, 2010). In this connection, the Court noted that “whole complex design of the pension system is non-transparent to a degree that it is de facto incomprehensible for its addressees; and for the majority of the insured the calculated amount of the pension benefit becomes unverifiable“. The same is true up to this day.

The ruling of the Czech Constitutional Court should be a major lesson for the Czech pension policy. The impulse was a complaint of one disabled pensioner regarding his low replacement rate, particularly 19% of his personal assessment base – which, in his opinion, was not an adequate material security, which is declared as a right in the Charter of Fundamental Rights and Freedoms. The claimant considered it an inequality – in a situation when the average replacement rate for all old-age and disability pensions amounted to 44%. The Constitutional Court verified the claimants position because since 1996 there had been a system of “public social insurance” in this area. The Court thus inferred the core of the system from the title of the act – on “pension insurance”. The term public pension insurance or social pension insurance is not legally defined in our country, not to mention the phrase “public social insurance”. At the same time, the Court did not decline the intra-generation redistribution related to the existence of bend points and coefficients. The court repealed paragraph 15 of the Act on Pension Insurance, containing bend points used to determine the reduced personal assessment base for the purposes of calculation of the percentage amount of the pension, and forced government to act swiftly.

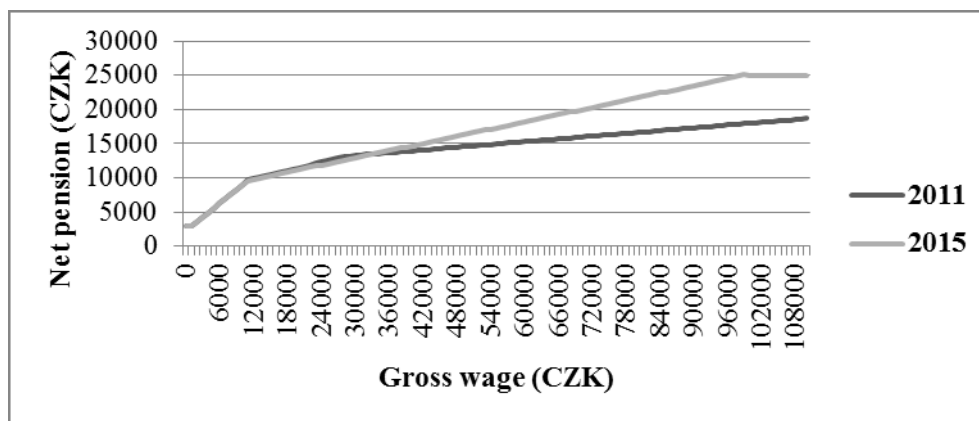


Fig. 1. Net pension dependence on monthly gross wage in 2011 and 2015 (45 years of insurance)

The Necas government implemented “small” pension reform which reintroduced bend points and subsequent reduction coefficients, setting these parameters in a manner to reinforce the principle of equivalence between the amounts of pensions and earnings. The government did so reluctantly (“enforced measure”), as it preferred a different policy – gradual transition to a flat-rate pension, e.g. at the level of CZK 6,500.

In principle, during the small pension reform, the second bend point was cancelled, or more precisely this bend point more than tripled: from 109% NAE in 2010 to 400% NAE in 2015, and moreover, it in fact merged with the earnings cap of 400% NAE. The key parameter for the degree of dependency of the pension on earnings has been only the first bend point that has been also newly parametrised, to 44% NAE – see Figure 1. When calculating the percentage amount, the earnings above this point are included from 26%, below this point 100%. The first bend point with low parameters (44% NAE and inclusion of 26% over 44% NAE) continues to be a decisive factor characterising the Czech “pension insurance” as a predominantly non-insurance system of the Beveridgean type. After the small pension reform, the percentage amount is only slightly more transparent and understandable – due to factual removal of one bend point. However, in this regard no major reform took place, as solidarity still prevails over insurance principle in the system of “pension insurance”; the ruling of the Constitutional Court was not duly respected here.

## **2.5. Czech diversification: conflict of interests and politicians**

In 2010, the Czech government decided to “diversify” the pension system by establishing the so-called “second” pension pillar. This pillar was prepared in haste. Not only the opposition but also the President Klaus who, being a liberal, deemed this pillar as excessive and created in the interest of relevant financial groups and stood against the reform. The initial, in principle a marketing material only, was drafted by the “Expert Advisory Forum”, composed mostly from lobbyists. This so-called second Bezdek Commission recommended to introduce a mandatory pillar following partially the Swedish model (“premium pension”), with taking 3% of the salary from the state budget and providing of annuities by the insurance companies. The proposal was in line with interests of medium and small financial groups and was supported by the National Economic Council of the Government, in which lobbyists also prevailed. Following the approval of the intent by the government, a negative response of the President Klaus followed and the smallest coalition party forced a change in the concept to voluntary opt-out. The new concept was prepared by former managers of large financial groups and this concept no longer included Swedish elements. Those who opted-out, had to contribute additional 2% of their gross salary (add-on), the reason was not given by the govern-



ment. We may thus only assume that interests of private sector were followed. At the end of 2011, the relevant laws introducing reform were passed by a small majority of votes in the Parliament.

In principle, the reform did not stand a real chance – as, both the results of similar reforms abroad were known, and obvious lies in the government campaign to support the reform did not help either. A certain role was played by the regulation of commissions; a well-meant regulation fired back against the take-off of the reform. The mentioned add-on had also a negative effect. Overall, it turned out that insufficient knowledge of (pension) economics does not pay off. In 2016, this new pension pillar (with mere 85,000 participants) was cancelled.

### **3. PERSONAL PENSIONS**

The establishment of the Czech “state-contributory supplementary pension insurance” in 1994 followed the openly and the disguised implementation of a pension reform – owing to the inflation in 1990s the real value of old-age pensions continued to drop rapidly and the liberal government refused the transition to social insurance and the introduction of occupational pension schemes. The transparent state contribution to supplementary pension insurance provided in addition to contributions by the employer became a significant support of the development of personal pensions – in terms of the number of participants of the new system.

#### **3.1. Special life insurance companies for a simple savings product**

Supplementary pension insurance was originally developed at the Ministry of Labour and Social Affairs (MoLSA), with an assistance of US advisors, as a product for occupational pension schemes, provided by autonomous, non-profit pension funds. When the Prime Minister Klaus swept this proposal under the table, the Ministry swiftly reworked the draft for personal pensions with state contribution provided by pension funds, plc. This resulted in the emergence of new financial institutions providing exclusively the product falling under the category of universal life insurance, without the usual accounting of (private) life insurance companies. Thus, new life insurance companies *sui generis*, using simple bookkeeping, typical for autonomous pension funds, were established.

The universal life product was very simple: it was using personal accounts of the clients to which his/her contributions (as well as any contributions of the employer) and state contributions were credited. Nothing was deducted from the personal account of the client, no fees were introduced, they were not even allowed. In

principle, it was a savings account, to which at least 85% of the fund profit generated in the preceding year was credited.

Each pension fund provided only one pension plan of this type; therefore, it was a very simple and understandable product, and with some exceptions, it was in fact savings account with interests accrued ex post – following the end of calendar year. The product may have included a classic defined benefit disability pension, with a separately determined premium (contribution), however, none of the pensions funds had ever offered such supplementary insurance. The defined contribution disability pension was a common part of the product, benefit upon disability consisted in a simple withdrawal of the savings.

For the provision of the supplementary pension insurance, a common sales model of life insurance was used, with gradually increasing commissions for the intermediaries. From the originally competitive market of supplementary pension insurance (up to 44 pension funds, plc.) the mergers created a noticeable monopoly structure of 9 pension funds in 2012, owned by 8 financial groups; with 3 largest pension funds having over 54% of all clients.

In a standard market economy, the product of supplementary pension insurance would be mostly provided by life insurance companies, followed by banks and perhaps also mutual funds. However, there was a lack of will in this regard when the supplementary pension insurance was emerging, with the reason being an undeveloped insurance market with Ceska pojistovna (Czech Insurance Co.) having a market share of 87%. Regarding banks and mutual funds, nobody thought they might be involved. Later, when all major players got used to the existence of (insufficiently regulated) pension funds as a specific component of the financial group, with essential activities being usually outsourced to affiliated companies. The profit margins of financial companies were higher than in Western countries. With the significant development of the supplementary pension insurance market and inclusion of pension funds in several decisive financial groups, new lobbying networks emerged.

### **3.2. Different state support for different or even identical products**

Because of lobbying, a significant differentiation of the state support of personal pensions occurred towards the end of 1990s – tax deductibles for supplementary pension insurance were introduced (in addition to direct state contributions) and for private life insurance (legislative abbreviation for life insurance with a savings element), provided by life insurance companies. The system of support to contributions of the employers was dramatically modified and intensified.

The “large” reform of supplementary pension insurance undertaken from 2013, locked the rather simple and understandable product in “transformed funds” of newly constituted “pension companies”, thus eliminating the competition in this

important “market” segment). The newly introduced “participation funds” go hand in hand with ideas of neoliberal policies from 1990s, according to which the freedom of choice from mutual funds with different degree of the investment risk (borne exclusively by clients) is an optimal solution both for mandatory and non-mandatory personal pensions. The introduction of fee limits for pension companies is the only benefit of this reform of personal pensions for their clients.

The fundamental problem of the current Czech personal pensions are blatantly different conditions for two types of products (supplementary pension insurance and supplementary pension savings vs. life insurance) and their providers (pension companies, life insurance companies). The dimension of these unequal conditions means unconstitutionality of the entire pension pillar. The total state support of personal pensions is the highest in the world – mostly because the tax deductible is not accompanied with the full taxation of the resulting benefit. The fees of life insurance companies are not regulated by the state at all. Even if the life insurance company would sell an exact copy of the supplementary pension savings, the clients will not receive the same state support. This is a fundamental problem of the desirable functioning of the market. However, the large financial groups do not mind it because they have specialized daughter companies for “different” products. Contributions of employers, exempted from paying social security premiums, are the most favoured ones. At the same time the products of pension companies and life insurance companies are made equal as for the contributions of employers – the state support is the same amount and moreover, these products “share” a single annual exemption limit of the total annual contribution of the employer (for each employee).

### **3.3. Neo-liberal policy of social-democratic experts**

A parallel existence of state contributions and tax deductibles with products of pension companies, if the client pays more than CZK 12,000 annually, is an absurdity of global scale. In general, we have got used to such blatant violations of equality of conditions for individual products, their providers and clients – even though it is a dimension resulting in the unconstitutionality of the whole pension pillar. In principle, everything is a result of lobbying – starting the end of 1990s and ending the recent complementary act to the act cancelling (second-pillar) retirement savings when many talks about the need to motivate citizens to higher pension savings resulted in higher margins of pension companies for the closed supplementary pension insurance where the clients are basically totally helpless, owing to an extraordinary effort of two highly involved CSSD members of parliament (Zavadil, Votava). This is no big surprise due to the fact that the main CSSD expert on pensions, Samek, is a long-time supporter of the neo-liberal “second

pillar” in its “soft” mandatory form; this was clearly manifested in its “minority version” of the Expert Advisory Forum that comprised (PES, 2010):

- the 2<sup>nd</sup> pillar will be operated by reformed pension funds,
- the direct state support will reach 3 p.p. of premiums on condition that the participant will save at least the same amount,
- the entry in the 2<sup>nd</sup> pillar will be voluntary, however then the participation and payments of premiums will be mandatory,
- as part of the 2<sup>nd</sup> pillar, the investment management of pension savings will be provided by the reformed pension funds that will offer the participants more pension plans with different investment strategies,
- the participation in the new system will only be possible if the contribution by the participant will reach at least the above mentioned 3 p.p.,
- the existing pension funds will have pension plans for participants in the supplementary pension insurance who will not become participants of the 2<sup>nd</sup> pillar under current conditions.

Samek minority version does not contain information about financing state subsidies in the second pillar, the presentation even claims that the expenses for the support of this pillar are expenditure on public pensions! Samek neo-liberal concept of the second pension pillar is very close to the concept of the second pension pillar that was cancelled last year. Both use the “opt-out” – a soft compulsion method. “The advantage of soft compulsion mechanisms is that the potential contributors retain the right not to participate but the mechanisms guide them in a direction that encourages participation” (Rudolph, 2016).

The state support of personal pensions is in principle a fiscal illusion only (the middle class will pay the support immediately in higher taxes), it does not generate higher total savings of clients – they only perform tax optimisation: by relocating their savings with a view to the yield including the state support. Especially, in a situation of average real investment yield close to zero, the state support is transformed mostly in margins of financial institutions and increased taxation of income or consumption.

A fundamental reform of supplementary pension savings and insurance is necessary. The optimal liberal and social democratic policy in Czechia would mean to cancel the chaotic and unconstitutional Czech system of subsidising supplementary pension savings, private life insurance and other financial products and a corresponding decrease of the personal income tax rate. The minimum policy is to set equal conditions for all products, their providers and clients, including employers.

#### 4. CONCLUSIONS

The Czechoslovak pensions were highly earnings-related. The reform of 1996 confirmed the liberal policy aiming to equalize the pensions. The Executive team

for the reform preparation (2005) analysed the concepts of reforms of individual political parties. The NDC system proposed by Social Democrats was not sufficiently compliant with the internationally recommended concept and lobbyists keep abusing it up to this day, as the fundamental rationalization of the current Czech system of public pensions prevents them from promoting neo-liberal concepts of personal pensions. Discussions about the NDC system confirm that any pension system can be "killed" by improper parameters. The later lobbyist Expert Advisory Forum focused on the support of "diversification", with an aim to introduce mandatory pension savings, operated by reformed pension funds. Samek "minority version" also represents a neo-liberal concept of the "second" pension pillar – the only difference is that it uses "soft" compulsion as opposed to "hard" compulsion methods. This neo-liberal concept remains an actual pension policy of the Czech Social Democratic Party – the state support of private pensions is to be developed, despite being the highest in the world. Under the influence of different political and economic interests, the previous government decided to introduce the "second" pension pillar in a form of voluntary opt-out + add-on (a soft compulsion system); however, the government was not utterly able to handle the reform and the new pension pillar was soon cancelled. Nowadays, both existing Czech pension pillars require a major reform.

#### ACKNOWLEDGEMENT

The paper was prepared as part of solving the student project "Improvement of the pension system as an intensification factor of the economy", using a specific grant for a specific academic research of University of Finance and Administration.

#### LITERATURE

- Batty, I., Hailichova, H. (2012). Major pension fund reform in the Czech Republic: Creating a three-pillar system. *Pensions* (Macmillan Publishers), 17, 4, 225-228. Retrieved from <https://link.springer.com/content/pdf/10.1057%2Fpm.2012.25.pdf>
- Bezděk, V. et al. (2005). *Důchodová reforma: možnosti a výhledy. Závěrečná zpráva. (Pension Reform: Options and Perspectives. Final Report.) Výkonný tým pro přípravu podkladů pro rozhodnutí o důchodové reformě v ČR*. Praha: Úřad vlády.
- Constitutional Court (2010). *Rozhodnutí Ústavního soudu ČR: Nález ÚS 8/07. (Decision of the Constitutional Court of the Czech Republic: Ruling ÚS 8/07.)*. Retrieved from <http://www.asocr.cz/addons/files/stare/110107rozhodnuti.pdf>.
- Chłoń-Domińczak, A. (2003). *Evaluation of the Notional Defined Contribution Option for the Reform of the Pension System in the Czech Republic*. Report prepared for the Czech Ministry of Labor and Social Affairs. Washington: World Bank.
- Chłoń-Domińczak, A., Mora, M. (2006). The NDC Reform in the Czech Republic. In: Holzmann, R., Palmer, E. (eds.): *Pension Reform: Issues and Prospects for Non-Financial Defined Contribution (NDC) Schemes*. Washington: The World Bank.

- Lasagabaster, E., Rocha, R., Wiese, P. (2002). Czech Pension System: Challenges and Pension Options. *Social Protection Discussion Paper*, 217. Washington: The World Bank. Retrieved from <http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Pensions-DP/0217.pdf>.
- Mora, M. (2005). Pension reform in the Czech Republic: ageing rapidly, reforming slowly. *ECFIN Country Focus*, 2, 7. Retrieved from [http://ec.europa.eu/economy\\_finance/publications/publication1399\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication1399_en.pdf).
- PES: The Expert Advisory Forum's Final Report (2010). Retrieved from [http://www.mpsv.cz/files/clanky/8897/Final\\_Report\\_PES.pdf](http://www.mpsv.cz/files/clanky/8897/Final_Report_PES.pdf).
- Rudolph, H.P. (2016). Building Voluntary Pension Schemes in Emerging Economies. *Policy Research Working Paper*, 7779. Washington: World Bank. Retrieved from <https://openknowledge.worldbank.org/bitstream/handle/10986/24860/WPS7779.pdf?sequence=4&isAllowed=y>.
- Samek, V., Hájek, Z. (2010). *Scénář důchodové reformy ČMKOS. (ČMKOS Pension Reform Scenario)*. Retrieved from <https://www.google.cz/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8#q=Samek+NDC+nic+ne%C5%99e%C5%A1%C3%AD+d%C5%AFchody+%C4%8CMKOS>
- Táborský, J. (2010). *Vostatkův návrh penzijní reformy s individuálními účty nic neřeší, soudí experti (Vostatek Pension Reform Proposal with Individual Accounts Solves Nothing, Experts Conclude)*. Mediafax.cz. Retrieved from [http://www.epravo.cz/\\_data\\_Public/data/E-pravo\\_mag/2010\\_E2\\_web.pdf](http://www.epravo.cz/_data_Public/data/E-pravo_mag/2010_E2_web.pdf)
- Vostatek, J. (2002). *Jak dál v penzijní reformě? (What next in Pension Reform?)* Pojistné rozpravy, 11, 29-34.

## CZESKIE REFORMY EMERYTALNE I ICH UWARUNKOWANIA

### Streszczenie

Czeskie reformy emerytalne miały wzmocnić funkcje świadczeniowo-dochodową systemu emerytalnego. Reformy roku 1996 miały wyrównywać poziom otrzymywanych emerytur. Zespół reformatorów roku 2005 przeanalizował koncepcje dalszych reform wysunięte przez partie polityczne pod kątem rozchodów i przychodów finansów publicznych. Podali oni miazdzącej krytyce system NDC zaproponowany przez Bank Światowy. Reformy roku 2010 miały zdywersyfikować instrumenty finansowania emerytur i wprowadzić obowiązkowe oszczędności emerytalne. Ostatecznie wprowadzono opcję wyjścia z systemu kapitałowego. System kapitałowy nie rozwinął się jak oczekiwano ze względu na dużą konkurencję uzupełniających systemów emerytalnych oraz brak formy kapitałowej z ubezpieczeniem na życie. W późniejszych latach nie było reform emerytalnych, a jedynie korekty parametrów systemu emerytalnego.

**Słowa kluczowe:** reforma emerytalna, emerytura publiczna, emerytury prywatna, Bank Światowy, czeski zakład ubezpieczeń emerytalnych, fundusze emerytalne