

CROATIAN PENSION SYSTEM

Bucharest, 1-2 September 2011



Meri Uvodić

EZA seminar Bucharest

Euromf vzw

BASIC INFORMATION ABOUT CROATIA

- POPULATION (2011) 4.290.612
- GROSS AVERAGE WAGE 1.051,00€
- NET AVERAGE WAGE 730,00 €
- GROSS MINIMUM WAGE 380,00 €
- 1.528.371 INSURED PERSONS
- 1.209.277 PENSIONERS
- THE RATIO OF PENSIONERS AND THOSE WHO PAYING CONTRIBUTIONS 1:1,26
- AVERAGE PENSION 290,00 €
- IN MAY 2011 THE PROPORTION OF AVERAGE PENSION IN AVERAGE (NET) WAGE AMOUNTED TO 39,75%
- REGISTERED UNEMPLOYMENT IN JULY 2011 16,8%

PENSION SYSTEM REFORM IN 1999 UNDER THE INFLUENCE OF THE WORLD BANK (THEIR “STANDARD MODEL” THREE PILLARS) (PENSION INSURANCE ACT 1999)

IT ARRANGED SYSTEM IN THREE PILLARS:

1. INTERGENERATIONAL SOLIDARITY,
2. INDIVIDUAL FOUND SAVINGS,
3. VOLUNTARY SAVINGS

- FIRST TWO PILLARS ARE MANDATORY

REFORM WAS IMPLEMENTED IN TWO STEPS:

1. ADJUSTMENT OF PUBLIC PENSION SYSTEM IN 1999
(STRICTER CONDITIONS FOR ENTITLEMENT TO A PENSION)
2. INTRODUCTION OF THE COMPULSORY SECOND PILLAR
BASED ON FUND SAVINGS AND VOLUNTARY THIRD PILLAR
IN 2002

PENSION FUND CONTRIBUTION - 20% OF GROSS SALARY

15% IS ALLOCATED FOR PUBLIC PENSION SCHEME (FIRST PILLAR)

5% FOR MANDATORY FUNDED PENSION SCHEME (SECOND PILLAR). IT IS REDIRECTED INTO INDIVIDUAL FUNDED PENSION SCHEME

UNTIL THE REFORM THE PUBLIC PENSION SYSTEM WAS BASED ENTIRELY ON GENERATIONAL SOLIDARITY.

IN 1999, WHEN REFORM WAS CARRIED OUT, THAT SYSTEM WAS IN SERIOUS CRISIS.

THE MOST IMPORTANT REASON FOR THAT WAS DRAMATIC FALL IN EMPLOYMENT (LOSS OF 600.000 JOBS) AS RESULT OF THE WAR (LOSS OF MARKET AND DEVASTATIONS) AND CROATIAN MODEL OF PRIVATISATION.

SYSTEM OF INTERGENERATIONAL SOLIDARITY REFORM:

TIGHTENED THE CONDITIONS FOR RETIREMENT - AGE LIMIT
RAISED BY 5 YEARS

OLD-AGE PENSION:

- 65 YEARS OF AGE AND 15 YEARS OF SERVICE FOR MAN,
- 60 YEARS OF AGE AND 15 YEARS OF SERVICE FOR WOMAN.

EARLY RETIREMENT:

- 60 YEARS OF AGE 35 YEARS SERVICE FOR MAN
- 55 YEARS OF AGE AND 30 YEARS OF SERVICE FOR WOMAN.

PENSION BASE FOR CALCULATING PENSIONS EXTENDED TO ALL YEARS OF SERVICE (INSTEAD OF THE TEN MOST FAVOURABLE ONES)

THE DEFINITION OF DISABILITY WAS REDUCED

PERMANENT REDUCTION FOR EARLY RETIREMENT ALLOWANCE, INSTEAD OF THE RIGHT TO SUPPLEMENT.

EARLY RETIREMENT PERMANENTLY DECREASES THE PENSION FROM 0.34 TO 0.15% PER MONTH.

- PENSION SYSTEM BASED ON GENERATIONAL SOLIDARITY (THE FIRST PILLAR) IS FISCALISED , SO THE CONTRIBUTIONS ARE PAID INTO THE STATE TREASURY, WHILE THE TAX ADMINISTRATION IS IN CHARGE OF THE CONTRIBUTIONS PAYMENT CONTROL

THE SECOND PILLAR **(MANDATORY INDIVIDUAL FUNDED SAVINGS)**

THIS TYPE OF INSURANCE HAS BEEN IN FORCE SINCE 2002.

PERSONS UNDER 40 HAVE TO ALLOCATE 5% OUT OF 20% OF TOTAL PENSION CONTRIBUTION TO SOME OF THE PRIVATE PENSION FUNDS.

PERSONS WHO ARE BETWEEN 40 AND 50 YEARS OF AGE WERE ABLE TO CHOOSE WHETHER TO ALLOCATE TO SECOND PILLAR OR NOT.

- PROBLEMS / SOLUTIONS

THE INSURED PERSONS THEMSELVES CHOOSE A MANDATORY PENSION FUND (TODAY WE HAVE 4 FUNDS).

EACH MEMBER HAS HER/HIS OWN PERSONAL ACCOUNT

THE FUTURE PENSION IS THE SUM OF THE BASIC PENSION FROM THE FIRST PILLAR AND THE ASSOCIATED FUNDED SAVINGS FROM THE SECOND, WHICH DEPENDS ON THE PERIOD OF PAYMENT, PAYMENT AMOUNT AND FUND YIELD.

THE THIRD PILLAR (VOLUNTARY PENSION INSURANCE)

INSURED PERSONS HAVE A POSSIBILITY OF
VOLUNTARY PENSION SAVING IN OPEN-END OR
CLOSED-END PRIVATE FUNDS

- 6 OPEN-END FUNDS
- 15 CLOSED-END FUNDS

CURRENT SITUATION

THE MAIN PROBLEM

– THE RATIO OF PENSIONERS AND THOSE WHO ARE PAYING CONTRIBUTIONS 1:1,26, IN 1990 THIS RATIO WAS 1:3; IN MEANTIME, THE NUMBERS OF PENSIONERS INCREASED BY 84%, THE NUMBER OF EMPLOYEES DECREASED BY 28,5%.

LARGE DIFFERENCE IN PENSION LEVELS BETWEEN THE SO-CALLED OLD PENSIONERS (WHO WERE RETIRED BEFORE 1999) AND THE SO-CALLED NEWLY RETIRED (RETIRED AFTER 1999)

THE RATIO OF FINAL NET SALARY AND THE FIRST PENSION (FOR A WORKER WHO HAS WORKED AND RECEIVED AN AVERAGE WAGE (40 YEARS OF SERVICE) THE NET REPLACEMENT RATE WAS 54,10%)

SO-CALLED PRIVILEGED PENSIONS (PENSIONS UNDER SPECIAL REGULATIONS) – “POLITICAL ELITE” WITH MORE FAVOURABLE RETIREMENT CONDITIONS AND LEVELS OF PENSION BENEFITS. (THEIR PENSIONS ARE 4 TIMES HIGHER THAN AVERAGE PENSION)

THE TOTAL ANNUAL PENSION COSTS – ONLY 54% IS COLLECTED BY PENSION INSURANCE CONTRIBUTIONS.

THANK YOU.

Meri Uvodić, Legal Adviser
Independent Trade Unions of Croatia (NHS)
meri.uvodic@hep.hr