

FINAL REPORT ON ACTIVITIES IN 2015

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The Expert Committee on Pension Reform (hereinafter also the “ECPR“) established under the Programme Declaration of the Government of the Czech Republic, in accordance with Article 9 of its Statute, submits the Final Report on its Activity in 2015.

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¹ Prepared on the basis of the reference documents and comments of the heads of the working teams, members of the secretariats of the Expert Committee, minutes of the meetings and approved documents.

SUMMARY

The Expert Committee on Pension Reform continued its activity also in 2015. A proposal for the differentiation of the rates of pension insurance payments for families with children was approved. A proposal for the modification of the amount of state contributions in the reformed additional pension savings scheme was not approved.

The working team 1 dealt with the problems of additional pension systems. The termination of the second pillar has been implemented in gradual steps since 1 January 2016 under the Act 376/2015 Coll., on the Termination of the Pension Savings Scheme. Apart from the ECPR's proposals approved already in 2014, also Ministry of Finance's proposals and proposals approved on the basis of parliamentary initiative were reflected in it. The working team also dealt with the modifications of the third pillar parameters and other proposals for possible changes of additional pension systems.

The working team 2 focused on the issue of indexation (and thus also assessment) of pensions in the first pillar. It prepared, organised and evaluated the public discussion regarding the Green Book on State Pensions and their Increase. It also returned to the problem of the revision of the retirement age limit, whereas it discussed, above all, the procedure of preparing the reference materials for the discussion of these issues by the Government of the Czech Republic.

The working team 3 discussed the methods of strengthening the principle of merit and settlement of transfers between the family and the state. Apart from the proposal of the differentiation of rates of pension insurance payments for families with children (see above) approved by the ECPR, it dealt with a minimum period of insurance for the occurrence of the entitlement to the old-age pension and the relationship of the social security system and family policy.

The work of all three teams was based on continuous diligent collaboration with the MoLSA's and MF's staff. The ECPR's activity was financed from the MoLSA's budget section in the total amount of ca. 1.6 MCZK.

Apart from the work of three working teams, a new form of discussion meetings – permanent seminars was applied. These dealt with the selected partial topics as well as the whole context of the development of the pension system and its reforms.

The principle of the ECPR's activity included transparency and openness. The discussed reference documents, minutes of the meetings and other documents were operatively published on the website www.duchodova-komise.cz. The Committee closely cooperated with media as well as public.

In 2016, the ECPR intends to continue its activity to fulfil the goals set by its Mandate best. It shall also deal more with a broader context of continuing the pension reform. Concurrently, it is prepared to continue collaboration with the central bodies of the state administration and with the Parliament of the Czech Republic.

DISCUSSED PROPOSALS

DIFFERENTIATION OF THE RATES OF PENSION INSURANCE PAYMENTS FOR FAMILIES WITH CHILDREN

The objective of the proposed measure in accordance with the ECPR's Mandate is a partial settlement of the transfers between the family and the society from the viewpoint of the position

of the households with the same income (Objective No. 6) and, concurrently, significant strengthening of the principle of merit (Objective No. 4) taking the merits of working parents on the up-bringing of a future generation of tax and pension insurance contributions payers into account.

The measure shall facilitate a total financial burden of families with children at the time of up-bringing of dependent children, when these families need these resources the most and when the increasing number of children in the family results in a dramatic growth in expenditures for children and, concurrently, in a substantial decrease in income per a household member.

This proposal was approved by the ECPR at the 12th ECPR's meeting on 21/05/2015.² It included:

- An increase of the basic rate within pension insurance payments by 1 percentage point. The total amount of the basic rate of payments of pension insurance contributions (for both employees and employers) shall thus increase from 28% to 29%. Owing to the application of differentiated decreased rates for families with children, the total tax burden of work shall not change.
- The differentiated rates of pension insurance payments were proposed in the following amount: households without children 29%, households with 1 child 28%, with 2 children 26.5%, with 3 children 24% and with 4 and more children 21.5%. Only a part of the rate paid by the employee is regulated, i.e. that the regulation shall not have impact on the pension insurance paid by the employer. The assessment base for the calculation of the pension shall remain in the full amount and hence the final amount of the pension shall not change. The differences by the respective number of percentage points according to the number of children shall apply analogically to the differentiated rates of individual entrepreneurs.
- A decreased rate of pension insurance payments for children supported in the common household may be applied by both the parents. The condition for a concurrent application of a decreased rate by the other parent is that the parents (including the persons in a similar legal position) are the persons living in a common household, who bring up in this household the corresponding number of dependent children. If the parents have their child placed to shared care by court, both these parents shall apply a decreased rate. A maximum amount of persons that may apply a differentiated rate of the pension insurance per a particular child is 2.

Table No. 1 Proposed Rates of Pension Insurance

Number of children in common household	0	1	2	3	4
Pension insurance rate – employee	7.5%	6.5%	5.0%	2.5%	0.0%
Pension insurance rate – employer	21.5%	21.5%	21.5%	21.5%	21.5%

Upon recommendations from the discussion during discussing within the ECPR and upon request by the MoLSA, several subsequent calculations of possible options of measures were carried out more strengthening, in particular, the support of families with two or, where appropriate, three children. These options were evaluated with the follow-up legislative process.

² See <http://www.duchodova-komise.cz/wp-content/uploads/2015/05/N%C3%A1vrh-diferenciace-sazeb-pojistn%C3%BDch-odvod%C5%AF-pro-rodiny-s-d%C4%9Btmi-21.-kv%C4%9Bt%C4%9Bna-2015.pdf>

MODIFICATION OF THE AMOUNT OF STATE CONTRIBUTIONS IN THE REFORMED ADDITIONAL PENSION SAVINGS SCHEME

The proposal assumed a decrease in the bottom limit of the monthly contribution for the entitlement for the state support from CZK 300 to CZK 100 for the persons under 26 years with the objective to enable the entry to the third pillar also for children from families with low income.³

This proposal was not approved at the 13th ECCPR's meeting dated 08/10/2015.

ECPR's WORK IN 2015 AND THE OUTLOOK OF THE ACTIVITY IN 2016

The ECPR had four meetings during 2015. It collaborated with the MoLSA's and MF's staff, who prepared the required reference documents and actively participated in thematic discussions. It also cooperated with the representatives of other public administration and public institutions authorities, with the representatives of interest and professional organisations and other experts.

The ECPR's Chairman and the WT's heads (in some cases together with other ECPR's members and MoLSA's staff) held negotiations with the representatives of these institutions:

- Czech Social Security Administration (15/01/2015).
- Capital Market Association (27/01/2015).
- Czech Statistical Office management (28/04/2015).
- Expert Committee on Family Policy of the MoLSA CR (21/05, 18/06).
- Sub-committee for social and insurance systems and pension reform of the Social Policy Committee of the House of Representatives of the Parliament of the Czech Republic (PT3, 10/06).
- Dealing with the representatives of the European Commission within the Joint fact-finding mission to the Czech Republic. (25/11/2015, the ECPR's Chairman subsequently presented answers to defined questions also in writing).

Majority of the ECPR's members carried out their activity in a responsible manner. In spite of this fact, it was revealed that managing demanding assignments of the Government requires better analytic and prognostic reference documents for the preparation of its proposals in the form of broader applied social and scientific research. Therefore, the experts – the ECPR's permanent members continued their activity of **the research consortium**, which prepares **suggestions for strengthening** urgently required systematic **research in a particular area**.

Table No. 2 Overview of ECPR's working teams

Abbreviation	Working team title	Implementation of the objectives of the ECPR's Mandate	Team head
WT1	Termination of the second pillar and setting parameters of the third pillar	No. 3 – Termination of the so-called second pillar No. 5 – Form of additional pension systems	Vít Samek

³ See <http://www.duchodova-komise.cz/wp-content/uploads/2015/02/M.-Pot%C5%AF%C4%8Dek-Modifikovan%C3%BD-n%C3%A1vrh-na-%C3%BApravu-v%C3%BD%C5%A1e-st%C3%A1tn%C3%ADch-p%C5%99%C3%ADsp%C4%9Bvk%C5%AF-v-reformovan%C3%A9m-dopl%C5%88kov%C3%A9m-penzijn%C3%ADm-spo%C5%99en%C3%AD-4.-%C3%BAhora-2015.pdf>

WT2	Retirement age and adjustment of pensions	No. 1 - Setting of retirement age No. 2 - Mechanism of pension adjustment	Tomáš Kučera
WT3	Comprehensive system analyses, merit and transfers	General objective: Comprehensive system analyses No. 4 - Strengthening the principle of merit No. 6 - Settlement of transfers between citizens, the family and state No. 5 - (partially) Form of additional pension systems	Otakar Hampl

THE FIRST WORKING TEAM (WT1)

An overview of the activity in 2015

The discussions regarding the regulations of the additional pension savings scheme (the so-called third pillar), above all, paid attention to the following topics:

- **A decrease in the limit of the entitlement for the state contribution** for the participants of the additional pension savings scheme **at the age from the birth to the age of 26** from three hundred crowns to **one hundred crowns**.
- **Unification of the limit for tax relief for the employer's contribution (30 TCZK annually) and the participant's contribution (12 TCZK annually)**, ideally to increase this joint limit for 50 TCZK (twice as much the average wage). In practice that would mean that the employer may contribute up to the amount of 50 TCZK annually. The participant (employee, self-employed person) may deduct from the tax base the amount of the contribution paid by him/her (reduced according to the following item) decreased by the employer's contribution.
- **Regulation of the calculation of the participant's contribution for the deduction from the tax base.** Currently, it is a contribution paid by the participant decreased by 12 TCZK, newly, it would be a contribution paid by the participant decreased by the participant's contributions to which the state contribution was claimed (plus the reduction by the employer's contribution in the case of the unification of the limit according to the previous item). The existing rules, when the sum of 12 thousand annually is always deducted from the contribution paid by the participant, disadvantage the participants that during the year pay a contribution lower than CZK 1,000 (and hence they do not draw the full state contribution), but, for the purposes of tax relief, it is assumed as they would draw it. For example, a client with a monthly contribution of CZK 500 monthly, shall receive a state contribution of CZK 1,560 annually, however, if he/she deposited an extraordinary contribution of CZK 6,000 in December (a total contribution would be CZK 6,500 in December), he/she would neither receive a state contribution for a part of his/her contribution in the amount of CZK 5,500, nor a tax relief.

On the basis of the material "**A Proposal of the Method to Terminate the Pension Savings System**",⁴ prepared by the WT1 and approved by the ECPR already in 2014, which contained basic grounds, theses and a schedule of the termination of the second pillar of the pension system, the follow-up legislative steps were implemented by the Government in 2015. **The termination of the second pillar has been implemented in gradual steps since 1 January 2016**

⁴ See <http://duchodova-komise.cz/wp-content/uploads/2014/08/Návrh-způsobu-ukončení-důchodového-spoření-OK-pro-vládu.pdf>

under the Act No.376/2015 Coll., on the Termination of the Pension Savings Scheme. In addition to the ECPR's proposal, other proposals of the Ministry of Finance and proposals approved during its discussion in the House of Parliament of the Parliament of the Czech Republic were reflected into its final form.

Table No. 3: Papers presented at the WT1's meeting in 2015

Paper title	Presenter	Date
<i>Proposal of the pension savings scheme/insurance reform</i>	Jaroslav Vostatek	05/02
<i>Proposals of the modification related to the current state of the preparations of regulations of the third pillar at the grounds of MF CR</i>	Vladimír Bezděk	23/02, 30/03
<i>Modified proposal for the regulation of the amount of the state contributions in the reformed additional pension savings scheme</i>	Martin Potůček	30/03, 30/04
<i>Provision of contributions to employees for the additional pension savings scheme (the third pillar) and, where appropriate, the proposals how to improve the situation.</i>	Pavel Juříček	30/04
<i>A proposal of the Capital Market Association to introduce an individual pension account (IPA)</i>	Jan Vedral	27/05
<i>A proposal of the Capital Market Association to adjust the investing of participating funds</i>	Jan Vedral	29/06
<i>A proposal of the Capital Market Association to adjust the investing of participating funds (continuance)</i>	Jan Vedral	28/07
<i>Administrative (business) models of pension savings and insurance scheme</i>	Jaroslav Vostatek	28/07
<i>Scenarios of pension savings reforms</i>	Jaroslav Vostatek	27/08
<i>A proposal of the Capital Market Association to introduce an individual pension account (IPA) (continuance)</i>	Jana Michalíková	06/10
<i>Current state of life annuity market</i>	Filip Král	06/10
<i>Cancellation of the second pillar. And what next?</i>	Pavel Hulák	03/11
<i>An opinion of the process of preparing the amendment of the Act on Additional Pension Savings Scheme</i>	Martin Potůček Daniel Münich	10/12

Proposal of the WT1's activity in 2016

In 2016, the WT1 shall develop the following topics:

1. guarantee;
2. possibilities of the extension of the product offer in the third pension pillar by the (obligatory) additional pension savings scheme of the employees performing hard and risky work;
3. individual pension accounts administered by investment companies;
4. state annuity companies – insurance companies with a special regime.

If needed, where appropriate, they shall also focus on other problem areas of the additional pension savings in a broader context of the whole pension system.

THE SECOND WORKING TEAM (WT2)

An overview of the WT2's activity in 2015

After the successful completion of the issue of a continuous revision of the retirement age limit, in 2015, the activity of the ECPR's second working team focused on the issue of adjustment

(and hence, concurrently, also assessment) of pensions. Its completion was divided in seven basic stages:

1. Discussion of material and methodological frames of the discussion of issues of pension assessing and, in particular, adjustment;
2. Selection of a set of indicators enabling evaluating impacts of the further proposed changes of the current system of pension assessment and adjustment;
3. Preparation, organisation and evaluation of public discussion via *the Green Book on State Pensions and their Increase*;
4. Agreements on objectives and principles of assessment and adjustment and terms connected with their fulfilment;
5. Formulation of initial proposals for pension assessment and adjustment;
6. Modelling, evaluation and discussion of impacts of initial proposals;
7. Selection and presentation of the basic proposal.

The solution of these issues completely covered the programme of the WT2's activity in 2015 provided that at several of its 21 meetings, the team also returned to the issue of the revision of the retirement age limit, whereas it monitored and discussed, above all, the procedure of preparing reference documents for the discussion of this issue by the Government of the Czech Republic, including the results of the amendment procedure.

During discussing the material and methodological frames of the discussion of the issues connected with the assessment and, above all, adjustment of pensions, the attention was paid, in particular, to the following thematic assignments:

- ✓ access, procedures and order of completing other WT2's assignments, namely the proposals of (a) alternatives of the current mechanism of adjustments or a completely new method of adjustments, (b) conditions of granting pensions, including assessment of a possibility of their extension on the basis of specific life circumstances, (c) conditions of early retirement;
- ✓ criterion of solving the mentioned assignments;
- ✓ form of the collection of opinions and proposals of interest groups and individuals and the method of their evaluation;
- ✓ acceptance of a key criterion of solving all issues – total sustainability of public finance.

Within the selection of a set of indicators enabling evaluating impacts of the further proposed changes of the current system of pension assessment and adjustment:

- ✓ a set of indicators for the evaluation of the proposals of adjustment whose development is possible to simulate via a micro-simulation model of the MoLSA's pension system was specified;
- ✓ the presumptions incoming in the micro-simulation model of the MoLSA's pension system were discussed;

Preparation, organisation and evaluation of public discussion via *the Green Book on State Pensions and their Increase*⁵ rested in:

- ✓ composition and discussion of a proposal of the contents of the Green Book on State Pensions and their Increase and the method of collecting and evaluating obtained results;
- ✓ finalisation of the text and distribution of the Green Book;
- ✓ collection and initial preparation(sorting) of individual respondents' replies;
- ✓ evaluation of the responses, preparation of the outputs and presentation of the results.

The form of the green book was selected as a suitable instrument enabling both the WT2's members and other interested persons supplementing and sorting own knowledge and in

⁵ See http://www.duchodova-komise.cz/?page_id=51

relation to them formulate the attitudes to the issues connected with the assessment of state pensions and their adjustment. It provided to the broader public an option to express the opinion on the raised as well as other questions of operating the pension system. Finally, this brought a lot of diverse suggestions and proposals, which became a significant part of the grounds for the follow-up discussion regarding the current as well as alternative methods of assessing old-age pensions and their increase.

The agreement on objectives and principles of assessment and adjustment and terms connected with their fulfilment creates needed frames for the formulation of meaningful proposals, in particular:

- ✓ specifies initial principles and objectives of the whole ECPR's work – ensuring a dignified life of pensioners in the Czech Republic and, within its fulfilment, reform the pension system in such a way to provide pensions that shall be dignified and, concurrently, they shall respect the principle of merit, they contribute to the settlement of the transfers between citizens, families and the state mediated by the pension system, all this when ensuring the sustainability of the public finance system;
- ✓ defines a conceptual frame, whose part included defining a dignified retirement and discussing the follow-up terms (e.g. poverty line)⁶ and
- ✓ sets out basic criteria:
 - adequate differentiation of granted as well as adjusted old-age pensions reflecting merit (the amount of previous material and, where appropriate, also immaterial payments and inputs in the system) – setting and maintaining a suitable rate of merit, maintaining a real value of the assessed old-age pension;
 - ensuring gradual but sufficiently (with respect to the period of receiving a pension) fast fulfilment of the concept of dignified (and, where appropriate, sufficiently differentiated) retirement and, after its fulfilment also the fulfilment of a concept of preserving a real value of old-age pensions assessed earlier;
 - ensuring participation in the growth of society welfare;
 - intensifying solidarity of the system – apart from the fulfilment of some already mentioned principles, e.g. via introducing contributions to public budgets – taxation of pensions and
 - substantial reduction of payment of so-called non-insured social security benefits.

Formulation of the initial proposals for pension assessment and adjustment representing a particular solution of the WT2's key assignment in 2015 included:

- ✓ formulation of the proposals of possible methods of assessing old-age pensions;
- ✓ formulation of possible ways of adjustment of old-age pensions assessed earlier.

Modelling, evaluation and discussion of the impacts of initial proposals followed up the formulation of the selected initial proposals and rested in:

- ✓ testing of proposed solutions with the use of the MoLSA's micro-simulation model;
- ✓ evaluation of the results of tests and discussions and a selection of appropriate initial methods of solutions.

At the very end of the WT2's activity, in 2015, the first proposal of the initial solution of the issue of pension adjustment was formulated resting in the replacement of the current method of adjustment (indexing) by a new one, whose principle lies in the replacement of the first parameter – a general consumption basket by a consumer basket of pensioners, whereas, concurrently, the preservation of the second parameter – 1/3 of a real wage was proposed. This proposal was submitted for the initial discussion at the ECPR's meeting in December.

⁶ See (<http://www.duchodova-komise.cz/wp-content/uploads/2015/12/T.-Ku%C4%8Dera-%C5%98e%C5%A1en%C3%AD-valorizace-15.-%C5%99%C3%ADjna-2015.pdf>)

The WT2 collaborated with the MoLSA's department of social insurance in the solution of the majority of the stated issues. This organisational component of the ministry permanently provides to the WT2 a wide information service, whether these are conceptual materials, comparative studies or, above all, and in particular the model simulation evaluation of the impacts of the proposed measures and solutions, which, in fact, would not be possible without the use of the micro-simulation model of the MoLSA's pension system. Hence this is an irreplaceable support of the WT2's activity.

Proposal of the WT2's activity in 2016

At the WT2's first meeting in 2016, its members agreed that they would focus their subsequent activity on the following issues:

1. completion of the solution of the issue of state pensions assessment and adjustment;
2. revision of parameters, their fulfilment is necessary for the occurrence of the entitlement to the old-age pension;
3. solution of connections between the retirement age limit and individualisation of life and carrier paths;
4. later retirements (beyond the limit of the retirement age (RA)) and assessing pensions in these cases;

These issues shall be solved in the stated order. If needed, where appropriate, the team shall also focus on other topics relevant for the setting of the retirement age and adjustment of pensions

in a broader context of the whole pension system and its relevant surrounding.

THE THIRD WORKING TEAM (WT3)

An overview of the WT3's activity in 2015

The progress of work proceeded with the focus on the priorities in accordance with the Government programme declaration – **strengthening the principle of merit, settlement of the transfer between the family and the society**. In this respect, the WT3 dealt with a principal issue of **increasing merit of families with fair consideration of work and costs connected with the up-bringing of a future generation of payers within the pension system and more fairness** via the settlement of transfers between families and the society. In addition to that, the WT3 paid attention to **secondary, unintentional, contra-population effects of the selected aspects of pension systems** and some elements of family policies.

The Proposal of the differentiation of insurance payments rates for families with children approved by the ECPR on 21/05/2015 was the major output of the WT3 activity (see above).

The legislative preparation of the Proposal for sharing assessment bases of married couples submitted by the ECPR to the Government at the end of 2014 was interrupted due to the following reasons:

On the grounds of the MoLSA CR, an obligatory standard process of regulation impacts assessment (RIA) was carried out, whose results showed on the basis of a detailed analysis carried out during the preparation of the intention of sections 7 and after the consultation with the legislative department of the ministry specific essential problems both in the issues of a material character, including the problem of constitutionality and equal treatment in some selected situations, and the issues of related entitlements to the performance of larger administrative and technical changes in processes and information systems of the Czech Social

Security Administration and other pension payers (hereinafter only “Pension Payers”) than it was assumed. Fundamental problems in connection with the introduction of the institute of “sharing” would occur and their solution would need to be searched in the cases of some members of armed forces and bodies (for example “reporters” – a problem of revealing identity).

Regarding **the material problems** we need to mention the issue of some situations that could occur **when treating alternative periods of insurance that are concurrently excluded periods**. At the current setting of the processes and the information system of the pension payers, the treatment of these situations would be very complicated or even impossible. **Concurrently, the total final effect would be in the majority of the cases less significant.**

This connection showed that **the implementation of the intentions would require a lot of other necessary related demanding steps in the area of processes and information systems of pension payers**, such as for example a continuous collection of information regarding all insured persons of the Czech Social Security Administration in a far broader extent when compared to the time (information on the existence and termination of the marriage, information on all alternative periods.).

From the viewpoint of the fulfilment of objectives No. 6 Settlement of transfers between the family and the society and No. 4 Increase in merit of the Mandate of the Expert Committee, Sharing of the assessment bases of married couples without additional system changes would have only a marginal impact. Furthermore, the implementation of the intention would be a significant burden for pension payers and in the up-coming years, it would “block” the implementation of other material changes in the pension system. **Hence, in this respect, the RIA process as an integral standard part of the legislative process met its purpose and, on the basis of these detailed analyses of work on the intention, the MoLSA’s management interrupted the Sharing.**

Nevertheless, the intention itself was not completely abandoned for the up-coming years. It should be considered that the WT3 shall deal in its subsequent work with:

- a proposal for the division of pension claims at the break-up of marriage (in this case, a preceding consultation with the MS would be required);
- application of sharing on the basis of a voluntary request of a married couple retiring together;
- connection of this problem with other more fundamental changes within the pension system.

Table No. 4: Topics and papers discussed at the WT3’s meeting in 2015

Topic/paper title	Presenter/author	Date
<i>Information on held meetings at the MoLSA regarding the methods of quantification of relevant selected measures</i>	Otakar Hampl	29/01
<i>Discussion regarding the continuous results of mapping transfers between the family and the society – single-generation indicators of a basic couple</i>	Otakar Hampl, Karel Pelán	29/01, 19/02, 05/03
<i>Discussion regarding the alternative possibilities of the solution of sharing assessment bases of married couples</i>	MoLSA (Jan Škorpík, Marek Suchomel, Martin Štěpánek)	19/02, 05/03, 19/03
<i>Discussion regarding the lecture by professor Werner Sinn The Earth without Children – a disadvantageous setting</i>	Otakar Hampl	19/02, 05/03

<i>of transfers with respect to families and impacts on low birth rate and unfavourable demographic development</i>		
<i>Discussion regarding the classification and evaluation of groups of opportunity costs connected with up-bringing and support of dependent children and proposals of possible measures for their compensation</i>	Otakar Hampl, Karel Pelán, Radim Valenčík	19/02, 05/03, 19/03, 06/08
<i>Proposal for the differentiation of the pension insurance payments rates for families with children</i>	Otakar Hampl, Martin Potůček	16/04, 30/04
<i>Current problems of considering care for dependant household members in the pension system</i>	Jan Hutař	30/04, 04/06
<i>Information regarding the Fourth Meeting of the Subsection for Social Security Systems and Pension Reform, which was held on 28 May 2015.</i>	Otakar Hampl,	04/06
<i>How would birth rate in the Czech Republic need to develop so that the gradual stabilisation of the number and age compositions of the inhabitants of the Czech Republic occurred (without migration)?</i>	Tomáš Fiala	04/06
<i>Discussion regarding the minimum period of insurance for the occurrence of the entitlement to the old-age pension</i>	Otakar Hampl, MoLSA – Jan Škorpík	16/07
<i>Discussion regarding possible payments for state insured persons</i>	Otakar Hampl, MoLSA – Jan Škorpík	16/07
<i>Mutual information regarding the topics being solved with the invited members of the Expert Committee on Family Policy</i>	Martin Potůček, Marie Čermáková, Otakar Hampl,	06/08
<i>Discussion regarding the topic of the maternity pay (MP) and the parental benefit</i>	Marie Čermáková, MoLSA - Jana Maláčová	06/08
<i>Connections of family policy with the social security system</i>	Marie Čermáková, Martin Potůček, Otakar Hampl	06/08
<i>MoLSA's information regarding the process of legislative work on individual proposals of the Expert Committee</i>	MoLSA – Deputy Iva Merhautová	27/08
<i>Information regarding the procedure of the legislation preparation of a proposal for Sharing assessment bases of married couples – reasons for discontinuance of MoLSA's legislative work on the proposal</i>	Joint meeting of the WT3, MoLSA's and Czech Social Security Administration's staff	16/09
<i>Discussion of the WT3's continuous information for the Expert Committee's dealing</i>	Otakar Hampl	07/10

The WT3 cooperated with the MoLSA's department of social insurance on the solution of the majority of the mentioned topics, which provides to the WT3 constantly an extensive information service in the form of conceptual materials, comparative studies and model calculations and quantifications of the assessment of impacts of proposed measures and solutions.

Proposed WT3 Activities in 2016

The WT3 shall follow up smoothly the previous activities in these basic thematic circles:

- **The Methodology of transfers between the family and society.** The indicators were missing in the simulation models applied by the Ministry of Labour and Social Affairs that would evaluate the impacts in terms of transfers between the family and the society in a comprehensive and systematic manner in terms of the position of the households with equal incomes and that would evaluate the extent of merit of working parents on the upbringing of the future generation of tax and insurance payers. Therefore, methodological work on the definition of these indicators were commenced. The individual proposed indicators are continuously tested on specific analytic models and a specialist discussion is being held on their specific information value. The continuous results of these models also provided significant partial findings in terms of the declared needs of straightening transfers between the family and society and strengthening the extent of merit of the system in relation to working parents.
- The methodological specification, calculation and **testing of two-generation indicators of the total transfer contribution of a family, or a household, to the long term sustainability of public finances.**
- Systematic methodological expression and quantification of **total economic costs – i.e. opportunity costs of households in relation to the upbringing of children. In particular, it means the comparison of the situation of a family with children with the opportunity of not having children.** In the case of an alternative decision of not having children, the funds expended on upbringing children may be used in another way – for instance, on a holiday abroad or acquisition of one's own housing or save them for their own retirement. A comparison of a lost wage and career development with the amount of the parental benefit and taking parental leave may be another example.
- **Solution of selected problems regarding taking account of the care for dependent family members within the pension system.** The pension system provides strong instruments in this area – substitute time included in the full amount in terms of the period of insurance and exclusion of such a period in the calculation of the assessment base so that it would not be reduced. In spite of that, an indirect impact through a limited career and wage growth of caring persons is negatively reflected to a certain extent.
- Ways of mitigation of **the past unfairness of low pensions of mothers who had brought up multiple children and subsequently took care of dependent family members**, providing that a sufficient career income is missing in between.

When working on the solution of the individual measures and methodologies of mapping transfers between the family and society, it is taken into account that complete straightening of transfers may not be carried out only within the pension system and that the comprehensive family policy deals with the overall straightening of transfers between the family and the society in a systematic manner, providing that it is getting confirmed more and more that these questions are related to each other closely. Therefore, it is necessary to seek their solution in the cooperation in 2015 by a newly established **Expert Committee on the Family Policy**.⁷ In this sense, steps have been taken to a greater cooperation between both the committees. Its representatives took part in the WT3 meeting on 6 August 2015 for the first time and they are invited and informed on a regular basis. **A more extensive coordination of work between both the committees along with the discussion about the new concept of the family policy is expected in 2016.**

⁷ See <http://www.mpsv.cz/cs/21022>

CONTINUOUS SEMINARS

Continuous seminars of the ECPR were commenced in May 2015, which deal both with partial topics and the whole context of the pension system and its reforms.

Table 5: An overview of continuous seminars of the ECPR held in 2015

Seminar name	Presenter	Date	Location
<i>The relations of the pension system with other social systems</i>	Jiří Schlanger	7. 5.	MoLSA
<i>Alternative insurance period – university study</i>	Markéta Havelková	14. 5.	MoLSA
<i>A proposal of the reform of the pension insurance and the taxation of income from an employment activity</i>	Jaroslav Vostatek	21. 5.	MoLSA
<i>Trends and causes of retirements in the Czech Republic</i>	Jana Bakalová, Radim Boháček, Daniel Můnich	18. 6.	CERGE-EI
<i>Employing elderly people and economic incentives for their work</i>	Jiří Šatava	22. 9.	CERGE-EI
<i>Prognoses of demographic ageing of the Czech Population and the frontiers of the retirement age</i>	Tomáš Fiala, Tomáš Kučera	5. 11.	MoLSA
<i>Roadmap of the Czech pension reform</i>	Martin Potůček	1. 12.	MoLSA

Note: Working reference materials and minutes from meetings are available from http://www.duchodova-komise.cz/?page_id=1033.

BROADER CONTEXT OF THE CONTINUING PENSION REFORM

In the contribution titled **The Roadmap of the Czech Pension Reform**,⁸ presented on the grounds of the continuous seminar of the ECPR and subsequently at the 14th ECPR meeting on 10 December 2015, the ECPR Chairman tried to generalise the hitherto experience with the preparation and implementation of the Czech pension reform and arrive at conclusions for the orientation of further ECPR's activities.

Characteristics of the development of the Czech pension system

- Since the beginning of the 1990's, the relation between the average pension and average wage is falling.
- A relatively modest in relation to the GDP when compared internationally.
- The transfer from the wage tax in 1993 to the income tax of natural persons, along with the separation of social and health insurance, which no longer takes the supported children into consideration.
- The 1st pillar is considerably more egalitarian than the European average.
- Cc. 95% of the support of the pension is provided by the 1st pillar.
- The employment pension pillar is absent here, the participation of employers in the 3rd pillar is growing only slowly.

⁸ See <http://www.duchodova-komise.cz/wp-content/uploads/2015/12/Cestovni-mapa-ceske-duchodove-reformy-1.-prosince-2015.pdf>, and the presentation see <http://www.duchodova-komise.cz/wp-content/uploads/2015/12/Cestovni-mapa-ceske-duchodove-reformy-prezentace-1.-prosince-2015.pdf>

- A lot of people save very little in the 3rd pillar.
- Pensions are not taxed save for the highest ones.

Characteristics of the reform attempts

With the exception of the establishment of the 3rd pillar in the middle 1990's, the society-wide consensus has not been achieved on more essential and permanent reforms of the Czech pension system. With this exception (and with the exception of the 2nd pillar – after all, terminated soon thereafter), all the changes had a character of changes within the system (parameter changes), rather than on the system (structural changes).

The most important barriers of continuing in the preparation and implementation of reforms of the pension system

- Low ability of the Czech politics to define, analyse and handle issues of a strategic character (deficits of strategic management) on the basis of the society-wide consensus.
- Path dependence, for instance the preservation of the retirement age of women depending on the number of children, it tends to be in a sharp conflict with the current and anticipated future changes of the social environment.
- Neglected applied social scientific research in the given area – and the resulting poor evidence on the condition and development trends of the pension system and its relevant surroundings.
- Complexity of coordination:
 - routine operation of the pension system,
 - introducing reforms “*within the system*”
 - transfer from the existing to the new configuration by the reforms “*of the system*”.

Table 6: Reforms within and of the system

	Reforms “ <i>within the system</i> ” (parametric changes)	Reforms “ <i>of the system</i> ” (a more substantial structural innovation)
Advantages	<ul style="list-style-type: none"> - Greater flexibility - A possibility of minor corrections/adjustments “in the run time” - Lower claims for achieving a consensus 	<ul style="list-style-type: none"> - A prospective solution escalating problems within a period of decades
Disadvantages	<ul style="list-style-type: none"> - Higher risk of being influenced by the current distribution of political powers - Falling behind the needs arising from the anticipation of the future development 	High demands for a successful implementation: <ul style="list-style-type: none"> - robust and permanent political support - necessity of a broad-spectrum dialogue, ability to find compromises (cf. Finland, Sweden) - adequate preparedness of the state administration, including effective interdepartmental and inter-institutional cooperation

It seems that **broad political consensus exists that the reforms of the pension system are necessary**. The pension system does not correspond to the demands of the present nor to the demands of the foreseeable future. **However, in spite of many years of efforts, the basic consensus on which reforms has not been achieved**. Therefore, in the opinion of the ECPR

Chairman, the lowest common denominator of the answers of politicians across the political spectrum to the following key questions needs to be sought for further progress of the pension reform:

- Are we prepared to adjust the parameters of the pension system? If so, which, why and how?
- In addition to parametric adjustments of the pension system, do we want to prepare also its more fundamental structural reforms?
- Are we prepared to change the position of insurance and non-insurance benefits in the social system? If so, which, why and how?
- Do we want to reform the tax and pension systems simultaneously so that we would ensure sufficient income for the pension system and also support the economic growth?
- Are we prepared to increase the share of expenditures on the pension system on the GDP?
- Shall we support the introduction of the publicly administered “premium pension” with the capitalisation of contributions on the market?

The ECPR is prepared to provide available expert opinions to the political representation in seeking answers to these and other questions.

ECPR's OPERATION IN THE PUBLIC SPACE

The ECPR's activities' principle is transparency and openness. The Committee communicates with citizens, cooperates closely with media and continues in the tradition of presenting its activity and its proposals on the grounds of the parliament of the Czech Republic.

ECPR's WEBSITE

The discussed reference documents, minutes from meetings and other documents are published operatively on the website www.duchodovakomise.cz. The website is divided into several sections. The most recent information on the ECPR's activities are published in the section titled “**News**”. The part “**Committee Activities**” contains the ECPR's and all working teams' working materials, schedule of meetings, minutes, reports on the activity and information on specialist events. The “**About the Committee**” folder contains the list and introduction of members of the ECPR, the ECPR's mission, and the Mandate, Statutes, Rules of Procedure and information on cooperating institutions may be downloaded here. The “**Media**” section offers links to the ECPR's appearance in media and own press releases. The last section, “**For the Public**”, publishes life stories of citizens and their ideas for changes of the pension and answers to the frequently asked questions. The website is used by both the ECPR members, newspapermen and citizens. It serves as the platform for correction of occasional (however, not marginal) media disinformation.

COMMUNICATION OF THE ECPR WITH PEOPLE

In 2015, people started to show interest in the activity of the Expert Committee particularly in connection with specific proposals. In particular, they concerned a proposal of social reasons of the social insurance of married couples or partners, which was the most frequent subject of questions from the public during January and February and which demanded explanation and specification of the proposed optional principle of the family solidarity. Likewise, in connection with the cancellation of the 2nd pillar, the members of the Expert Committee were prepared to answer questions, or requests for advice how a participant of the 2nd pillar should behave and what alternatives of the utilisation of the released financial amount he/she has.

From the appeals that were apparent most among the contributions we need to mention the following:

- adjustment: setting more comprehensive criteria for the determination of its amount, adjustment in the absolute amount, increase individually from the start of receiving the pension, adjustment on the basis of a regularly analysed consumer basket of Czech pensioners and hence stimulate their purchasing power;
- retirement: the demands of the individual professions to be taken into consideration; decrease or not to increase the minimum period of insurance necessary for the entitlement to the old-age pension
- maintain widow's pensions;
- mitigate (and make clearer) the strict parameters of acknowledging claims for a disability pension.

The contributions from the public that achieved the level of structured and authentic impulses for the reform of pension insurance if the authors gave a consent thereto were published on the ECPR's website.

Probably as a result of greater publicizing of the committee's work, people with different problems regarding besides others the calculation of the old-age pension, requests for consultancy regarding the optional date of retirement etc. started to contact the secretariat during the year. It is also worth mentioning that many seniors addressed the Expert Committee with proposals of how to help seniors in their difficult situation by relieves other than simple social benefits – for instance, by advantaged mortgages, cancellation of the execution for a pension insurance scheme, or evening up of the contribution for housing to a below-average pension without the need of an active application at the Czech Social Security Administration.

In September 2015, the Green Book on State Pensions and their increase was launched. Tens of specialists and people from the general public contributed to it with structured impulses.⁹

ECPR IN MEDIA

From the beginning of 2015, many media appearances in the public television station, radio station and main news dailies as well as specialist internet portals were carried out, which attracted attention of experts as well as the general public. There was a strong interest of the media in the pension issues generally, particularly in connection with the proposals submitted by the ECPR. As the media attention devoted to the Committee was often limited only to the cancellation of the 2nd pillar in 2014, in 2015 there was a great interest in the pension system, but also in the situation of seniors in general, in a much broader scope. Hence, the media published interviews with the individual Committee members and analysis of the specific proposals.

In long term, the most popular topics included: the retirement age, life standard of specific groups of seniors (women, seniors living on their own) or the amount of social security payments for entrepreneurs. In the last quarter, particularly the gradually generated proposals of changes in the 3rd pillar of the pension insurance elicited attention. The topic of pension adjustments was dominating the whole second half of 2015.

It may be observed generally that the interest of the media in the work of the Expert Committee was high constantly. Also the fact that the presented proposals had a potentially strong impact also on the private sector, the financial sector in particular, clearly played its role in it. Therefore,

⁹See <http://www.duchodova-komise.cz/wp-content/uploads/2015/10/Souhrn%C3%A9-vyhodnocen%C3%AD-odpov%C4%9Bd%C3%AD-na-Zelenou-knihu-o-st%C3%A1tn%C3%ADch-d%C5%AFchodech-a-jejich-zvy%C5%A1ov%C3%A1n%C3%AD-8.-%C5%99%C3%ADjna-2015.pdf>

the activity of the Committee was monitored also by news-reporting websites and magazines, which otherwise specialise rather in personal investments and micro-economy – for instance, Finanční noviny or portals such as “business info.cz”, “peníze.cz”, “měšec.cz”, “investujeme.cz”, etc.

The ECPR members were opened to communication with media and the general public and in their appearances they did not promote only the work of the Committee itself but also the issue of pension security and pension reform as such. In this context, the media showed more often the topics of life standard of seniors, the future of the pension system, inter-generational solidarity or the issue of securing younger citizens for the old age. In this relation, the programmes of the Czech Television were the most frequent platform (Hyde Park, Focus, Máte slovo etc.)

The ECPR Chairman was a regular guest of the Czech Television, and followed the programmes watched by the general public (Hyde Park, Otázky Václava Moravce) by the visits of “Události komentáře” (e.g. on 17/06/2015), “Interview ČT” (21/05/2015) or “Studio ČT 24” (e.g. on 09/12/2015). In addition, like other Committee members (e.g. the interview with the ECPR Vice Chairman, Otakar Hampl, on 18/04/2015 for “peníze.cz” or an extensive interview of Zdeněk Pernes, a permanent ECPR member, in „Parlamentní listy“ on 25/03/2015), he is a frequent guest of Český radiožurnál and gives consultations to the representatives of internet news portals – particularly, on the server “peníze.cz” (see articles on 03/09 and 05/10/2015).

In addition to the main news-reporting channels, servers and printed periodicals (the Hospodářské noviny, MF DNES, Právo dailies and others), narrowly specialised websites of financial companies and economic weeklies (see the interview of Martin Potůček for the Ekonom weekly dated 05/02/2015) inform about the activity of the Committee. The news-reporting portal “parlamentní listy.cz” and the server “aktuálně.cz” deal with clearly the political issues (most recently, the comprehensive interview with the ECPR’s Chairman dated 11/12/2015).

In order to achieve the highest awareness of journalists possible, press conferences and briefings were held (e.g. the January event in the cooperation with the directorate of the Czech Social Security Administration or the June event with the MoLSA’s top representatives).

Enclosure: Overview of ECPR's and its Working Teams' Meetings in 2015

Dealings:	WT 1	WT 2	WT 3
11, 29 January	5 February	29 January	29 January
12, 31 May	23 February	12 February	19 February
13, 8 October	30 March	5 March	5 March
14, 10 December	30 April	19 March	19 March
	27 May	9 April	16 April
	29 June	30 April	30 April
	28 July	14 May	4 June
	27 August	21 May	16 July
	6 October	4 June	6 August
	3 November	22 June	27 August
	10 December	16 July	16 September
		3 September	7 October
		16 September	
		8 October	
		15 October	
		23 October	
		5 November	
		12 November	
		20 November	
		3 December	
		10 December	
Total: 4	Total: 11	Total: 21	Total: 12