

FINAL REPORT ON ACTIVITIES IN 2016

Submitted by: Martin Potůček, a Chairman¹

Expert Committee on Pension Reform (hereinafter referred to as „ECPR“) established on the basis of the Programme Statement of the Government of the Czech Republic **submits the interim report on its activities in 2016** in compliance with article 9 of its Status.

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¹ Elaborated on the basis of documents and comments of working team leaders, members of ECPR secretariats, minutes of proceedings and documents approved.

Work of ECPR in 2016

While working teams continued with their activities with the intensity resulting from the demanding character of preparation and the nature of tasks being solved, the Expert Committee on Pension Reform met twice. There were carried out political consultations about the continuance of the pension reform in the Czech Republic. The second working conference of ECPR took place as well as the negotiations within permanent workshops which go beyond the limitations given by the Mandate of the Committee or the specialization of its working teams; however, they are relevant for the process of thinking over the reform of the pension system as such.

The principle of ECPR activities is transparency and openness. Documents, minutes of proceedings and other documents being discussed are operatively published on our website².

Expenses of the Expert Committee on Pension Reform in 2016

Item	CZK used
Petty expenses	9 661
Expert studies	538 450
Consultation services - preparation of the project application of European Social Fund, Operational Programme Employment project - the initiative in the development of the project on the part of ECPR	108 900
2 nd working conference of ECPR	56 192
Operating costs in total	713 203
Remunerations based on contracts for work performed outside employment	676 610
Related data	230 048
Total expenses	1 619 861

Proposals discussed by ECPR

At the 15th meeting of ECPR held on 2 June, two proposals were submitted with regard to the way of pension adjustment.

Proposal 1: Determination of the index of prices growth from which the minimum adjustment of the percentage assessment of pensions results according to the higher of both indexes: consumer prices index (living costs) of households and consumer prices index (living costs) of pensioner households.

Proposal 2: Determination of the minimum adjustment of average old-age pension representing the sum of the amount by which the basic assessment of pension will increase, and the amount by which the percentage assessment of pension will increase, at the sum of determined prices growth and one half of the growth of real wage.

At the time of voting on these proposals, ECPR had a quorum. Neither of these proposals was accepted at this meeting. More detailed information is available in minutes of proceeding.³

² <http://www.duchodova-komise.cz/>

ECPR returned to this issue at its 16th meeting on 1 December. The modified proposal of the change in pension adjustment was submitted.

Wording of the proposal

The Expert Committee on Pension Reform suggests determining of **the minimum adjustment of the percentage assessment of pensions** according to **consumer prices index (living costs) of households**. However, if this index is of a lower value compared to the growth of consumer prices index (living costs) of pensioner households, then to determine the minimum adjustment of the percentage assessment of pensions, the Committee suggests using the index of consumer prices growth of pensioner households.

The Committee also suggests determining of the **minimum adjustment of average old-age pension** representing the sum of the amount by which the basic assessment of pension will increase and the amount by which the percentage assessment of pension will increase, **at the amount** of the sum of the determined growth of consumer prices and **one half of the growth of real wage**.

Proposal justification

The submitted proposal reacts to the historical development of average pensions in relation to incomes of economically active persons expressed by average nominal wage at the substantially faster growth of living costs of pensioners compared with the general growth of living costs after 1989 which definitely documents **growing disadvantage of pensioners over a long period of time**. Besides other things, the monitored development also results from the **insufficient participation of pensioners in the growth of society welfare** (between 2000 and 2015, GDP increased by 92% and pensions by 81% only).

The proposal of a new method of pension adjustment is conducted by the effort to make pensions:

1. Dignified, i.e. they should **protect** their recipients **from poverty**;
2. **Fair** within the meaning of the **extent of their merit**;
3. To mediate the **participation of pensioners in the growth of society welfare**;
4. Not to disrupt the **long-term financial sustainability** of the pension system **within the system of public finances**.

Model simulations of developmental trends indicate that current setting of the adjustment of already assessed pensions would lead **under certain real conditions** to the **dynamic growth in the part of pensioners threatened by poverty** (with the income below 60% of median income) at the significant **drop in replacement ratio** (ratio of average pension to average nominal wage) and to the **drop in the proportion of pension expenses in relation to GDP**. Based on this realistic perspective we can conclude that there exists the **possibility and also the necessity to adjust pensions** to a higher extent than it corresponds to the parameters of current setting of adjustment mechanism.

Although theoretically the intensity of changes in both indexes of consumer price growth would not fundamentally differ from each other from the perspective of long-term average, the development from 1996 shows (with the exception of 2014 and 2015) that expenses of pensioner households have grew significantly faster compared to households in general. In the future, the selection of the higher index will help to eliminate the possibility of the incidence of the impact of higher growth on

³ http://www.duchodova-komise.cz/wp-content/uploads/2016/06/Z%C3%A1pis_OK_160602.pdf

pensioner households expenses compared with households in general, and thus to ensure **at least the maintenance of real buying power of recipients**. With respect to differences of both consumption baskets the proposed possibility of the use of living costs index of pensioner household expenses represents a safety measure against the faster growth of food prices. At the same time, the selection of the higher index would allow to compensate the stated disadvantage of Czech pensioners in past twenty years at least partially.

Current setting of the minimum adjustment of average old-age pension at the level corresponding with the growth of consumer prices and one third of the growth of real wages guarantees to the pensioners only a very limited share in the growth in society welfare. Its further use would also probably lead to the significant drop in replacement ratio and the growth in the part of pensioners threatened by poverty at the current drop in the share of pension expenses in relation to GDP. This would also seriously threaten another important function of pensions, apart from their corresponding and fairer participation in the growth in society welfare - the protection of pensioners from poverty.

Of present permanent members of ECPR or the representatives authorized by them, 15 members voted for the acceptance of this proposal, one voted against the proposal and one abstained from voting. **The proposal was accepted.**

Negotiations of working teams

Working team 1 (WT1)

Main topics discussed in the first working team in 2016 included mainly the issue of conceptual changes in the 3rd pillar of the pension system. It mainly included following:

- **Occupational risks leading to the necessity of early retirement within the 3rd pillar with the temporary payment of old-age pension from the continuous pillar without insurance-mathematical sanction**
- **Larger participation of employers in financing of the 3rd pillar** - there will be search for the ways and incentive instruments to increase the voluntary participation of employers in the payment of contributions in favour of their employees for additional pension saving and there will be also considered the way of the autonomous legal regime of stated contributions.
- **Guarantee in the 3rd pillar** – there will be analyzed in details the issue of the guarantees of invested resources of the participants in the 3rd pillar of the Czech pension system to stipulate minimum standards of guarantees which would be adjusted by legal form in the interest of strengthening the motivation to enter additional pension savings of persons who are willing to bear only the low ratio of investment risk when administering their pension savings.
- **The establishment of the annuity company for life indexed pensions from the 3rd pillar or the use of ČSSZ for paying life indexed activities** – there will be considered an optimal form of operating administration of life indexed annuities for the products from the 3rd pillar of the Czech pension system so that it is possible to gradually finish the possibility to pay a lump-sum settlement at the end of the saving phase.
- **The creation of the system of individual retirement saving accounts:** to consider the possibility or suggest a particular programme of individual retirement saving accounts supported by the state

which are focused on the realization of the saving phase being operated by investment companies with the regulation frame subjected to the supervision of the Czech National Bank and with the tax support similar to the additional retirement saving. The pay phase would be realized in compliance with the principles of the solution to the payment of life indexed annuities (AKAT initiative – Capital Market Association),

- **The analysis of possibilities of the occurrence and operation of employee retirement insurance by the Czech entities in the CR** with respect to the fact that foreign institutions of employee pensions from other EU member states can act on the Czech territory and use here tax concessions under comparable conditions as retirement companies - there will be considered the possibility to operate such systems within the 3rd pillar.

(Prepared by: Head of WT1, Vít Samek)

Working team 2 (WT2)

From the beginning of the year, WT2 has intensively dealt with the preparation of proposals on the change in the method of pension adjustment. At first, due to this the conceptual frame was discussed which specifies criteria according to which the proposals were prepared and then, there were formulated the proposals using model simulations prepared by the workers of MPSV (Ministry of Work and Social Affairs). The proposals were submitted to ECPR for their discussion on 2 June and in the completed form on 1 December. See more above in chapter "Proposals discussed by ECPR".

(Prepared by: Head of WT2, Tomáš Kučera)

Working team 3 (WT3)

Progress of works was carried out with the focus on the priorities in compliance with the Mandate of the Committee and the Statement of Policy of the Government of the Czech Republic - strengthening of the principle of the extent of merit, the settlement of transfer between family and society. In this spirit, WT3 dealt with the fundamental issue of the increase in the extent of merit of families by fairer considering work and expenses related to education of the future generation of payers within the pension system and larger fairness through the settlement of transfers between families and the society. Besides other things, WT3 paid attention to the reduction of distortions of the pension system and limitations related to side anti-natalist effects of selected aspects of the pension system and some related elements of family policy.

The work was carried out mainly in smaller informal working groups with thematic orientation namely in following areas:

- Continuous works on the methodology of mapping transfers between families and society and the classification of total economic costs (i.e. the costs of lost opportunities of households) in connection with raising children in families.
- A proposal of sets of indicators for analytical and simulation models of the impacts of proposed changes on the pension system - on the basis of the comparison of a couple with identical income with children and without children.

The main topic of WT3 negotiations was the discussion about **the proposal of measures of possible adjustments of replacement and excluded periods for those parents who, due to care taken simultaneously for more children due to the extent of ensuring of quality care and raising these children, will stay at home for a period longer than up to 4 years of the age of the youngest child or work short-**

time due to this. The short orientation thematic discussion about this topic was also carried out in the Expert Committee on Pension Reform on 2 June 2016.

The objective of the proposal is the parents (it relates to mothers more often) no to be "punished" for the effort to provide children with quality individual care. The proposals are focused on two target groups which, due to providing individual care for children, have lower pension or insurance period is absent.

The extension of replacement period of insurance is then proposed for the target group of person taking simultaneously care for more children born faster after each other or children from multiple births who, due to providing quality care, stay at home for more than 4 years of the age of the youngest child and who subsequently miss insurance period. Now, they must make up this period and so paradoxically mainly mothers, who were retired at the early age recently, will be retired under these conditions later than men.

For the target group of persons taking care simultaneously for more children born faster after each other or children from multiple births, who are disadvantaged at the given differential period by the lower basis of pension calculation due to the reduced working hours, it is proposed to extend the possibility to exclude this period from the calculation of the amount of the assessment basis longer than by the age of 4 years of the youngest of children being simultaneously raised, if it is more advantageous for him/her.

There was not still achieved the definite agreement on this measure and no agreement was also made on the selection of a particular option of discussed adjustments of replacement and excluded periods within the proposed measure. The discussions also polarize with regard to the recognition of the extent of merit of raising children in relation to functioning of the pension system. The term of solidarity is recognized by both groups, however, both groups differ in its interpretation - it means, if it is about the solidarity of childless individuals with caring parents or if it is more about the solidarity of parents with childless persons through adult children being raised who also contribute to pensions of childless persons through insurance and tax payments. This issue is dealt with in more details by the methodology of mapping the transfers between families and society and simultaneously the long-term extensive professional and political discussion is related to this within the international scale. From the point of view of system theory and social security, it is about the system of solidarity between generations. It is also indisputable that within the system of solidarity between generations, economically active generation must support the generation which is not economically active any more - so pensioners, and also the generation which is not still active - so children who are preparing for economic activity. From the perspective of solidarity between generations, it is impossible to leave out children - future payers of our pensions without violating the basic systemic feedback. The Czech Republic and former Czechoslovakia has in this respect positive historical experience. Until the end of 1993, the pension system had worked successfully when the family with children paid considerably lower insurance within the unified tax on wage.

(Prepared by: Head of WT3, Otakar Hampel)

Summary of negotiations of working teams:

WT1	WT2	WT3
7 January	14 January	23 May

25 February	28 January	16 June
24 March	11 February	
28 April	25 February	
19 May	10 March	
30 June	24 March	
25 August	14 April	
21 September	28 April	
20 October	12 May	
10 November	24 May	
	22 September	
	12 October	
	27 October	
	24 November	

See more detailed information about negotiations of all WTs in minutes of proceedings⁴.

Political consultations about the continuation of the pension reform in the Czech Republic

On the basis of document **Travel Map of Czech Pension Reform**⁵ the chairman of ECPR addressed the chairmen of all political parties and movements represented in the Chamber of Deputies of PCR in the letter of March 2016 with seven questions related to their opinions on the continuation of the Czech pension reform:

Questions:

1. Should the first continuous pension pillar take into consideration unpaid care of children as the basic contribution for its long-term sustainability?
2. Are we ready for the adjustment of parameters of the pension system? If yeas, which, why and how?
3. Do we want, besides parametric adjustments of the pension system to prepare its more fundamental structural reforms as well?
4. Are we ready for the change in the position of insurance and non-insurance payments in the social system? If yeas, which, why and how?

⁴ http://www.duchodova-komise.cz/?page_id=57

⁵ <http://www.duchodova-komise.cz/wp-content/uploads/2015/12/Cestovn%C3%AD-mapa-%C4%8Desk%C3%A9-d%C5%AFchodov%C3%A9-reformy-1.-prosince-2015.pdf>

5. Do we want to make simultaneously the reforms in the tax and pension system so that we provide the pension system with sufficient income and support the economic development at the same time?
6. Are we ready for the increase in the share of pension expenses in GDP?
7. Will we support the introduction of publically administered "premium pension" with the capitalization of contributions on the market?

Summary of the answers of political entities as of 30 November 2016:

Question	1.	2.	3.	4.	5.	6.	7.
ANO	To be discussed.	YES	YES	YES	YES	Unclear question.	To be discussed in the context.
ČSSD	YES	YES	NO In the foreseeable future.	YES	YES	YES	To pay attention to the entire 3 rd pillar.
KDU-ČSL	YES	YES	YES	YES	YES	YES	YES Within the context of question 1.
KSČM	YES	YES	NO	NO	YES, But thoroughly, carefully.	YES	We do not understand the question.
ODS	We do not consider it fundamental.	YES	YES	YES	YES Without increasing taxes and payments	Transfer from the state budget is to be clearly defined.	Lack of more information.
TOP 09	The answer is related to the answer to question no. 5.	YES	Previous government asserted the system reform; the current one did not submit anything.	To be discussed.	-	It is necessary to always find resources.	-
Úsvit	„We will participate in the works of the Expert Committed on Pension Reform. We are ready for the support of all proposals which, according to us, will be in favour of our citizens.“						

Detailed **Summary of positions of political parties and movements towards the Travel Map of Czech Pension Reform as of 30/11/2016** is available on website of ECPR.⁶

⁶ <http://www.duchodova-komise.cz/wp-content/uploads/2016/12/P%C5%99ehled-pozic-politick%C3%BDch-stran-a-hnut%C3%AD-k-Cestovn%C3%AD-map%C4%9B-%C4%8Desk%C3%A9-d%C5%AFchodov%C3%A9-reformy-30.-listopadu-2016.pdf>

On 01/12/2016, the negotiation of the representatives of political parties in ECPR about this document took place in the Committee on Social Policy of the Chamber of Deputies of the Parliament of the CR under the auspices of its chairman Jaroslav Zavadil. The negotiation was carried out with the participation of the deputy of the Ministry of Work and Social Affairs for social insurance systems management, Mrs. Ing. Iva Merhautová, MBA and also with the participation of the chairman and heads of working teams of ECPR. The subsequent step will be the elaboration of a document which will summarize the achieved form of intersections and differences in the positions expressed by individual political bodies. This document will be published on website of the Expert Committee on Pension Reform and offered to the further discussion.

Working conferences and permanent workshops

Second working conference

The second working conference of the Expert Committee on Pension Reform called "*Pension Reform - What next?*" took place on 30 November 2016. Its objective was to recapitulate the results of the Committee works in the context of the fulfilment of its Mandate; to search for the possibilities of professional and political consensus about the further continuation of the pension reform and to discuss the long-term heading of the Czech pension system. The programme and individual appearances are available on the website of ECPR; the collection of the conference will be published.⁷

Permanent workshops

In 2016, five permanent workshops of ECPR⁸ took place:

- On 18 February 2016 (MoLSA) – Ivan Valíček – Information from functioning of the Swiss Pension System (in cooperation with the Commercial Chamber of Switzerland - the Czech Republic)
- On 14 April 2016 (MoLSA) – Zdeněk Pernes – Quality of life of a Czech pensioner measured by consumption
- On 9 June 2016 (MoLSA) – Pavol Frič at al. – Attitudes and Behaviour of citizens of the Czech Republic connected with old-age security
- On 29 September 2016 (MoLSA) – Stanislav Komárek – Population impact and late phase of a consumer society - is it good or wrong that we are sneaking voluntarily away?
- On 20 October 2016 (MoLSA) – Jaroslav Vostatek – Possible ways of the development of Czech personal pensions.

⁷ http://www.duchodova-komise.cz/?page_id=1033

⁸ http://www.duchodova-komise.cz/?page_id=1033

The effect of ECPR within public space

Website of ECPR

All discussed materials and minutes of ECPR proceedings are regularly published on its **web page** www.duchodova-komise.cz. The page is divided into several sections. The newest information about ECPR activity is published in part "**Latest News**". Part "**Committee Work**" contains working materials of ECPR and all working teams, the schedule of proceedings, minutes, reports on activities and information about professional actions. File "**About the Committee**" contains the list and introduction of members of ECPR, ECPR mission and also the Mandate which can be downloaded, as well as Status, Rules of Procedure and information about cooperating institutions. The last section "**For the Public**" includes life stories of citizens and their topics for changing the pension system and the answers to frequent questions. Website is used by ECPR members as well as by journalists and citizens.

ECPR in media

Mainly journalists of public media (Czech Radio, Czech Television), nationwide newspapers and press servers are permanently interested in ECPR activities. It was mainly about interviews with the chairman of the Expert Committee and leading workers of working teams. After ECPR negotiations, briefings and press conferences are organized at MPSV.

Appendix 1: Summary of Proposals of the Expert Committee on Pension Reform since 2013

Proposals approved by the Government and reflected in accepted acts:

Second pillar:

- ▶ The proposal on the method of finishing the system of pension saving

Third pillar:

- ▶ Extension of the exemption from income tax to pension payments for a period of at least 10 years
- ▶ Reduction of the minimum age for the participation from 18 to 0 years
- ▶ Increase in the limit for collective investment in standard funds from 35 to 40% (finally increased to 60%) and in special funds from 5 to 10% (finally increased to 20%) from the value of assets in the participation fund.
- ▶ Change in the obligation of the Czech National Bank to remove the permit due to non-fulfilment of existing legal requests for considering the supervision body when assessing individual situations of the participant fund.

Proposals approved by the Government in the legislation process at the end of 2016:

First pillar:

- ▶ Proposal of the revision system of setting of the pension age limit

Proposals negotiated at the Government level at the end of the year:

First pillar:

- ▶ Differentiation of rates of insurance payments for families with children

Proposals approved by the Expert Committee, the negotiation interrupted at the level of MPSV ČR:

First pillar

- ▶ Sharing of the assessment bases of husband and wife for the exercise of pension entitlements

Proposals approved by the Expert Committee and handed over to the negotiation at the level of MPSV ČR:

First pillar

- ▶ Stipulation of the minimum adjustment of percentage assessments of pensions according to consumer price index (living costs) of households. In case that this index is of the lower value than consumer price growth index (living costs) of pensioner households then to stipulate the minimum adjustment of the percentage assessment of pensions the Committee suggests using of consumer price growth index of pensioner households. The determination of the minimum adjustment of average old-age pension represents the amount by which the basic assessment of pension will increase and the amount by which the percentage assessment of pension will increase, at the amount of the sum of given growth of consumer prices and one half of the growth of real wage.

Permanent discussions about political borderlines of the continuation of the pension reform among the representatives of political parties and movements represented in the Chamber of Deputies.

Appendix 2: Summary of Members and Co-Workers of ECPR and its Secretariat in January 2017

Political representation - permanent membership		
		alternative
Jan Bartošek	KDU-ČSL	Pavla Golasowská
Adolf Beznoska	ODS	Lenka Kohoutová
Jana Hnyková	ÚSVIT	Olga Havlová
Miroslav Kalousek	TOP 09	Jitka Chalánková
Radka Maxová	ANO	Jaroslava Jermanová
Miroslav Opálka	KSČM	
Roman Sklenák	ČSSD	
Experts - permanent membership		
		alternative
Martin Potůček	FSV UK	
Otakar Hampl	Ministry of Agriculture	
Tomáš Fiala	VŠE, Department of Demography	
Vladimír Špidla	Cabinet Office	Marek Ondroušek
Jaroslav Vostatek	VŠFS	
Jaroslav Šulc	ČMKOS	
Lucie Kozlová	Health and Social Department of South Bohemia University	
Jiří Dolejš	KSČM	
Daniel Münich	CERGE-EI	Jiří Šatava
Tomáš Kučera	Faculty of Natural Sciences of UK, Department of Demography and Geodemographics	

Social partners - permanent membership		
		alternative
Jan Rafaj	Confederation of Industry of the Czech Republic	Jitka Hejduková
Vít Samek	ČMKOS	Hana Popelková
Jitka Vítková	KZPS	Jiří Horecký
Vladislav Vokoun	ASO	Miroslav Jára
Interest groups, professional organizations - associated membership		
		alternative
Aleš Poklop	APS	Tomáš Vystrčil
Pavla Břečková	AMSP ČR	
Jan Hutař	National Council of Persons with Disablement	
Filip Král	ČAP	
Marie Oujezdská	National Centre for Family	Petra Michalová
Zdeněk Pernes	Council of Seniors of the CR	
Jana Brodani	AKAT ČR	
Representatives of public administration and public institutions		
		alternative
Tomáš Machanec	MPSV	
Zdeněk Fidler	MPSV	Lubomír Jokel
Iva Merhautová	MPSV	
Jiří Beran	MF	
Irena Kubátová	MF	
Lenka Jurošková	MF	
Marcel Pitterling	MF	

Marie Bílková	MF	
Radmila Malá	MF	
Jiří Biskup	ČSSZ	
Jana Laumannová	ČSSZ	
Eliška Volfová	ČSSZ	
Kryštof Zrcek	ČSSZ	
Radim Bláha	GFŘ	
Petr Vrána	GFŘ	
Anna Šabatová	ombudsman	Jitka Černá
Martin Zelený	ČSÚ	
Terezie Štyglerová	ČSÚ	Josef Škrabal
Pavel Hollmann	ČNB	Petr Jíška
Hana Končelová	MPSV	Jana Ryšánková
Zdeněk Čech	EC	
Invited specialists		
Jaromír Baxa	Green Party	
Petr Hedbávný	FSV UK	
Jan Kaisrlík		
Vojtěch Krebs	VŠE	
Zdeněk Linhart	Minister's Adviser	
Štěpán Mairovský	Green Party	
Patrik Nacher	Bankovní poplatky.com	
Karel Pelán		
Jiří Pešta	Association of Military Veterans	
Veronika Rudolfová	FSV UK	
Pavel Rusý		

Jan Šabata		
Jiří Schlanger		
Radim Valenčík	VŠFS	
Miroslav Zámečník	Boston Venture	
ECPR Secretariat		
Markéta Havelková		
Helena Morozová		
Veronika Zápotocká		