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Pension system of the Czech Republic and its effect on the economy

(Bachelor Thesis)

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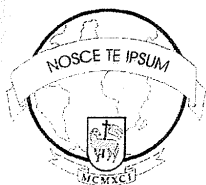
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Kunovice, April 2005

I declare that I am the sole author of this work. Prepared under the leadership of
Mgr. Eva Kolářová PhD. and in the list of literature I have shown all used literature and
special sources.

Kunovice, April 2005

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Zadání bakalářské práce

Vážený studente, vážená studentko,

jako téma Vaší bakalářské práce ve studiu oboru Finance a daně Vám zadávám

Důchodový systém v ČR a jeho vliv na hospodářství

- Osnova: 1. Legislativa důchodového systému v ČR
2. Komparace a výhled vstupu ČR do EU
3. Vliv důchodového systému na hospodářství ČR
4. Návrhy na zlepšení stavu
5. Možnosti praktického využití

Bakalářská práce bude zpracována pro: studenty EPI, s.r.o. jako studijní materiál

Tento dokument je součástí Vaší bakalářské práce

S pozdravem

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INTRODUCTION

The subject of my Bachelor Thesis is the Pension system of the Czech Republic and its effect on the economy. The submitter of this work is EPI, s.r.o. This work will be elaborated as the lecture notes for students of this school. In the library of our school, there are many lecture notes concerned with finance, fiscal, labour and civil law, but the lecture notes concerned with some areas of social law are missing.

I have chosen this subject, because I am very interested in it. Based on the study of appropriate laws and special literature I would like to describe the pension system in such a way, that after this work is read, everybody will understand its functioning as well as its failures.

Today, the pension system faces different problems and should be subjected to certain changes as soon as possible. The main problem is the unfavourable demographic development of the population. Every year more and more new pensioners arise and less and less children are born. This problem is especially caused by the change in the life style of people. Today, people decide to start a family later, than their parents and grandparents did. Also the number of children born in today's families average around one or two. As a result, the number of people who work and pay in to the pension system decreases, and the number of people eligible for pension increases. In my Thesis, I will analyse the proposals submitted by certain political parties in our country on how to redress this problem. And I will then evaluate them.

On May 1, 2004, the Czech Republic became a member of the European Union. Our country had to prepare thoroughly for this entry and also had to change some of the laws. I want to orient my work on the question, if the pension system will need to be adjusted to the conditions of the European Union. Further, I would like to concentrate the Thesis to the issue, how the pension systems are used in some member countries.

I would also like to address the work on the calculation of the pension in the Czech Republic. The age of retirement concerns practically each of us, and with increasing age people are interested more and more about their own pensions. I believe that my work will contribute not only to students of our school, but also for the community, that is interested in this subject.

1. Legislative of retirement system in the Czech Republic

In the Czech Republic, pension insurance has a long-term tradition. The legal regulations extending the pension system to almost all persons occupationally active, were accepted in the 20's of the twentieth century, during the first Czech Republic. Individually gainfully active persons joined the pension insurance in 1948. This principle of the participation of all economically active persons on the pension insurance is also the basis of the current pension insurance introduced by the Law No. 155/1995 of the Digest, about pension insurance.

The uniform arrangement is the next principle of the pension insurance. It means, that the same rules for the claim for the pension and its calculation are valid for all groups of insures, who are the employees in occupational relationships, persons in service relationships, individually gainfully active persons, members of co-operations and other groups of insures.

The basic attribute of the Czech pension insurance is the mandatory participation in it, if a person complies with legally set conditions. A citizen cannot unbind himself from this insurance, even if he is able to assure himself sufficiently for his old age. On the contrary, a citizen may voluntarily apply for his participation in the pension insurance.

The pensions following from the pension insurance are guaranteed by the Government, because the expenses on the pension insurance are the part of the national budget. Further, in the pension system the principle of solidarity is exercised, namely of insurees with higher incomes with insurees with lower ones. In the practice, this is reflected in the manner of the amount of pension determination. Namely, from a certain level the basis for the pension determination is reduced. In the Czech pension system, there is also enforced the solidarity of the economically active persons with the persons, who get the pensions. Namely, the paid insurance payments is immediately used for the payment of pensions to current pensioners. Therefore, the Czech pension system uses the principle of continuous financing.

The relatively wide range of alternate times of insurance is also characteristic for the Czech system of the pension insurance. The alternate time is the period, for which the

insuree does not pay the insurance, but which is taking into account for the purposes of the pension insurance.

1.1. Pension types

1.1.1. Old-age pension (regular or classical)

Every insuree has got a right to an old-age pension after a necessary insurance time and if they are old enough (prescribed by law), or all other conditions are satisfied.

- at least 25 years of retirement insurance time and optimal age for claiming the old-age pension
- or at least 15 years of insurance time and aged 65 years. [1]

Old-age pensions (premature retirement)
claimed before a classical retirement age

- at least 25 years of insurance time, a right for partial disability allowance – in this case it must be a claim term of a maximum of 2 years before claiming classical old-age pension day according to § 30 (a right of claiming is needed to satisfy these listed conditions until the end of the year 2006),
- at least 25 years of insurance time; termination of a full disability allowance right after minimum 5-years period and if only the last 5 years are missing before an old-age pension right in the date of termination of full disability allowance (for a right of claiming is needed to satisfy these conditions by the end of the year 2006),
- at least 25 years of insurance time, and there are only the last 3 years missing before an old-age pension right.

All types of old-age pension named above are counted in different ways, they differ by the alternative of „classical“ old-age pension statement and by the payment requirements of these pensions in addition to gainful employment income. [2]

1.1.2. Full and partial disability allowance

- full or partial disability by reason of long-term adverse health, that causes a ability decrease of constant gainful employment (self employment) – percentage valuation;
- full disability by reason of health handicap, when people are (constant gainful employment or are self employed) able to work only in fully extraordinary conditions
- partial disability by reason of long-term adverse health; that considerably disrupts the general living conditions.

In addition to adverse health the amount of time of pension insurance determined by pension insurance law is also required. This is not required in case of full or partial disability caused by an accident at work or by industrial disease.

Full disability allowance, called „from youth“

- aged 18 years, permanent residence in the Czech Republic, if full invalidity came before reaching 18 years of age and the person could not be accommodated in pension insurance by reason of long term adverse health.

Health profiling including the ability decrease of constant gainful employment for a full or partial disability right belongs to the OSSZ physician (OSSZ = District management of social security). [3]

1.1.3. Widow, widower pension

- belongs to a widow or widower in the case that a dead husband or wife had been taking an old-age pension or full / partial disability allowance,
- pension belongs to a widow or widower for one year period after a death of husband or wife, further to that only if some determined conditions are satisfied.
 - takes care of unprovided for child,
 - takes care of an infant, or a long-term seriously disabled child or of an older child that is in the main fully helpless,

- takes care of a helpless parent from either their or their partner's side (in one household)
- is fully disabled or has attained the age of 55 years for women or 58 years for men or retirement age. [4]

1.1.4. Orphan pension

- belongs to an unprovided child in case of the death of its parent, adoptive parent or a person who undertook the care of child like the replacement of parent's care, when the child was fully dependent on this person at the time of their death (especially for food) as its parents could not ensure the care of child owing to serious reasons.
- A necessary condition is that a dead person had been taking old-age pension or disability allowance or there was a right on pension at the time of death or if they died due to a work accident. Orphan pension is allowed to be taken after both parents. A right on pension determines with adoption. [5]

1.2. Retirement age

One of the requirements for the receipt of the old age pension is a retirement age. Retirement age is determined according to time intervals:

- a) for men 60 years,
- b) for women
 1. 53 years, if they raised at least five children,
 2. 54 years, if they raised three or four children,
 3. 55 years, if they raised two children,
 4. 56 years, if they raised one child, or
 5. 57 years,

if insuree attained this age before 31st December 2005.

For an insuree who attains the age limit between 1st January 1996 and 31st December 2012 a retirement age is determined individually according to the calendar month, during that an insuree has reached an age limit: for men two calendar months are added and for women four calendar months are added for every calendar year (even the year that has just began) starting with the year after the 31st of December 1995. The months are added until

an insuree attains the age limit named in paragraph 1. A retirement age is counted as an age attained in a day of the estimated calendar month – this day must correspond to an insuree's date of birth. If there is no such a day in the estimated calendar month, a retirement age is counted as an age accomplished in the last day of the estimated calendar month.

After 31st December 2012 a retirement age is as follows:

- a) for men 63 years
- b) for women
 - 1. 59 years, if they raised at least five children,
 - 2. 60 years, if they raised three or four children,
 - 3. 61 years, if they raised two children,
 - 4. 62 years, if they raised one child, or
 - 5. 63 years. [6]

Example no. 1:

I. A man was born on 22nd February 1941. On 22nd February 2001 he reaches 60 years. In his case we talk about six calendar years after the 31st of December 1995 (including the year that has begun). A retirement age of this man is calculated by adding 6 x two months, consequently it will be on the 22nd of February 2002.

II. A childless woman was born on the 31st of October 1954. On the 31st of October 2011 she will be 57 years old. A retirement age is calculated by adding 64 months (16 x four months). As the month of February does not have 31 days (the day corresponding to the woman's date of birth), her day of retirement will be on the 28th of February 2017.

Notice: Law No. 100/1988 of statutes as amended determined a lower age limit of old-age pension for those citizens, who had been working in I. working category or in I. (II.) category of grades for the estimated period. These requirements on a lower age limit of old-age pension remains unchanged until end the of the year 2018, which means that there are no extra months added. This determined lower age limit is counted as a retirement age in these cases.

Example no. 2:

A man had been employed in a heavy chemical industry for 20 years, His work was then in I. working category, where a retirement age is 55 years. The man attained this age on the 4th of January 2001. Despite the fact that his retirement age was attained after 31st December 1995, no extra months were added for him. He would have the right to the old age pension on the 4th of January 2001.

The same way of determining the retirement age is for citizens, who claim so called extraordinary mining pension – according to government decree No. 557/1990 of statutes namely to end of the year 2005.

1.2.1. Period of retirement insurance

A right to a pension is conditional on a required insurance period estimated by a retirement insurance law No. 155/1995 of the Digest, for specific pension type. Percentage calculation of pension rate depends on a total insurance period and the annual assessment bases obtained during the critical time interval. A right to insurance period is verified in a retirement insurance record, which is filed and administered by a competent local organization or by OSSZ = District management of social security (according to insuree's residence).

Other evidential means of the verifying of an insurance period or an alternative insurance period are for example:

- military service interval: military passbook, confirmation from district military administration
- civil service interval: confirmation from state administrative authority that issued a civil service order
- unemployed time: employment office confirmation
- study time after finishing compulsory education: school leaving certificates, academical diploma

Persons partake of retirement insurance only on the assumption that their occupation also included participation in health insurance. Health insurance comes into being on the day of commencement of employment (where is a health insurance included) and ends on

the day of ending such an employment. Conditions for health insurance participation are differently determined for self employed persons. Participation in health insurance is not included in the gainful occupation of :

- foreign nationals, whose permanent residence is not in the Czech Republic and when they work for an employer with diplomatic privilege and immunity and they could be participating in health insurance in another state, or when their work for an employer who is not included under foreign employment law regulations,
- employees working in the Czech Republic for employers whose registered office is not in the Czech Republic,
- employees who work in virtue of „work order agreement“,
- employees working only occasionally (this definition is specified in § 6 of law No. 54/1956 of statutes as amended)

If the legal condition of participation in health insurance by gainful occupation is satisfied, it does not mean that a retirement insurance participation is satisfied in the same amount. For the retirement insurance period the calendar months cannot be counted for participation in health insurance if one of the following requirements is not satisfied:

- an earnings achievement countable into an assessment basis for insurance determination,
- work that gives rise to retirement insurance at least in one day,
- sickness benefit taking as the compensation for loss of earning at least for one day

The next group participating in retirement insurance are persons who are not linked with gainful occupation or not even with social security insurance payment for some acceptable reason. For this reason an insurance period is called an alternative period. To rate this participation in insurance as an alternative insurance period it is necessary to satisfy one condition – the period had been taken in the Czech Republic and had lasted for at least one year. This is not applied for child care until they are four years of age, or for care of a seriously disabled child who requires extraordinary care until the age of 18 years. [7]

1.3. Pension application

1.3.1. Advance proceeding application

An advance proceeding application matters for an old-age pension application. It is important for a citizen to be correctly informed before an old-age pension submission, regarding what insurance periods from their lifelong insurance are administered by „ČSSZ“ (Czech management of social security) in Prague. A citizen has got the chance to procure all missing documents before making a pension application. The periods, which are not mentioned in the „ČSSZ“ documentation, a citizen certifies by producing the necessary documents together with an old-age pension application. During advance proceeding the organisation is obligated to ask for an insurance statement for such employees, who attain the retirement age for an old-age pension right in two years at the earliest, or in one year at the latest. (This obligation of the organisations is valid until the year 2005.)

A documentation statement application draws the organisation up from authority position. An employee's consent or their signature on the application is not required.

The organisation draws up a pension application also for the citizens, who are not in work or in analogical relation with this organisation, but they take a health insurance from here. Even an organisation, which does not submit a health insurance for their employees, draws up an advance proceeding application!

In all other cases the pension application is drawn up by a local „OSSZ“ (according to the insurees place of residence). For example those are the unemployed citizens or the individual gainfully employed persons.

However, it also holds good: that an organisation as well as „OSSZ“ competent to draw up an application cannot refuse its drawing up, even if it is obvious that an applicant does not have the right to a pension, or cannot refuse to draw up an application in the case that an application is not backed up with all the necessary documents.

For continuous servicing of applications for an insurance period statement it is recommended to send them:

- By the 1st of January for the employees, who attain their age condition between February and April in the next year,
- By the 1st of April for the employees, who attain their age condition between May and July in the next year,

- By the 1st of July for the employees, who attain their age condition between August and October in the next year,
- By the 1st of October for the employees, who attain their age condition between November next year and January in the year after.

„ČSSZ“ (Czech management of social security) sends an insurance period statement direct to person named on the statement, and this person has to submit it together with an old-age pension application. [8]

1.3.2. An old-age pension application

A citizen appeals to an organisation by setting up a claim to an old-age pension and asks them to draw up an application. The choosing of an old-age retirement moment and setting up a claim to it belongs to the exclusive right of citizen. Nobody can make it in their stead, not even the organisation, in which a citizen is employed. If the citizen is destituted or limited in capacity to legal acts, a claim would be set up by an nominated trustee; an application would be also drawn up by an nominated trustee.

If an employee wants an old-age retirement on the exact day, it is suitable to warn them, that an application should be drawn up approx. three months before the day, when the employee wishes to admit an old-age pension. This is recommended to guarantee a continuous link between the last wages from the employer and a pension payment

To draw up an application a printed form of „ČSSZ“, is used in two copies. One is enclosed with an application form for „OSSZ“, the second is for the needs of the organisation.

An organisation sends an application form to „OSSZ“ (according to employee's place of residence) within 8 days after its drawing up. The organization encloses a retirement insurance record and all the necessary evidence data, for example birth certificates of children, school-leaving certificates, employment confirmation from some of the previous employers, if necessary. In pension proceeding an organisation is not a participant of proceeding, therefore an organisation is not informed about a decision regarding a citizen's pension and does not have a right to file a legal remedy against the decision.

Full or partial disability allowance applications are differentiated as follows:

- if an employee asks for retirement by themselves
- if an application comes that is initiated by „OSSZ“.

On that account is a method of instant of stoppage of sickness benefit payment before admission of disability allowance payment is different.

An organisation cannot refuse to draw up a full or partial disability allowance application, even if the organisation is confident, that an employee will not have a right of pension.

The organisation draws up an application also when an employee is unable to work.

Applications for a widow, widower or orphan pension

These applications are drawn up by the organisation, which had ensured a pension for a deceased person. The organisation draws up an application as long as the residuary asks them to do so. It is recommended for an organisation to call on residuaries and to advise them so that the pension will cease at a moments notice. [9]

1.4. Calculation of a pension amount

A method of pension calculation is assigned in law No. 155/1995 of statutes as amended. Therefore it is possible to describe a brief procedure of determination of a calculated basis for a pension calculation:

- a critical period is determined,
- the basis of assessment is ascertained,
- the total sum of individual calendar years are assigned to the year assessment basis.
- a monthly average of total year assessments are determined for a critical period,
- if this average exceeds the lower reduction limit - it will be reduced.

With every year a critical period for a pension calculation, is changed It was ten years at first (a common beginning of a critical period is the year 1986) and every year it has been extended by one year so that it will be altogether 30 calendar years (in 20 years time).

The earnings years are counted no more as all earnings have been included in a critical period (since the year 1986).

An assessment basis – this definition substitutes an early definition „gross earnings“.

An assessment before the 1st of January 1996 is just gross earnings. Since the 31st of December 1995 an assessment has been foremost an assessment for insurance determination according to law No. 589/1992 of statutes. In this period a partial disability retirement or an extraordinary mining pension have not been counted in the assessment.

Annual earning is evaluated by coefficient multiplication (an increased coefficient of a common assessment) since the year 1986. The coefficient indicates a development of an average wage and is determined with government decree for the relevant calendar year.

Annual assessment is estimated as a product of total assessment of a calendar year and of an increase coefficient of a assessment. A common assessment basis amount for a relevant calendar year is determined by government in their decree of the amount of an average monthly wage ascertained by the Czech statistics office. Common bases before year 1995 were determined in § 1 of government decree No. 227/1995 of statutes.

In some factors the reduction of exempt periods, has come and restriction of their range, other were newly originated. A method of pension basis determination from regulated earnings and with the use of exempt periods remains unchanged. A personal assessment basis (PAB) we calculate by a product of year assessment bases (YAB) and of coefficient 30,4167 and of YAB ratio of a critical period and number of calendar days from a critical period reduced by exempt periods.

By a compute basis we compare PAB with the reduction limits as follows: we take a full amount in the first reduction limit; from the amount between the first and the second limit we use 30 % and if PAB exceeds even the upper reduction limit we take 10 % from the amount that this exceeded the limit. Reduction limits for the year 2004 are determined in § 3 No. 521/2004.

An amount of percentage measurement of old-age pension makes up 1,5 % monthly of compute basis for every year of insurance period until a retirement right. In the period are calculated the alternative insurance period for only 80 %, with the exception of alternative periods according to insurance pension law. We acquire an old-age pension amount by the counting up of basic measurement estimated by related government decree (1 310 CZK since 01.07.1998) and of percentage measurement. [10]

1.5. Pension and gainful employment

1.5.1. Synchronism of an old-age pension with earnings from gainful employment

Payment of an old-age pension claimed to the gainfully employed citizen who worked in pursuance of the employment law relationship, if this relationship was agreed for an definite period of time, but for maximum of one year, if it is even possible to agree such a relationship according to special law regulations. A restriction of earnings from gainful employment during the period of two years after retirement age accomplishment has been annulled since 1.1.2004. [11]

1.5.2. Synchronism of an old-age pension admitted before a retirement age with earnings from gainful employment

If the taker of an old-age pension admitted before a retirement age is gainfully employed or is taking an unemployment insurance benefit, they cannot have the pension payment paid before a retirement age. From the day of the retirement age the conditions for payment of an old-age pension are judged in the same way as for on old age pension. [11]

1.5.3. Synchronism of a partial disability allowance with earnings from gainful employment

If an average earning from gainful employment by a citizen who takes a partial disability allowance,

- does not exceed 66 % of insuree's comparable assessment basis, the partial disability allowance is paid in full amount
- is higher then 66 % but does not exceed 80 % of insuree's comparable assessment basis, the partial disability allowance is reduced by an amount of a half of a basic measurement and a half of procentual measurement.
- exceeds 80 % of insuree's comparable assessment basis, the partial disability allowance is not paid.

Payment of partial disability allowance does not proceed during the gainful employment in foreign countries.

A partial disability allowance admitted by reason of long-term adverse health that considerably disrupts the general living conditions is paid in full amount in defiance of

their earnings and a payment of this pension proceeds even if the citizens are gainfully employed in foreign countries.

A partial disability allowance is paid in full amount, if the total earnings from gainful employment for the relevant calendar months does not exceed the multiple of twelve of the living wage amount valid for individuals taking an old-age pension to 1st January of the year, for which earnings are ascertained from gainful employment. As decisive is counted the average monthly earnings from gainful employment from previous calendar year.

A comparable basis of assessment is calculated by multiplying a personal assessment, from which a partial disability allowance had been counted, with an increased coefficient of a common basis of assessment for the relevant period.

Until the 10th of April of in a calendar year if a citizen is taking a partial disability allowance they are obligated to present to a payer of this pension:

- a report of earnings from the previous calendar year if they were the earnings from the only dependent activity
- a statement certifying that they had the earnings from self employment in a previous calendar year
- a statement certifying that they had no earnings from gainful employment in a previous calendar year.

A person taking a partial disability allowance, who is obliged to report the earnings from self employment for a previous calendar year, is obliged to present to a pension payer an earnings summary of this activity for the period from 1st July to 31st December of previous year before 10th July. In this summary must be mentioned, what kinds of earnings are concerned.

Payment of a partial disability allowance will be regulated then, or it will be stopped after a payment of a partial disability allowance payable in the second calendar month after that calendar month, when a person taking this pension should present a report of earnings or a statement. [12]

1.6. A social insurance

Insurance on a social security and a state employment policy tax is estimated to cost settlement of:

- sickness benefits as sick pay, benefits by a family members nursing, compensating pregnancy and maternity benefits, monetary help during maternity,
- pension insurance benefits – old-age pension, full or partial disability allowance, widows, widowers and orphans pension
- material security of unemployed people and other costs related with a work security
- administrative expenses of Czech management of social security and employment offices

Social insurance pay only the persons, who are or were participating in a health insurance. Persons are participating in a health insurance only if their employment has existed for longer than 7 consecutive calendar days and a counted earning from that time has run to at least 400 CZK for a calendar month. The employment must be in the Czech Republic.

Every employment is judged for social insurance purposes individually. Therefore one person can be a multiple payer.

In an assessment of the employee included in the total earnings cleared by an employer are:

- in connection with an employment, in which is participating in a health insurance, but earnings are non countable, like:
 1. compensation for costs, or their part, which are not under an entrepreneurs income tax,
 2. indemnification,
 3. fees paid according to law of inventions, industrial models and rationalization proposals,
 4. value (financial valuation) of given non-monetary benefits, which are not under an entrepreneurs income tax,
- in connection with an employment, in which is participating in a health insurance, we talk about the earnings related only with an employment duration:
 1. wage compensation, except for wage compensation for forces and civil service employment, or except of wage compensation for time period before the beginning of an employees health insurance,

2. fees for working readiness,
3. loyalty or stabilisation benefits; these benefits have always been benefits paid by reason of employment duration or paid to a certain day,
4. benefits paid by reason of life jubilee.[13]

1.6.1. Insurance rates from a basis of assessment:

a) For organization and small organization 26 %, (of this 3,3 % is on health insurance, 21,5 % on pension insurance and 1,2 % on state employment policy),

b) For employees 8 %, (of this are 1,1 % is on health insurance, 6,5 % on pension insurance and 0,4 % on state employment policy).

Insurance amount rounds up to whole crowns.

A critical time period for an assessment ascertaining employee, organization and small organization is a calendar month.

An organization and a small organization pay insurance on behalf of themselves and also on behalf of their employees. A small organization pays a full social security insurance, an organization pays a difference between an insurance and benefits paid for a health insurance. [14]

Example no. 3:

An employee in full-time employment gets his wage in an amount of 10 500 CZK. How much is paid for social insurance by employee or by employer?

	Basis	Employee	Employer
Gross income		10 500 CZC	
Social insurance	10 500 CZC	840 CZC	2 730 CZC

An employer is obligated to pay also the insurance that should be paid by the employee. This insurance paid for an employee is deducted by an employer from the employees income. If an insurance cannot be deducted for the reason that an employees income is not given that month in a monetary form, if his income is creditable, an employer will deduct

this insurance from an employee's monetary income within the nearest possible calendar month.

If the insurance is paid slowly or in a smaller sum, an insurance payer is obligated to pay a penalty of 0,1 % of the due amount for every calendar day of the duration of this fact.

1.7. Social security for self employed persons

Persons are considered to be self employed if they:

- perform an independent gainful employment, or
- cooperate by performing an independent gainful employment, it means the persons, whose incomes and expenses could be divided according to law of income tax.

The persons working according to authorised law and the persons, who do not need any concession for their enterprise or do not have to be registered (for example professional sportsmen) are considered as self employed only if they declare by OSSZ that they do their activity continuously. If they do not declare this, and they do not submit their activity reports and do not include their rewards into a basis for payment of social security insurance. Every self employed person is obligated without regard to their expected or reached income (it means even the self employed person "in loss")

- to submit to DMSS a statement of the starting date of the activity filled in on a prescribed form within a given period,
- to submit annually a report of their incomes and expenses of the previous calendar year,
- to submit to OSSZ a statement giving the closing date of their self employment.

Self employed persons insured for retirement in a calendar year are obliged to pay a pension insurance and a state employment policy fee for such a year. A self employed person starting or repeatedly starting self employment is obliged to submit a statement of the start of employment filled in a form which is obtainable from the OSSZ.

A statement of the start of employment must be submitted by the 8th day of the month after the month of the start of the enterprise (for example: if the date of the beginning of employment is the 1st or the 31st of May, a statement must be submitted before the 8th

June). On the basis of the submitted statement the insurance deposits are not paid in a year of beginning of employment.

Instead of a statement a self employed person can submit an application form. Until submission of an application form a self employed person must pay the insurance deposits and is obligated to partake of pension security from the day of employment beginning even if their income that year was smaller than the income that makes participation in pension insurance obligatory. [15]

1.8. Pension insurance of the Self Employed

Since the 1st of January 2004 the self employed, who perform a main independent gainful employment, have been obliged to pay pension insurance for the period of their activity.

Subsidiary self-employment

Subsidiary self-employment is considered as subsidiary self-employment, if the gainfully employed person is active in a calendar year:

- a) performed an employment and their income during a calendar year reached an amount equal to at least a multiple of twelve of a minimum employees wage paid monthly during an employment relationship. As a minimum wage is counted as a minimum wage valid on the 1st of January of the year, for which the self employed persons participation in insurance is considered.
- b) got a right for payment of an old-age pension or full disability allowance,
- c) got a right for a payment of benefit for care of a close person or other person,
- d) worked in a military service of armed forces of the Czech Republic, except as a professional soldiers or a civil servant,
- e) was an unprovided child or
- f) was under arrest or serving a prison sentence for more then three consecutive calendar months.

Since the 7th May 2004 a self employed person has come under this group who

- a) has got a right to a payment of a partial disability allowance during a calendar year,
- b) has got a right to a parental benefit during a calendar year.

An self employment is considered as a side self employment in those calendar months, when a gainful activity has lasted for the whole month and simultaneously the facts mentioned above are true ; if a gainful activity has lasted for only a part of the calendar month, we talk about a side self employment only, if the gainful activity has lasted at the same time of the a calendar month as the facts mentioned above. However, the amount of employment income reached in a calendar year is not decisive for judgment, if an self employment shall be considered as a side self employment.

The Self Employed have participated in insurance in a calendar year for a period, when they performed a self employment, if their income from a side self employment amounted to a decisive sum after deduction of all expenses spent on income reach, arrangement and retention.

A decisive sum amounts to 2,4multiple of an amount calculated by a product of a common basis of assessment for a calendar year, which comes two years earlier than a calendar year judged on a participation in insurance, and of a conversion coefficient for adjustment of this common basis of assessment.

The minimum monthly basis of assessment for this Self Employed person amounts then to 3 368 CZC.

If a self employed person performed in a calendar year a main self employment together with a side self employment, the income from a side self employment is counted so that an income from a self employment reached in a calendar year reduced by expenses spent on income reach, arrangement and retention divided by the number of calendar months , during which a self employment was performed for at least a part of the month. The counted amount multiplied by the number of calendar months , during which a side self employment was performed for at least a part of the month. For an income calculation the following months are not counted as the performing of self employment or a side self employment:

- a month, during which a person in a self employment has got a right to sick benefits from a self employed health insurance,
- or has taken sick benefits, whilst working in the armed forces (civil service)
- or has taken monetary help during maternity (financial benefit) from a Self employed health insurance.

A decisive amount rounds up to whole crowns.

A decisive amount is reduced by one twelfth for each calendar month, during which a side self employment was not performed at all, and for each calendar month, during which a person in an self employment working in a side self employment had got a right on sick benefits from Self employed health insurance, or such the sick benefits were paid to the person, or the person worked in armed forces (civil service) or was taken a monetary help during maternity from a Self Employed health insurance. A twelfth mentioned above rounds up to whole crowns.

A self employed with an income high enough to participate in an obligatory pension insurance does not submit a participation application. A participation arises on the basis of a report.

An application for a pension insurance participation can be submitted anytime during a related calendar year until the following year up to a report submission including the day of its submission. With an application submission arises a participation in a pension insurance compulsorily in those months, when an employment was performed (from day of an enterprise beginning till day of its ending, resp. from 1.1. till 31.12. if an employment was performed for the whole year). [16]

1.9. Amount of advance pension insurance payment

An amount of advance payment is counted from 40 % of difference between earnings and expenses averaged for one calendar month, during which an employment has been performed, it means from a monthly basis of assessment. Months with no performing of an employment should be the months before enterprise beginning and after its ending.

Example no. 4:

If a self employed person began an employment on 25th March and had been taking sick benefits from self employed insurance in the year of enterprise beginning for the whole three months, 40 % of difference between earnings and expenses divided by ten months (only the months before enterprise began are deducted, this means January and February).

An advance payment is 29,6 % of monthly basis of assessment. A monthly basis of assessment cannot be lower then a quarter of a personal basis of assessment fully counted and effective from the first day of a month, when an advance payment pays.

An advance payment in year 2004 cannot be paid lower than 997 CZC, as a minimum monthly basis of assessment has been 3.368 CZC since 1st January 2004. An advance is not limited by a maximum amount, it means it could be paid for example in an amount of 100 000 CZC or higher. An amount of advance payment can be ascertained for a different amount every month, but a minimum amount must be observed.

On basis of a Self Employed persons application OSSZ can reduce an amount of advance payment for a period of three months. After that a Self Employed person must submit a new application for a reduction of advance payment, if a Self Employed person wants to pay a lower amount and all conditions for reduction of advance payment have been complied. OSSZ can reduce an advance payment, if an income from an independent gainful employment after deduction of expenses averaged for one calendar month within period from 1st January to end of the month prior to a calendar month, during which an application for a reduction of advance payment had been submitted, but at least within period of three consecutive months, is at least for one third lower than it was in a previous year. [17]

2. Comparison and outlook after CR entry to EU

The most of citizens of new member states of EU is certainly very interested about the issue concerning the social policy and the living standard. In all probability, the main item is the question, what will change in this area after the entry of the country to the EU. As a matter of fact, the social policy is not subjected to the direct regulation of the European Union and also after the entry, it stays in competences of single member states. That is why the Czech pension system need not to change due to the entry of the Czech Republic to the European Union.

Furthermore, pensions will stay in the authority of the Czech Government and Parliament and will be valorized like up to now.

During the entry of the Czech Republic to the EU there arose groundless fears from the rapid social fall. These doubts were ungrounded from following reasons:

- Social insurance will stay in the competence of the Czech Republic,
- Large differences among member states in this area would not correspond to the concept of European integration, which aim is to decrease, and not to increase, the economic and social differences among member states.

The preparation of the Czech Republic on the entry to the European Union was oriented to the meeting of this fact. Among other things, its task was to minimize the negative impacts at the entry and in the following period, to allow the start of the economic and social development using the advantages of the membership in the European Union.

Naturally, here is a group of Czech citizens, who will be concerned with the effect of the European Union on the social insurance area, or by a certain member states on this area, respectively. They are those citizens, who will decide to use the possibility to work, make business, study or live in other member states of the European Union.

2.1. Basic rules for the calculation of pension in EU

The basic principle for the old age pension payment to the European Union citizens is the fact, that the old age pension is paid regardless of the place, where the pensioner lives or use to live in frame of European Union and this proceeds without any decreases, changes, or pauses. This rule applies to former migrating workers and also to all pensioners living in another state.

If the pensioner was insured in one country only, and this country is not identical with the country, where he lives, the pension will be calculated according to the legal regulations of that certain country and by the same way, as the calculation is made for the citizens of that country. It is not significant, if the citizen, who came of pension age, lives, or does not live in this country.

If, during his life, the pensioner was insured in more countries, he would get the pension from each country, in which he was insured for more than one year. The value of such pensions depends on the time of the pensioner insurance in those single countries.

In single member states, the age limits for the retirement are different. It is due to the reason, that the social insurance systems are not harmonized and are in competences of Governments of single member states. The age limit for the retirement in the European Union ranges approximately from 60 to 65 years, in some countries this limit is a little higher.

If the pensioner gets a pension from another country, this pension must be converted to the currency of the country, where he lives. For pensioners living in the Czech Republic, for example, and getting the pension from the Euro zone, may be disadvantageous, or, on the contrary, advantageous the irresoluteness of the exchange rate. Once Euro will be accepted by all European Union countries, the conversions of pensions will be baseless.

2.1.1. Work in more member countries

For citizens working, during their economically active life, in more member countries of European Union, certain rules are in force:

- In each country, where the citizen was insured, his records are hold till the time, when he reaches the age of retirement,
- paid contributions are neither transferred to another country, nor paid off to the citizen after the ending of insurance in a certain member country,
- each country, in which the citizen was insured for one year, at least, must pay the old-age pension to him, as soon as the citizen come of the age limit for the arise of the claim for the pension,
- the amount of the pensioner pension is calculated according to the records of insurance in a certain country,
- the amount of pension that will be paid to the pensioner depends on the time of insurance.

As mentioned above, the pensioner has the claim for pension from that member country, where he paid the insurance for more than one year. But, what is the procedure in situation, when the citizen has paid the insurance in a member country for a time shorter, than one year? He will not lose the contributions he paid for the pension insurance.

Example no. 5:

A citizen worked and was insured in France for 5 months firstly, and then in Italy for 10 months, secondary. Furthermore, he worked and was insured in Germany for 10 years and finished his professional career in Austria, where he was insured for 20 years. In such a case, the 5 months worked in France and the 10 months worked in Italy will be transferred to the time worked in Austria, because this country is the country of the last citizen employment. By this way, the European Union guarantees, that no citizen working in some member country for a time shorter, than one year, will not be handicapped by this fact by any way.

No contributions are paid to the disadvantage of the citizen and acquired rights will be protected. Each country will pay a pension corresponding to the time of insurance on its territory. Such a kind of solution follows also the interests of single member states - no member country pays more or less, than the citizen has earned by his contributions.

Synchronism of pension from more member states

A citizen was, during performance of his job, insured and it was 15 years in France, 7 years in Germany and 18 years in Austria. It means, that before his coming of the age limit for the arise of the claim for pension, he was insured for 40 years totally. France will calculate the pension, on which the citizen should have a claim, if he worked and was insured for 40 years in this state, but will pay him off only the amount corresponding to actual time of his insurance, it means, $15/40$, which is 37.5 % of this amount. Analogously, Germany will pay him off $7/40$, which is 17.5 % of the amount, on which he should have the claim in Germany after 40 years. And finally, Austria will pay him off $18/40$, which is 45 % of the amount, on which he should have the claim after 40 years of insurance in this state.

Problem of age of retirement

A pensioner was initially insured for 30 years in Germany, where the claim for pension arises after coming on 65 years, and then for 10 years in France, where this age limit is 60 years. After coming on 60 years he stops working in France - the claim for a small pension from this state will arise, corresponding to the time of insurance completed in this state, it means, 25 %. Afterwards, he has to wait for five years, before the claim from Germany will arise him, it means, 75 %.

In some cases it may happen, that the pension, which the pensioner gets from another state, is very low and the pensioner is threatened, that he will be referred to social support, if he does not have another source of income. The solution of such an unfavourable situation is asking for information about the age limit for the arise of the claim for pension in the country, where you intend to continue in your working activity, earlier, than you will move there. After you will know such a situation, you can use some kind of additional pension insurance, to be able to fill in financially a certain time period, when the full pension is not paid off.

Setting up of applications for pensions of persons having worked in two or more member states of EU

The Czech Republic became a member state of the European Union. This membership brings also some changes in the area of obtaining the claims for pensions and setting up of applications for pensions of persons, who work or have worked in some member state of

the EU or in Norway, Island, or Liechtenstein (further member state only). Persons, who worked during all their life in the CR, will not be touched by these changes when setting up the claim for the pension.

One of the basic principles of co-ordination of social assurance system is the principle of the summarization of times of insurance for obtaining the claim for pension, that is contained in the European Commission Regulation (EU) No. 1408/71 and No. 574/72.

The above mentioned principle should assure the arise of the claim for pension also to those persons, who do not attain the necessary time of insurance according to the domestic legal regulations (and, by this way, they should not comply with one of the basic conditions for the arise of the claim on the appropriate retirement pay), but with regard to the foreign time of insurance, they will comply with the condition for attainment of necessary time of insurance, because during the decision process about the claim for retirement pay there will be taken into account also those times of insurance, which such a person attained in member states. Such persons will not be handicapped in comparison with persons, who, all their life, lived and worked in one member state only.

Setting up of the claim for retirement pays

From the point of view of setting up of the claim and administration about the retirement pay the decision role play so-called verification institution (in the CR, the verification institution is the Czech Administration of Social Assurance), that is responsible for the co-ordination of the procedure of administration of the retirement pays among all member states. At the same time, it is responsible for the insurance of final decision (E-211 Form), that summarizes the decisions issued by appropriate institutions of all participating member states.

From the point of view of citizens, there is important the Article 36 of the Commission Regulation (EU) 574/72, that sets, among other things, that the application for the retirement pay submitted to the institution of one member state is considered for the application for the retirement pay in all member states, in which the applicant was insured. It practically means, that the application for the retirement pay from more member states can be submitted to the appropriate institution of one member state (in the Czech Republic at the locally relevant District, or Prague Administration of Social Assurance).

How to proceed at completion of the application

The procedure at completion of Czech application for the pension stays unchanged. Nevertheless, some deviations of the procedure at completion of application for pension concerns the persons, who worked, and consequently were ensured in some member states. The Czech application for the pension was extended by one pillar in section 5, which purpose is to find out, if the applicant was (or was not) gainfully employed, or for another reason ensured, also outside the territory of the CR, it means, in some another member state of EU. If, at the completion of the application, the applicant states, that he was gainfully employed, or for another reason ensured in another member state and for this reason, he asks also for the pension from this state, then the District Administration of Social Assurance (Prague Administration of Social Assurance) have to write up following forms (Appendixes) with the applicant:

- E 207 Form,
- Basic appendix to the application for pension,
- Additional appendixes to the application for pension.

These appendixes forms the entire part of the Czech application for the pension (ČSSZ-89 100 Form) in cases, when the applicant sets up the claim for pension also from another member state. At evaluation of the claim for the pension and its payment from the system of pension insurance of the CR the Czech Administration of Social Assurance comes out only from the Czech application for pension.

E 207 Form

It is completed to each application for pension, in which the applicant stated, that he was gainfully active, or for another reason, insured also in another member state. In the form, he shows as much as possible of information about times of insurance attained in abroad. This form serves to foreign administrator of insurance to speed up the administration about the retirement pay. The E 207 form will be completed only once and the applicant will write down the times of insurance attained in all member states.

Basic appendix to the application for pension

It contains the data common for all member states. The appendix consists of four parts:

- Setting up part is completed at setting up of the claim for all kinds of pensions.
- Part A is completed at setting up of the claim for the old-age pension.
- Part B is completed at setting up of the claim for the estate pension.
- Part C is completed at setting up of the claim for the disability pension.

Additional appendixes to the application for pension

Each member state has a different additional appendix to the application for the pension. For this reason, it is completed only for those states, against which the applicant sets up his application for pension. The additional appendixes are divided into three parts:

- Part A is completed at setting up of the claim for the old-age pension.
- Part B is completed at setting up of the claim for the estate pension.
- Part C is completed at setting up of the claim for the disability pension.

After completion of Basic appendix to the application for pension and appropriate Additional appendixes the District Administration of Social Assurance (Prague Administration of Social Assurance) and the Czech Administration of Social Assurance complete the E 202 form (Evaluation of the application for the old-age pension) or the E 203 form (Evaluation of the application for the estate pension) or the E 204 form (Evaluation of the application for the disability pension) according to the kind of pension the applicant asks for. Then the Czech Administration of Social Assurance forwards the appropriate E-forms to the foreign administrators of insurance. Also at administrators of insurance of another member states, in which the applicant was insured, the date of the submission of application is considered the date, on which the Czech application for pension was completed. [18]

2.2 Three approaches to the pension system in the European Union

In present time, the system of social assurance in advanced countries faces to serious problems, which are caused especially by the unfavourable demographic development, high rate of unemployment, insufficient economic grow and last, but not least, by the expensive social programs. [19]

2.2.1 Bismarck model

This model is used in different varieties, for example, in Italy, Germany, or France. The first pillar is based on the mandatory social insurance of employees, from which follows the claim on retirement pay, usually bounded with the time of insurance and with the earnings. The second pillar of the pension insurance system is not mandatory and is mostly only marginal.

In this system, the rate of solidarity is very low. The preservation of social status is desirable here, it means, the retirement pays are bounded with previous earnings. For example, if the ensured citizen belongs to so-called higher middle class, due to his incomes, his pension should allow him to keep this status.

Bismarck model and the pension reform in Germany

Germany, as well as a lot of other European countries, must face to the important problem of aging of population. For all the years of 90s, the pension reform was the issue number one. The basic changes were carried in the year 2001. These changes completed the mandatory PAYG system by two additional pillars.

PAYG - Pay As You Go

This system of pensions financing is used also in the Czech Republic. Its functioning is based on the existence of sufficient number of working people, who, based on inter-generation solidarity pays to the system, and on the contrary, those, who are in the retirement age, take their pensions from this system. This system stands on the basis of sufficient number of contributors.

In Germany, the first pillar of basic pension system is based on the PAYG principle. On the financing of this system, there participate by the same rate both employees and employers. It makes 9.65 % at both groups. Independently gainfully active persons pay 19.3 %. For the contributions, there is also set the upper limit. The government is significantly engaged to this system. For example, it pays the amounts for some groups of people, or covers the deficit in balance of incomes and expenses.

To this system, there must contribute all employees, apprentices, persons on military and civil services and independently gainfully active persons, that have the income per month larger, than 320 EURO. The duty of contribution to this system does not concern the independently gainfully active persons with the income per month less, than 320 EURO, officers, pensioners and students.

The German pension system is administrated by tripartite agencies. They are trade social insurance companies, governed by representatives of employees, employers and of the government. To the German pension system there flows also the means from the income of "ecological tax". The organization of this system is separated from the national budget.

The coming of the age of retirement and the minimum time in the system are the basic conditions for the arise of the claim on the pension. In Germany, there is extremely low necessary time of participation, which is 5 years only. The age of retirement is 65 years. There is also possible the early retirement, but under the condition of 35 years of insurance at minimum and after coming of 63 years of the age. This pension system is set by such a principle, that from the first pillar and at the full pension, the pensioner takes the compensation in the amount of 70 % of previous incomes.

In case of early retirement the retirement pay is reduced by 0.3 % for each month, for which the pensioner is retired earlier. Further, in Germany, there exists the possibility of partial pension, after the age of 55 years. The condition is the reduction of the working time to one half.

On the contrary, there exists the possibility of postponed pension to the maximum age limit of 67 years. In such a case, the retirement pay is increased by 0.5 % for each postponed month to the start of retirement. There is also possible the synchronism of the pension with earning under the condition, that the earning does not exceed 320 EURO.

In the year 2001, in Germany, there was set up so-called additional schemes to the pension system by the reform. These additional pillars are intended as the compensation of gradually lowered means from basic pillar. It must guarantee the value of paid contributions, at minimum. They are not mandatory, but they are fiscally advantageous.

In present time, it is possible to pay to it one percent of the income, but this amount will increase gradually to final four percentages and this should occur in the year 2008.

In Germany, the citizens contributing to the first pillar have also additionally claim on government support. The government subsidizes approximately 12.5 % of saving. This system is open for everybody, who has come the age of 16 years. The means cannot be taken before the coming of the age of 60 years.

As the third pillar of the pension system in Germany there are the private contributions. The most extended one is the life assurance in Germany.

2.2.2. Beveridge model

Beveridge type of retirement assurance arose during the World War II. in Great Britain. It was proposed by Lord Beveridge, who aimed to ensure all inhabitants by the basic pay. It was a minimum pay, because it had to ensure universally all the population tested by the war. It certainly was not the optimum income for the old age, so the next necessary step there was a certain kind of additional insurance. During the time, from such a model there was developed the pension system, which strongly emphasizes the individual responsibility. Similar structures one can find in Ireland, Norway, or Switzerland.

In the area of retirement assurance, Great Britain ranges to social states of liberal type despite the fact, that the expenses for pensions are created similarly as anywhere in the European Union, it is something around 10 percent of GDP. The system is multi-pillars and is very complex, but is also very complicated. The claim on the full basic pension concerns the men of the age 65 years, who contributed to the system for 44 years, at least, and the women of the age 60, who contributed to the system for 39 years and more. The age of retirement can be postponed by five years and by this way, the pension increased by 7.5 percent annually. The pensioner does not lose the pension in case, when he continues or start, earning after the coming of the age of retirement. On the contrary, the early payment of pensions is not possible in Great Britain. [20]

Uniform minimum pay is offered to each citizen in frame of basic state old-age pension. The pensioner has the claim on another pays, if his incomes do not reach the minimum set

by the Parliament. In such a case, he may ask for increment of the Basic State Pension (further as BSP).

The first pillar is made by the uniform standard pay (BSP), which reaches something around 18 percent of average salaries. The pay is valorized according to the increase of prices.

The second pillar contains also the component bounded to earnings, which is designated by the acronym SERPS (State Earnings Related Pension Scheme). More than one half of pensioners sets up a claim to SERPS. The system is continuously financed and the state ensures it through the National Contribution Insurance Agency. Due to this second pillar, the employees can obtain another 20 percent of the average of earnings of all their incomes. The contributions must be paid by the employers, employees and by the independently gainfully active persons.

The employee pays 10 % of the amount over 139 EURO of his weekly salary. At maximum, he contributes to the system by 921 EURO per week. Another 11.9 % is paid by his employer. He pays the contribution from the salary of the employee of any extent, where the upper limit of the contribution is not set.

Independently gainfully active persons pay the fix amount to the system, which is revised annually. The value of the minimum profit, up to which the independently gainfully active person is exempted from the payment, is annually changed, as well.

An employee can leave the SERPS system and join to another of company or share schemes. The company or share schemes are actually the funds, that invest deposited means. Some of them administrate the assets exceeding 30 billion of dollars. The pensions from them can be taken already from the age of 50 years and postponed up to 75 years.

The company schemes are determined for employees and the share schemes and private pensions are accessible also to the independently gainfully active persons.

After the 20 years of employment, the pensions from company schemes make 2/3 of the final salary. The pensioner will obtain his income enlarged by the investment valuation by his share pension.

The third pillar of the pension system of Great Britain forms different supplementary voluntary contributions and commercial products. As well as in Germany, here is the most popular the life assurance, which is fiscally advantageous.

Great Britain does not have large problems with financing of the state pension assurance, as other Western European countries does. Due to this system, the citizens used to rely on private pensions.

2.2.3. Scandinavian model

Basically, the Swedish model combines both previous models. The system is universal with the total responsibility of the government and with minimum responsibility of an individual. The bliss of all inhabitants without investigation of their social needs is bought out by considerably high taxes. Their volume, together with the insurance, makes over 55 % of GDP in Sweden. For comparison, in the Czech Republic it ranges around 40 % of GDP. Likewise Germany, also Sweden finance the pensions by continuous PAYG system, which was complemented by fund contributions in the year 1999. The both pillars are duly joined by each Swede older than 16 years. The employees contribute by 8.29 % of their gross salary, employers by 10.21 % of salaries of their employees and the independently gainfully active persons by 10.21 % of their incomes. The paid means may be subtracted by the insured persons from their taxes. [21]

To the first pillar of the PAYG system there flows 16 percent of total contribution. To the second pillar, individual account of insured persons at a certain fund, flows 2.5 percent.

To each participant of pension insurance, in frame of the second pillar the individual fictitious account is established, on which the saved means are accumulated. The insured person gets the printout annually to have the knowledge about his payments and also about the amount of his future pension. Nevertheless, in the point of fact, the paid money do not belong to the insured person. The decisive item for the calculation of the retirement pay is the balance of this account at the time of retirement then.

The clients pay the contributions to funds through the government central pension administration. A part of accounts and transactions is governed by the government, the investments are ensured by private sphere. In this system, the expensive nets of sellers of share funds fall off, and, by this way the costs on this system are reduced. The reason of it is the fact, that the private share funds cannot each other pull-on their clients, because they do not know their names. These names are known to central administration only.

At the age of 61 years there arise the claim on the pay from both mandatory pillars. The pensioner will be given by the full pay just at his retirement at the age of 65 years. Those pensioners, who will decide to be retired at the age of 61 years, will get 72 % from the standard amount. Those pensioners, who are working and not getting the pension up to 70 years, will get the pension in the amount of 157 % of standard pay. If the pensioner during getting his pension works, or make business, he does not lose the claim on the pension, if his income does not exceed threefold the amount of the standard retirement pay.

As in case of both previous models, also at this one the third not mandatory pillar exists in the form of private contributions. Also here the life assurance is popular with the determined limit for the tax deduction and the voluntary company additional insurance, which contributions are deduction able in the full volume.

3. Effect of the pension system on the CR economy

3.1. Czech pension system

The Czech pension system has two pillars. The first pillar is mandatory for all working people and operates on continuous basis. It means, that all the money, which are drawn on the pension insurance are paid to today's pensioners. Payments for social insurance are 34 % of gross wage in our country. From this amount of 34 %, the employer pays 26 % (from this amount 3.3 % goes on the health insurance, 21.5 % goes on the pension insurance and 1.2 % goes on the government policy of employment). From the amount of 34 %, the employee pays 8 % (from this amount 1.1 % goes on the health insurance, 6.5 % goes on the pension insurance and 0.4 % goes on the government policy of employment).

The second pillar is voluntary and is made by pension funds.

3.1.1. Analysis of current status

Incomes, expenses and balance of the government pension system

The annual pension expenses approximately exceed 200 billions CZC. If one wants to express these expenses in GDP, they approach to 10 % of it. From the financial point of view, this system is deficit. The deficit of the pension system ranges around 1 % of GDP annually. Without the reform of the pension system, this deficit probably will grow.

By this way, as a consequence of expected process of aging of population in combination with mostly generously set parameters, without any doubts, the pension systems have strong effect on the long-term non-sustainability of national budget and fiscal policy in itself.

Table no. 1: The comparison of incomes and expenses on the pension system in single years

Year	Revenues (in mld. CZC)	Expenditure (in mld. CZC)	Balance (in mld. CZC)	Revenues (% GDP)	Expenditure (% GDP)	Balance (% GDP)
1996	133.9	129.5	+4.4	8.5	8.3	+0.3
1997	146.3	152.8	-6.5	8.7	9.1	-0.4
1998	156.3	168.8	-12.5	8.5	9.2	-0.7
1999	161.8	181.3	-19.4	8.5	9.5	-1.0
2000	170.5	186.8	-16.4	8.6	9.4	-0.8
2001	186.0	201.0	-15.0	8.6	9.3	-0.7
2002	197.7	217.3	-19.7	8.7	9.6	-0.9
2003	209.5	225.8	-16.3	8.6	9.4	-0.8

Source of information: ČSU

Expenses on payment of pension insurance

In the year 2003, in our country, 2.590 mil. of people took pensions. From this amount, 1.89 mil. of people have the age of retirement and 0.7 mil of people are under 60 years of their age. In the old-age pension, there are 1.348 mil. of citizens, in the disability pension, there are 0.498 mil of citizens, 0.686 mil. of pensioners take widow and widower pension and 55 thousands of children take orphan pension.

Table No. 2: Expenses on the pensioner pays in the year 2003 - CR in thousands CZC

Indicator	Benefits paid
Pension insurance benefits paid, total	218 273 276
Old-age, incl. proportional	156 272 738
Full disability	31 531 091
Partial disability	9 135 360
Widows'	17 343 241
Widowers'	1 486 902
Orphans'	2 503 944

Source of information: MPSV

In the year 2003, there accrued 180 thousands of new pensioners. On the other hand, there was born 93 thousands of children only. The aging of population is one of the main reasons, why it is necessary to come down to the reform. Even if the reasons of this aging were found, it would be very difficult and probably also impossible to solve this problem both short-timely and long-timely. That is the matter of the trend, which occurs not only in our country, but also in all the Europe. This problem will aggravate advanced country and the most of development economics.

Table No. 3: The number of newly acknowledged pensions versus kind of pension and sex

Type of pension	2002			2003		
	total	males	females	total	males	females
Old-age, total	60 383	26 193	34 190	85 604	36 270	49 334
Full old-age	39 613	17 489	22 124	46 807	19 852	26 955
Proportional old-age	548	148	400	273	71	202
Early old-age	20 222	8 556	11 666	38 524	16 347	22 177
by 2 years	7 119	3 036	4 083	21 415	9 152	12 263
by 3 years	13 103	5 520	7 583	17 109	7 195	9 914
Disability						
Full, total	21 553	12 855	8 698	25 544	15 373	10 171
Full	20 650	12 314	8 336	24 965	15 023	9 942
Full from childhood	903	541	362	579	350	229
Partial	25 123	13 282	11 841	23 010	12 255	10 755
Widow's	33 762	x	33 762	30 857	x	30 857
Widower's	12 210	12 210	x	9 884	9 884	x
Orphan's	8 636	4 405	4 233	5 726	2 914	2 812

Source of information: CSU

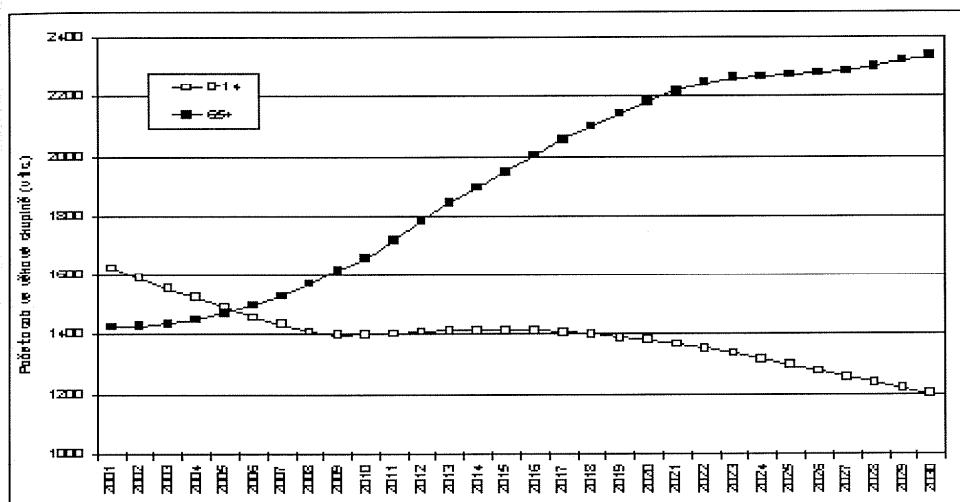
Probably, we shall have to adapt to these new tendencies in population development, because it is quite impossible to avoid such a development. The assumed population development is so unfavourable, that any needless delay could bring unpleasant problems in future.

Birth rate

The lower birth rate is also an important problem of the pension system. The largest decrease was noted after the year 1996. In this year, around 90 thousand of live children will born. The decrease is caused by two reasons. For the most part, it is the new style of life, which came with the change in the year 1989 and brought new priorities to the young people lives. Today, the young people prefer carrier and work. After they create a certain background, they prepare establishment of the family. In the year 1991, the most of mothers were of the age of 21 years. In the year 2002, this age was shifted to 26 years. In future, this age limit probably all increase again and approach to 30 years.

The next of reasons of problems with population development is the decrease of the birth rate from 1.86 in the year 1991 to 1.17 in the year 2003. The most of forecasts indicate, that the rate of fertility may increase, but this increase will not be in such a level to prevent the dying out of our nation.

Diagram No. 1: Expected development of the number of persons of the age 0-14 and 65+ up to the year 2030, middle variant of projection



Source of information: ČSU

To retain the rate of reproduction 1 : 1, the rate of fertility should have to be 2.0 at minimum. In such a case, each person should have to have one child instead of himself. In the Europe, such fertility is rather sporadic. As regards the fertility, Island, and then Ireland and France are in the best shape. The Czech Republic is quite bad with the fertility, it occupies the last positions in this row.

In the following tables, there are shown the indicators of age groups of population of certain European countries with the oldest population and the structure of population in the Czech Republic according to single age groups.

Table No. 5: Structure of population in the CR according to single age groups in the years
1993 - 2000

Year	Ratio age group (in %)					
	0 - 14	15 - 19	20 - 24	25 - 39	40 - 64	65 and more
1993	19,4	8,8	7,5	20,2	31,1	13,0
1994	18,9	8,6	7,9	20,0	31,5	13,1
1995	18,3	8,3	8,4	19,9	31,8	13,3
1996	17,9	7,9	8,7	20,0	32,2	13,5
1997	17,4	7,5	8,9	20,1	32,5	13,6
1998	17,0	7,1	8,8	20,6	32,7	13,7
1999	16,6	6,8	8,7	21,3	32,9	13,8
2000	16,3	6,6	8,3	21,8	33,0	14,0

Source of information: ČSU

The certain stable conditions for the pension system, be that as it may, can be expected perhaps after 45 years. For the year 2050, the rate fertility is estimated on 1.64 (according to UN even 1.85). The age, at which the women will mostly have children, should also be stabled, probably on the border of 30 years.

3.2. Pension system and its functionality today

In the Czech Republic, the pension system is able to function up to the year 2011. After this one, to the pension system should have to flow 12 percent of GDP annually instead of today's 9 percent, for the pension system to be able to cover the needs of increasing number of seniors. [22]

At current conditions and without more significant interventions, the pension system of the Czech Republic should be able to function up to the year 2011. In present time, almost one fifth of the Czech population is made by people older than 60 years. The increasing number of seniors and strong aging of population is a large problem for the Czech pension system. After 60 years, more than one third of the community will be in the retirement age. More, the number of people, who will work and contribute to the system, will decrease. In the current pension system, there are fairly significant differences between amounts, which the insured citizen pay to the system and the retirement pay. As a matter of fact, our pension system is more advantageous for persons with the lowest incomes. According to

Jiri Hofman, the deputy of the Minister of labour and social affairs, if a man earns 40 percent of the average salary, his pension makes 80 % of his earning. But if the insurance is paid from the double of the average salary, the pension is in the amount of 30 % of the earning.

Already for several years, the politicians in the Czech Republic permanently discuss how the pension system should look, but they cannot find an agreement about its final figure.

I think, that their indecision and inability to find the agreement on such an important issue concerning the future of the Czech Republic, is very improper.

4. Proposal for the improvement of the state

From the previous chapter it is obvious, that the pension system of the Czech Republic does not have a favourable effect on its economy. A possibility, how to improve this status, is the reform of the pension system. Already in the past, the pension system was changed for several times. The below described changes are those ones, which were done after the year 1989.

Present main steps of the transformation of the pension system in the Czech Republic after the year 1989:

- Cancellation of preferences in the pension system (personal pensions, working categories and functional categories). The cancellation of working categories, to which the occupations performed at especially hard working conditions with the permanent effect on the health, should have been compensated by the occupational pension additional insurance, however, this is not implemented yet in our country. Further, a new change was made in case of individually gainfully active persons.
- In the year 1992, the Law No. 589/1992 of the Digest was accepted. By this law, there was introduced, among other things, the payment of the pension insurance as the special payment.
- The acceptance of the new pension law (Low No. 155/1995 of the Digest, about the pension insurance) at the end of the year 1995 with the effectiveness since January 1, 1996.
- The extension of the decisive period, from which the incomes from the occupation are "taken" for the calculation of the pension (it begins in the year 1886 and finishes in the last calendar year gone just before the calendar year of the acknowledgement of the pension; by the gradual extension this period should be 30-years one - from 1986 to 2015, from 1987 to 2016 etc.)
- The modernization of the pension system by introduction of the indexing of currently acquired incomes according to the grow of the average salary in national economy.

- New rules of the valorization of pensions were introduced to the law.
- Introduction of the widower pensions (till this time, only the widow pensions and the widower contributions existed).
- More strict rules for early old-age pensions, especially since July 1, 2001, through higher sanctions for the earlier old-age retirement. For the essential part of insurees - the cancellation since January 1, 2004 in frame of the reform of common finances and the possibility of the rise of the claim for the temporarily shortened old-age pension (at registration in the file of the applicants for job at least 180 days continuously and if at most two years remain to the achievement of the age of retirement).
- Enlargement of motivation for further stay in employment after the rise of the claim for the old-age pension, since July 1, 2001, by the increase of percentage rate for the time spent at work without getting of the old-age pension (for each 90 calendar days spent at work from 1 % to 1.5 %, or for one year, or 360 calendar days, respectively, from 4 % to 6 % of base of assess then).
- The limitation through the upgrade of the law, accepted in the year 1997, by the lowering of the credit of some alternate times for the pension to 80 % of their value.
- The increase of the age of retirement according to rules set by the law of January 1, 1996, and continuation in this increasing based on changes accepted in frame of the reform of common finances (men and childless women after the year 2012 - 63 years, women, according to the number of behaved children in the range of 59 years to 62 years of their age).

The basic assumption for continuation of the pension reform in the Czech Republic is the decision oriented to the concurrent financial sustainability of this system and to the payment of appropriate pensions. These aims should be respected at formulation of all single models of the pension reform. From this target, the following setting of parameters of this system should be derived as well as the selection of the kind of the achievement of the final solution. It especially means, for example, if the current batch defined system

(DB) will be conserved for old-age pensions, or if it will be replaced with the contribution defined system (NDC), or if a totally new variant of solution of current and future problems of the pension system will be chosen. How the political parties of this country intends to solve the reform of the pension system - it will be described in the next subchapters.

4.1. Reform of the pension system according to single political parties

4.1.1. Proposed solution of the pension reform according to the Czech Social Democratic Party

CSDP political party suggests, in frame of the pension reform, to orient mainly on the first pillar of the Czech pension system. The main change should occur in the transfer of the currently pay-defined and continuously financed system to the contribution-defined system NDC (Nationally Defined Contribution).

According to the Minister of Labour and Social Affairs Zdenek Skromach, in the NDC system each person will have a knowledge, how much he has invested to it during his all active life. The value of pension will be calculated from these paid savings then. These paid savings will be divided by the probable time of the remaining life, it means by the time, for which the pensioner will live and get the pension. To the amount, which was saved by the pensioner, there would be added the virtual interest, by which the amount is bearing interest. The value of this interest is deduced from the inter-years change of the salaries and wages in the economics.

The claim for the old-age pension will arise with coming of a certain minimum age limit, if the insured person will have an amount in his account, from which the full old-age pension may be calculated and this amount will reach the minimum set value. If the calculated pension will not reach the minimum set value, the pension will be adjusted to this value.

Parametrical changes

The main target of the CSDP reform is to bring more money to the pension system. The party intends to do it by the increase of the number of payers, which actually means, by the increase of the age of retirement. The next parametrical change, according to the CSDP,

should be the increase of premium or taxes. The CSDP also wants to decrease the expenses of the pension system by the limitation of the number of pensioners.

The system should be financed continuously, also in future. The taken insurance pays will be returned to pensioners.

Change-over of the system

The change-over from the current system to the NDC system should run gradually. To people born in the year 1947 and earlier, the pensions will be acknowledged according to the current pension system.

To people born in years 1948 – 1966, the pensions will be acknowledged partially according to the old system, one partially according to the new one. To people born in the year 1967 and later, the pensions will be acknowledged according to the new system NDC. The NDC system solves only the old-age pensions, the disability and estate pensions stay according to the old system.

The CSDP also holds a view, that for the development of the pension system it is necessary also to support the creation of private savings of citizens. It envisages also with the reform of the second pillar of the pension system. The party wants not only to extend the voluntary additional pension insurance, but also the pension insurance arranged by private insurance companies.

Evaluation of the reform

The affirmative side of this reform is the fact, that the CSDP admits, that the pension system needs to be reformed. Nevertheless, according to my opinion, the proposed reform of this political party is unsatisfactory. The NDC system is actually more transparent than the current one, but, basically, it is almost identical with the present system. Just as in the current system, the obtained pays of the pension insurance are immediately distributed to the pensioners. The money is not valued by any way. Each participant of the insurance will get the printout of his saved means at the end of the year, but, as a matter of fact, he has nothing from these money. There are no sources, which guarantee the claim for the saved money from the account. The pensions are continuously financed from the contributions obtained from working people.

pension system is not sustainable. On the contrary, according to the CPBM it is stabilized for 10 years and after this time or probably also more will expire, it will be possible to consider, if, based on the grow of labour productivity and higher incomes, it will be possible to pay more money to it. So, the largest load of the system should lie on the first basic pillar. This first pillar should ensure a person also without other additional pillars. CPBM namely agree with the necessity of parametrical interventions to the system, but they should be performed not only on the principle of merits, but also on the solidarity. To sum everything up, the CPBM struggles for continuous, semi-sources, sympathetic and government guaranteed system.

Variants of interventions to the pension system

- 1) To re-count, how the last approved changes of payments to the pension system will be shown.
- 2) According to CPBM, at the assumed 5 % annual grow of salaries one can expect, that the system will be balanced.

For how many next years the pension would be ensured in following sub-variants in the value of:

- 40 % of average gross earnings,
 - 45 % of average gross earnings,
 - 50 % of average gross earnings.
- 3) How it can extend the self-financing of the old-age pensions payment from the independent account of the national budget excluding the disability, or estate pensions, respectively, to other systems and further alignment of independently gainfully active persons payments with employees ones.
 - 4) How the lower birth rate effects the number of active population at legalized age retirement 63 years, how this problem can be solved, and how can be solved by the lowering, or even by the total elimination of unemployment.

- 5) In which year the pension system came to the deficit and if the means, obtained for the government policy of unemployment in the value of 1.6 %, should be transferred to the pension fund.
- 6) In what year it was necessary to think about the next increase of the payment to the pension fund, for example, by 2 % at single variants and for the time necessary for the balance of the fund.
- 7) In what year it was necessary to include semi-sources financing.
- 8) How the pension fund would be concerned by the change proposed by some politicians, that a certain part of the current payment to the system, 5 %, for example, would be, according to the individual wish, transferred to the personal account of additional pension insurance. [23]

Evaluation of the reform

CPBM does not respect facts and economic rules, its proposal does not solve, by any way, the problem of the pension system. The Czech pension system is deficit and is able, in current form, function approximately up to the year 2011. After that milestone, more money, than in present, should have to flow to this system. So the 10 years of trouble-free functioning of the pension system, which the CPBM proclaims, is impossible. Based on the grow of the labour productivity and higher earnings after several X years it is probable, that we will pay more money to the system, but concurrently, it is very probable, that more money will be expensed from this system with respect to the demographic development.

Some proposals of this party are only the accounting tricks, for example, the transfer of paid insurance from the unemployment to the pensions, or the payment of the disability and the estate pensions from another source. The affirmative thought is only in the item 8, concerning the possibility of the transfer of a part of mandatory payments to the private account of the additional pension insurance according to the individual wish. The other proposals of the CPBM solve nothing. The CPBM does not realize the momentousness of the situation and the temporary stabilization of the system through parametric changes considers to be the permanent solution.

4.1.3. Proposed solution of the pension reform according to the Civic Democratic Party

CDP warns before the non-sustainability of the current status of the pension system and is for the radical change. It suggest such a pension system, which would combine the principle of solidarity and own merits. So, it will depend on each person, how he better his minimum pension guaranteed by the government. Therefore, the CDP is for two pillars, the first is governmental and second is private. The governmental pillar would be, also in future, organized as the continuous one. The duty to contribute to this system would stay and the basic pensions would be paid from it. The governmental pillar should guarantee the pension in the value of 20 to 30 % of average salary. So, the governmental pillar will be based on the principle of the inter-generation solidarity and on the continuous financing of pensions. This method should bring to the citizens in the retirement age the same basic flat pension and this will also bring saving of costs for the administration. This method should also allow to decrease the rate of social insurance and puts larger impact, than now, on the individual additional pension insurance, and on investment and savings, respectively. The private pillar should be completely in the hands of citizens, and everybody would decide, how to invest, or save, his money. According to the CDP, people will use the pension funds, which already exist in our market. The setting up of consistent control of the funds economies is assumed, together with tightening of claims on the transparency of economy with complete enhancement of the assurance of funds. In the private pillar, the CDP assumes the subtractions from the tax basis. The CDP claims, that after setting up of this system the current rate of redistribution will be lowered, the role of merits and the justness of pensions will be stronger and, in fact, the incomes of pensioners will increase.

Naturally, this reform process is a long-time concern and according to the CDP, the first step should be the better transparency of today's system by the transfer of the employer contribution on social assurance to the gross salary of the employee. As the consequence, people should realize, how much they actually pay on pensions. CDP assumes also the increase of the age limit for retirement to 65 years, or to 66 - 67 years, respectively.

Change-over of the system

CDP considers two variants of the change-over on the new pension system. In the first variant, CDP wants to set up this system as mandatory for people born in the year 1967 and later. For older people, the change-over on the new system will be voluntary. In the second variant the change-over on the new system will be mandatory for people born in the year 1958 and later. For people born in the years 1958 - 1976, their pension will be the linear combination of the "old" PLAYG DB and the "new" flat pension.

Evaluation of the reform

According to the CDP, the reform is from the economic point of view, and under some assumptions, the most effective one. But for me, it seems to be also some half-baked. I would be interested, how the government wants to ensure the money for current pensions, when the premium will be lowered, or how much this reform will cost, and where the Czech Republic gets these money. In case, that for some age-groups this system will be voluntary, it is evident, that the groups of persons with lower earnings will stay in the old system, because the solidarity in this system is more advantageous for them. On the contrary, people with higher earnings will get out of this system, because they will pay less money to the new system of pension insurance. In such case a danger arises, that there will not be sufficient amount of money for payment of current pensions. A better solution could be to integrate all insured persons to the new system, starting with the older ones, and if somebody will have during the transformation period less money, than according to current rules, to pay him off the remaining part. The increase of the age of retirement up to 67 years seems to be a bit thick.

The problem of the second pillar is the fact, that it is not mandatory. It would be, at least, partially mandatory, because nobody can assume, that all citizens will save money for their pensions voluntarily. A case may occur, that there will be too many poor pensioners without savings.

The largest problem of this proposal is the fact, that there is not shown, how the CDP wants to achieve these goals. How do they want to ensure the means on the current pensions in case, that the premium will be lowered and by how much do they want to lower the premium?

4.1.4. Proposed solution of the pension reform according to the Union of Liberty - Democratic Union

UL-DEU political party intends, in the frame of the reform of the pension system, to set up a combined system. The main role in this system plays the reformed PAYG system. UL-DEU struggles for increase of equivalency of current system in combination with parametrical changes and with the enhancement of individual private pension insurance.

According to UL-DEU the pension system must assure the inter-generation compactness between pensioners and the productive part of population (the measure of the compactness is the compensation ratio, it means, the relation between the average old-age pension and the gross, or net, respectively, salary) and also the financing stability of the system must be ensured. It should actually mean, that the expenses on pensions from national budgets should not exceed 12 % of GDP in the year 2050. The compensation ratio should be around 40 % in the year 2009, then it should gradually lower at newly acknowledged pensions and it should reach 30 % in the year 2030 (it means, approx. 41 % of the net salary). The age of retirement should gradually increase up to 65 years for man and childless women.

The UL-DEU also wants to extend the mandatory time of the participation on the insurance to obtain the old-age pension to 40 years, or 25 years of insurance, at minimum, and simultaneously the age of retirement of 5 years more, than is the current age of retirement.

In case of early pension the mandatory time of insurance is 37 years and coming of the age by 3 years lower, than is the age of retirement. Further, the UL-DEU intends to limit the number of early retirements by the increase of sanction to 1.5 % of the calculation basis for each started 90 days of earlier pension. The substitution times of insurance should also be gradually limited. And by such a way, that all without-contribution times should be counted for the purpose of the participation on the insurance from 80 % and for the determination of percentage value of pension from 50 %. There also will be set up the concurrence of the pension and working activity, which will be allowed three years before the coming of the age of retirement, at the earliest, and three years before the attainment of mandatory time of insurance (for the concurrence permission both conditions must be completed). In case, that the insured person will decide for the concurrence (he will take the pension in the amount of one half of the calculated pension) and his earning from

working activity will reach 50 % of his previous basic calculating basis, at minimum, the sanction for the early pension will not be applied for him. More, the percentage calculation of the pension will increase in harmony with the value of earnings, from which the insured person will pay the pension insurance. At the concurrence and after the coming of the age of retirement the percentage amount will be increased not only in the harmony with the volume of earnings, but also by the set bonus.

Increase of equivalence (justness) at newly acknowledged old-age pensions. This increase will be done with help of the change of reduction limits and with help of zero valorisation of basic acknowledgement of pensions. The first reduction limit will be on the level of one half of the average gross salary in national economy, the second one will be on the level of 1.5 multiple of the average gross salary. To the level of the first reduction limit, the personal acknowledgement basis will be counted from 80 %, to the level of the second reduction limit from 50 % and above the level of the second reduction limit from 30 %. Above the level of triplication of the average gross salary in national economy, the personal acknowledgement basis will not be counted. Further, the decisive period for the personal acknowledgement basis calculation will be extended to 40 years. [24]

In the second pillar, the UL-DEU wants to allow the insured person to transfer 2 % to 3 % of his acknowledgement basis to the individual account. It will be conditioned by the fact, that the insured person will pay another 4 % to 6 % from his savings. By this way, the pension from the government pillar will be adequately lowered.

In the third pillar, there would be set up the aggregate limit for the insured person for the subtraction from the tax basis in the amount of 12 % from the acknowledgement basis with upper limit in the value of the double of the average gross salary and for the employer, who contributes to his employees for savings for the old age. The aggregate limit for the subtraction from the tax basis is in the amount of 10 % of the acknowledgment basis of the employee with the upper limit of 1.8 multiple of the average gross salary.

In the area of the non-old-age pensions, there should occur the lowering of the average value of the newly acknowledged full disability pensions to be by 10 % lower, than the average value of newly acknowledged old-age pensions. The newly acknowledged partial

disability pensions should be also lowered to 50 % of the value of the newly acknowledged full disability pension and the newly acknowledged estate pensions should be lowered by 5 %.

Evaluation of the reform

The proposal of the reform of the pension system according to UL-DEU should really, by the significant way, better the stability of the system. But also this proposal has some defects. Parametrical changes of current system are essential, but the changes proposed by this political party sometimes seems to be too drastic. The increase of the limit for the age of retirement to 65 years is probably indispensable, but as I have mentioned at the evaluation of the reform of the CSDP political party, I am afraid of the increase of unemployment of this group of people. I also disagree with the extension of the mandatory time for participation at the insurance to 40 years. This limit appears me to be too high and I think, that it should not exceed 35 years. Limitation of the early retirements is certainly right, but there is necessary to ensure such conditions, that the early retirement for some people will not be the only one solution of their wrong working, economic, or healthy situation. According to my opinion, we all the time brush with the problem of unemployment here. If our government will seek to solve the problem of the pension system, it will have to solve also the problem of unemployment and must set up the conditions of the reform of the pension system by such a way, that the rate of unemployment would not increase. In the area of concurrence of the pension and the working activity I would suggest to loosen the conditions set by UL-DEU.

I would allow it earlier, than three years before the age of retirement and the mandatory time of insurance is attained.

The proposal envisages the reinforcement of the role of merits, which is necessary in conditions of the Czech pension system. On the other hand, the UL-DEU is very careful. It suggests only the voluntary use of the fund pillar. For the government is advantageous, because there are put lower requirements on it in the area of regulation of these funds.

The problem of voluntary principle is the fact, that this possibility, probably, will not be used by those groups of population, which needs it the most of all. Also the proposed percentage of saving is relatively low. Such a low pay may limit the advantages, which should flow from the fund system.

In the area of non-old-age pensions I would suggest to political parties to orient themselves rather to avoid the getting of this pension by people, who take it baselessly. To lower the pensions to handicapped persons is very immoral, because these pensions used to be sometimes very low and these persons need for their healthy and physical limitation rather more means to their normal life.

4.2. Proposal of the reform

The main target of the pension reform of the Czech Republic should be the decent assurance of seniors, appropriate loading for employees and employers and, as a matter of course, the prevention of the deficit ness of the system.

The pension system should be set up not to cause large deficits in the national budgets and to allow to all people to decide about the question about their retirement as flexible as possible. The solution of the problem of today's situation, the deficits of the pension system, should lie in the change of the principle of its financing. People should more save for their own pensions with help of private pension funds.

The problem of today's system lies on the fact, that the paid money are immediately redistributed and are not valorised by any way. The private saving allows a certain valorisation and should be by each person taken onto account. The largest problem of the pension reform is the fact, that it is not sufficient to change the pension system, but it is important to change the thinking of people. To persuade people, that if they will voluntarily save money for their old age, it will be advantageous for them and that the finances invested to pension funds will not be defrauded by anybody and their valorisation will be sufficient from the time point of view.

As regards the issue of parametrical changes of the pension system, I would suggest to adjust them by such a way, that they will not be too drastic and will not prevent to the economic development of our country. It means, that the government should not force citizens to perform the physically hard work, which they have done during their active life, also in their 70s (the proposal of CDP to increase the age of retirement to 67 years). I cannot imagine, that such a physically and psychologically hard job, as is, for example, the profession of fireman, can be performed by a man, who is 65 years old. According to my opinion, in his years, he could not pass the regular re-testing of his abilities, necessary for such profession. So, what will do such a person? For example, he can be transferred on

some administrative work, but only in case, that in such a department will be more such older people, what will do the those others? With the increase of the age of retirement there also increase the risk of the increase of unemployment at a certain group of people. This is a subject of thinking for each political party when proposing the parametrical changes of the pension system. I also thing, that they should more consider the lowering of the premium paid by the employer. By this way, the rate of unemployment may be lowered and it can help to the economical development.

Regardless on the kind decision of our politicians, the sooner the decision is done, the better. Delay of the reform just worsen the conditions for its starting. The main motivation of the pension reform should be to save the pension system to the future.

4.3. Opinion of the European Commission on the reform of pension systems

According to the European Commission, there exists a lot of reasons for the reform of pension systems, nevertheless, one general solution does not exist. EC takes the view, that it is necessary to minimize the increasing loading of the financing of pensions for the population of working people, and, if possible, to extend the fund element on the voluntary basis. The access to active old age and higher employment is, according to the European Commission, an important part of the effectiveness of the reforms of pension systems, which have to react on the problem of aging population.

According to the European Commission, the most effective way, how to get over the problem of aging of the population, is to reverse the trend of increasing number of early retirements. The main target is to change the behavior and thinking of people before and during the age of retirement and motivate them to stay in employment for a longer time and to go out the labour market gradually. For realization of such a plan the participation of social partners is necessary, as well as the support of institutions of the policy of employment and corresponding tax policy.

Besides, another methods to escape from an occupation exist, for example, disability, or the long-term unemployment. The interesting is also the European Union opinion on the early retirement. Mainly, because it need not be the permanent concern. For example, there

are different kinds of interruptions of working relationships and different kinds of part-time or shortened employment and gradual retirement. According to some estimates and analyses (OECD), if it would be succeeded to increase the actual age of men retirement to 64 - 65 years of the age and to retain the current rate of women employment, the problem of the increasing rate of dependence should be broadly removed. Nevertheless, certain changes regarding the value of contributions or pays will be necessary, as well.

Table No. 6: The structure of pensions in single states according to the types

The structure of pensions in single states according to the types in the year 1999 (in %)
(EU15 + selected countries from new ones EU+10)

	DE	NL	BE	LU	FR	IT	GB	DK	IE
Old-age	79,2	60,7	64,0	72,2	79,1	74,8	80,1	62,3	46,2
Disability	8,4	22,0	10,9	19,2	6,2	6,5	12,2	14,7	15,3
Widow's	3,0	10,6	20,5	6,0	11,9	18,0	7,7	0,0	15,3
Other	9,54	6,7	4,6	2,6	2,8	0,7	0,0	23,0	16,7

	GR	ES	PT	AT	FI	SE	EU	SK	SI
Old-age	66,8	74,7	65,4	58,4	59,2	75,4	75,3	82,3	64,6
Disability	6,3	12,4	20,4	8,7	19,4	17,8	9,9	12,0	10,2
Widow's	6,4	8,1	12,7	19,6	9,0	5,9	9,7	5,0	3,2
Other	20,5	4,8	1,5	13,4	12,4	0,8	5,1	0,8	22,0

Source: Eurostat and the Czech Statistical Office

Diagram No. 2: Expenses for social pays in EU 15 population

Expenses for three types of social pays per man in EU 15 population (1993 - 2001).

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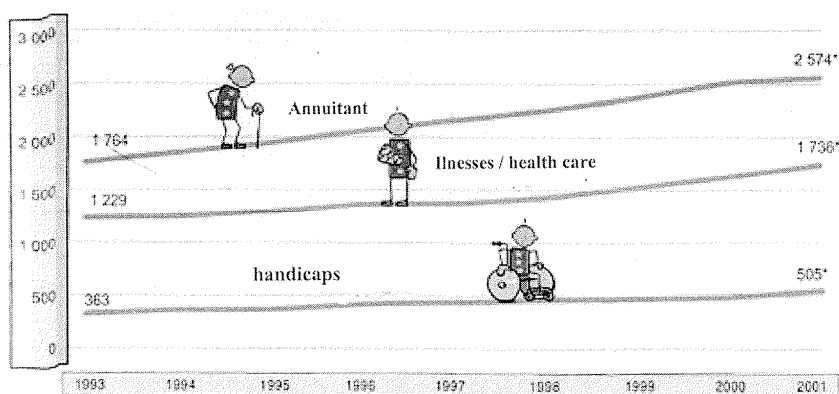
	DE	NL	BE	LU	FR	IT	GB	DK	IE
Old-age	79,2	60,7	64,0	72,2	79,1	74,8	80,1	62,3	46,2
Disability	8,4	22,0	10,9	19,2	6,2	6,5	12,2	14,7	15,3
Widow's	3,0	10,6	20,5	6,0	11,9	18,0	7,7	0,0	15,3
Other	9,54	6,7	4,6	2,6	2,8	0,7	0,0	23,0	16,7

	GR	ES	PT	AT	FI	SE	EU	SK	SI
Old-age	66,8	74,7	65,4	58,4	59,2	75,4	75,3	82,3	64,6
Disability	6,3	12,4	20,4	8,7	19,4	17,8	9,9	12,0	10,2
Widow's	6,4	8,1	12,7	19,6	9,0	5,9	9,7	5,0	3,2
Other	20,5	4,8	1,5	13,4	12,4	0,8	5,1	0,8	22,0

Source: Eurostat and the Czech Statistical Office

Diagram No. 2: Expenses for social pays in EU 15 population

Expenses for three types of social pays per man in EU 15 population (1993 - 2001).



Source: Eurostat

4.3.1. EU countries and additional pension insurance

The aging of population and connected difficulties with financing of the pension system are the problems of the most of EU countries. One pensioner is "fed" by decreasing number of working people, so the amount of money in the system decreases. The citizens of member states realize these tendencies already for a longer time and pay so-called additional pension insurance, which is used in surrounding states for its definite advantageous more broadly, than in our country up to now. Due to this system, the people in EU countries may be retired earlier, frequently before the completion of the legal age limit for regular retirement. This is 65 years in the most of states. The exemption makes only France with 60 years and Denmark with 67 years. Not in all countries people can take early pensions - for example, in Great Britain, or in Netherlands it is not possible. In the most of countries there prevails the trend to keep the older people working as long as possible. That is why in all countries, where the early retirement is possible, the old-age pensions are shortened in dependence on the time, how early the employee is retired.

Table No. 7: Examples of the age of retirement (EU 15 and the CR)

Government	Males	Females
Czech Republic	62	57 – 60
Belgium	65	62 (65 in year 2009)
Denmark	65	65
Finland	65	65
France	60	60
Italy	65	60
Ireland	65/66	65/66
Luxembourg	65	65
Germany	65	65
Netherlands	65	65
Portugal	65	65
Austria	65	60
Greece	65	60
Spain	65	65
Sweden	65	65
Great Britain	65	60

Examples of the age of retirement - average values (comparison of EU 15 with the CR)

Source: ICEU Prague, information leaflet European Union and seniors

5. Possibilities of practical usage

Practically everybody is concerned with retirement, and with increasing age the citizens are more and more interested about their pension insurance, namely about the value of their future pensions and about the possibility to be retired. In this work, several examples is illustrated, which should make easier to understand the legislative of the pension system in the Czech Republic. The last chapter of this work is addressed to possibilities of practical usage, and, for this reason, the procedure is described there in more details, how to calculate the value of the pension. This procedure is applied on several examples then.

Each person absolutely wishes the pension as high as possible. Knowing the way, how to calculate the pension and knowing the necessary legislative, one can enlarge the value of his pension by the correct choice of the appropriate age of retirement.

5.1. Procedure for the calculation of the old-age pension

As the first step at the calculation of an old-age pension is the determination of the age of retirement and also of the day, from which the pension should be acknowledged (of course, it is also important to verify all conditions for the compliance with the claim for the pension).

As the next step, the total time of the insurance with distribution on the time for achievement of the claim for the pension, and after achievement of it, is to be found out.

Further, we have to determine the decisive period and the earnings in single calendar years of the decisive period and to find out the number of excluded periods, which come under the decisive period. The yearly earnings must be adjusted then (by so called indexing, i.e. by the multiplying with the coefficient of the grow of the general base of assess) to find out single yearly bases of assessment. The sum of yearly bases of assess and the sum of excluded periods follows. The calculation of the personal base of assess is performed then, and after its reduction the base of calculation is found out.

As the last step is the calculation of the pension, which is made as the product of the base of calculation and the appropriate number of percents, in dependence on the time of the insurance.

5.1.1. The value of the old-age pension

The value of the percentage assessment of the general old-age pension makes, for each completed year of the time of insurance acquired to the time of the rise of the claim for this pension, 1.5 % of base of calculation. As the complete year of the time of insurance - 365 calendar days is understood. [25]

At gainful employment, which is performed also after the claim for the pension raised, the old-age pension increases. This increment makes 1 % of the base of calculation for each completed 90 calendar days of this gainful employment before July 1, 2001 and 1.5 % of the base of calculation for each completed 90 calendar days of this gainful employment after June 30, 2001.

For the calculation of the value of the old-age pension (S) the following formula is used:

$$S = ZV + [(CDP \times 1.5 / 100) \times VZ] + [(DDP \times 1 \text{ or } 1.5^* / 100) \times VZ]$$

ZV = basic assessment

CDP = total time of the insurance after the completion of mandatory school attendance till the rise of the claim for the old-age pension in whole calendar years

DDP = number of time periods of the additional time of insurance in the range of 90 calendar days of the gainful employment performed after the rise of the claim for the old-age pension

VZ = base of calculation

* = the rate 1 or 1,5 depends on the time period of the next gainful employment

5.1.2. Personal base of assess found out from earnings

The personal base of assess, from which the base of calculation is determined, is defined as the monthly average of the total sum of the yearly base of assess of the insuree for the decisive period. This average is determined as the product of the coefficient of 30.4167 and the quotient of the total sum of yearly bases of assess for the decisive period and the number of calendar days in the decisive period. If there are the excluded periods in the decisive period, the number of calendar days in the decisive period is lowered by these

days. The coefficient of 30.4167 represents the average number of days in the calendar month ($365/12 = 30.4167$). [26]

The calculation of the personal base of assess (OVZ) can be expressed by the formula:

$$\text{OVZ} = 30.4167 \times (\text{total sum RVZ} / \text{KD} - \text{VD})$$

RVZ = yearly base of assess for the calendar year falling to the decisive period

KD = number of calendar days of the decisive period

VD = number of excluded calendar days in the decisive period

5.1.3. Base of calculation

The base of calculation is equal to the personal base of assess, if it does not exceed so called first reduction limit. If the personal basis of assess exceed this limit, the base of calculation is determined by such a way, that the value of the personal base of assess up to the first reduction limit is taken fully, from the value of the personal base of assess in the range between the first and the second reduction limit is taken of 30 % and from the value of the personal base of assess above the second reduction limit is taken of 10 %. For the determination of the base of calculation it is therefore necessary to know the actual values of the reduction limits. In the year 2004, the first reduction limit was 7,500 CZC and the second reduction limit was 19,200 CZC. For the year 2005, the first reduction limit was 8,400 CZC and the second reduction limit was 20,500 CZC. [27]

Example No. 6:

Mr. Igor Novák achieved the age of retirement on August 20, 2005. As of this date, he achieved 44 years and 353 days of the time of the insurance. He asked for the old-age pension acknowledgement on December 1, 2005. In the years 1987, 1994, 1998, 2000 and 2003 he took altogether 55 days of sick pay. The calculation of his pension is as follows: Firstly, we have to find out the earnings (base of assess) in the single calendar years of the decisive period and then, we have to multiply them by the coefficient of the grow of the general base of assess (KNVVZ). By this way, we obtain so called indexing earnings (bases of assess), i.e. the yearly bases of assess (RVZ). We have to perform the sum of

these yearly bases of assess then and to calculate the personal base of assess according to the formula.

year	earnings	KNVVZ	RVZ	VD
1986	55 900	6,0338	337 290	-
1987	56 500	5,9102	333 927	5
1988	65 000	5,7784	375 596	-
1989	68 220	5,6417	384 877	-
1990	88 500	5,4425	481 662	-
1991	113 350	4,7163	534 593	-
1992	132 500	3,8510	510 258	-
1993	180 630	3,0745	555 347	-
1994	250 410	2,5934	649 414	20
1995	330 510	2,1885	723 322	-
1996	352 140	1,8483	650 861	-
1997	385 000	1,6720	643 720	-
1998	379 500	1,5295	580 446	14
1999	390 000	1,4132	551 148	-
2000	395 000	1,3257	523 652	6
2001	400 500	1,2216	489 251	-
2002	402 000	1,1383	457 597	-
2003	403 500	1,0665	430 333	10
2004	405 000	1,0000	405 000	-
Total:			9 618 294	55

Further, we have to find out the number of calendar days (KD) in the decisive period, i.e. in the period 1986 - 2004. It will be 19 years, i.e. $19 \times 365 + 5$ days for leap years, 6,940 in total.

Afterwards, we have to find out the total sum of excluded days (VD) in the decisive period.

Now, we have all necessary data for the calculation of the personal base of assess:

- total sum of RVZ = 9 618 294,
- number of KD in the decisive period = 6 940,
- number of VD = 55

These values will be inserted to the formula for the calculation of the personal base of assess:

$$OVZ = 30.4167 \times (9\,618\,294 / 6\,940 - 55) = 42\,492$$

The personal base of assess is therefore 42 492 CZC and we have to reduce it now. It means 8 400 + 30 % from the difference of amounts 20 500 and 8 400 + 10 % from the difference of amounts 42 492 and 20 500.

$$8\,400 + [(20\,500 - 8\,400) \times 0.3] + [(42\,492 - 20\,500) \times 0.1] = 8\,400 + 3\,630 + 2\,200 = 14\,230$$

In the given case, the base of calculation is 14 230 CZC.

The total time of insurance is 45 years to the rise of the rise of the claim, because to 353 days we have added 12 days from the time after the claim. Further, we have 99 days after the rise of the claim for the pension, i.e. one period by 90 calendar days. Therefore CDP = 45.

The formula for the calculation of the percentage assess (PV) of the old-age pension after the insertion of all data is:

$$S = [(45 \times 1.5 / 100) \times 14\,230] + [(1 \times 1.5 / 100) \times 14\,230] = 9\,606 + 214 = 9\,820 \text{ CZC}$$

With regard to the fact, that the pension is acknowledged since December 1, 2005, it is not subjected to the Government Regulation about the grow of pensions in the year 2005 and therefore the calculated percentage assess cannot be increased according to this Regulation. To the percentage assess 9 820 CZC the basic assess 1 400 CZC is finally added and in this case, the old-age pension will be 11 220 CZC monthly, starting December 1, 2005.

Example No. 7:

Mrs. Zuzana Černá achieved the age of retirement on May 21, 2004 and as of this date, she achieved 35 whole years of insurance. Mrs. Černá continued working and she asked for the old-pension acknowledgement since December 1, 2004. The decisive period is limited by the years 1986 - 2003.

Analogically to previous case, firstly, we have to find out the earnings in the single calendar years of the decisive period and multiply them by the coefficient of the grow of the general base of assess, to be able to perform the calculation of the yearly bases of assess. Finally, we have to record to the table also the excluded periods in single years.

year	earnings	KNVVZ	RVZ	VD
1986	37 540	5,6807	213 254	10
1987	41 620	5,5643	231 587	-
1988	43 890	5,4402	238 771	-
1989	45 700	5,3115	242 736	-
1990	48 000	5,1240	245 952	-
1991	55 500	4,4403	246 437	7
1992	60 900	3,6256	220 800	-
1993	62 600	2,8945	181 196	-
1994	75 700	2,4416	184 830	20
1995	82 400	2,0604	169 777	-
1996	95 300	1,7401	165 832	-
1997	104 800	1,5742	164 977	9
1998	105 600	1,4400	152 064	-
1999	111 200	1,3305	147 952	-
2000	118 900	1,2481	148 400	5
2001	125 600	1,1501	144 453	-
2002	132 560	1,0717	142 065	16
2003	141 400	1,0000	141 400	-
Total:			3 382 483	67

Further, we have to find out the number of calendar days (KD) in the decisive period, i.e. in the period of 1986 – 2003. It will be 18 years, i.e. $18 \times 365 + 4$ days for leap years, 6 574 in total. Afterwards, we have to find out the total sum of excluded days (VD) in the decisive period.

Now, we have all necessary data for the calculation of the personal base of assess:

- total sum of RVZ = 3 382 483,
- number of KD in the decisive period = 6 574,
- number of VD = 67.

These values will be inserted to the formula for the calculation of the personal base of assess:

$$OVZ = 30.4167 \times (3\,382\,483 / 6\,574 - 67) = 15\,812$$

The personal base of assess is therefore 15 812 CZC and we have to reduce it now. It means 7 500 + 30 % from the difference of amounts 15 812 and 7 500:

$$7\,500 + [(15\,812 - 7\,500) \times 0.3] = 7\,500 + 2\,494 = 9\,994$$

In the given case, the base of calculation is 9 994 CZC.

The formula for the calculation of the percentage assess (PV) of the old-age pension after the insertion of all data is:

$$S = [(35 \times 1.5 / 100) \times 9\,994] + [(2 \times 1.5 / 100) \times 9\,994] = 5\,247 + 300 = 5\,547$$

To the percentage assess of 5 547 CZC the basic amount of 1 310 CZC is finally added and in this case, the old-age pension will be 6 857 CZC monthly starting December 1, 2004. Starting the batch payable in January 2005, this pension will be increased according to the Government Regulation about the increase of pensions in the year 2005 so that the basic assess will be 1 400 CZC and the percentage assess 5 547 will be increased by 5,4 % and by this way the new value of the old-age pension will be 7 247 CZC monthly.

Example No. 8:

Mr. Michal Novotný achieved the age of retirement on June 28, 2004. As of this date, he achieved 42 years and 58 days of the time of insurance. In the decisive period, the number of days of working immobility was 49 in total. Yearly earnings and the coefficient of the grow of the general base of assess are shown in tables for the retirement from June 28, 2004, from December 31, 2004 and from January 1, 2005.

The task is to find out, which of these three dates for the start of the retirement will be the most advantageous for Mr. Novotný from the point of view of the value of his pension.

We will proceed by the same way, as in previous examples for the calculation of the pension. Firstly, let's multiply the earnings by the coefficient to obtain the indexing earnings, or yearly bases of assess (RVZ). Afterwards, we will have to perform the sum of

these yearly bases of assess and to calculate the personal base of assess according to the formula.

Variante A: Retirement since January 1, 2005
(the decisive period is from 1986 to 2004)

year	earnings	KNVVZ	RVZ	VD
1986	54 900	6,0338	331 256	-
1987	55 500	5,9102	328 017	-
1988	64 000	5,7784	369 818	-
1989	67 220	5,6417	379 236	10
1990	86 500	5,4425	470 777	-
1991	110 350	4,7163	520 444	-
1992	128 500	3,8510	494 854	-
1993	169 630	3,0745	521 528	5
1994	210 410	2,5934	545 678	-
1995	290 510	2,1885	635 782	-
1996	352 140	1,8483	650 861	5
1997	381 000	1,6720	637 032	-
1998	378 500	1,5295	578 916	-
1999	385 000	1,4132	544 082	20
2000	394 000	1,3257	522 326	-
2001	400 300	1,2216	489 007	-
2002	401 000	1,1383	456 459	-
2003	402 500	1,0665	429 267	9
2004	404 000	1,0000	404 000	-
Total:			9 309 340	49

Further, we have to find out the number of calendar days (KD) in the decisive period, i.e. in the period of 1986 - 2004. It will be 19 years, i.e. $19 \times 365 + 5$ days for leap years, 6 940 in total. Afterwards, we have to find out the total sum of excluded days (VD) in the decisive period.

Now, we have all necessary data for the calculation of the personal base of assess:

- total sum of RVZ = 9 309 340,
- number of KD in the decisive period = 6 940,
- number of VD = 49

These values will be inserted to the formula for the calculation of the personal base of assess:

$$\text{OVZ} = 30.4167 \times (9\,309\,340 / 6\,940 - 49) = 41\,092$$

The personal base of assess is therefore 41 092 CZC and we have to reduce it now. It means 8 400 + 30 % from the difference of amounts 20 500 a 8 400 + 10 % from the difference of amounts 41 092 a 20 500.

$$8\,400 + [(20\,500 - 8\,400) \times 0.3] + [(41\,092 - 20\,500) \times 0.1] = 8\,400 + 3\,630 + 2\,060 = 14\,090$$

In the given case, the base of calculation is 14 090 CZC.

The total time of insurance is 42 years to the rise of the claim. Further, we have to take into account the gainful employment performed after the rise of the claim for the old-age pension from June 28 to December 31, 2004, i.e. two periods by 90 calendar days.

The formula for the calculation of the percentage assess (PV) of the old-age pension after the insertion of all data is:

$$S = [(42 \times 1.5 / 100) \times 14\,090] + [(2 \times 1.5 / 100) \times 14\,090] = 8\,877 + 423 = 9\,300 \text{ CZC}$$

The basic assess in the amount of 1 400 CZC is finally added to the amount of 9 300 so that the old-age pension is 10 700 CZC in total.

Variant B: Retirement since December 31, 2004
(the decisive period is from 1986 to 2003)

year	earnings	KNVVZ	RVZ	VD
1986	54 900	5,6807	311 871	-
1987	55 500	5,5643	308 819	-
1988	64 000	5,4402	348 173	-
1989	67 220	5,3115	357 040	10
1990	86 500	5,1240	443 226	-
1991	110 350	4,4403	489 988	-
1992	128 500	3,6256	465 890	-
1993	169 630	2,8945	490 995	5
1994	210 410	2,4416	513 738	-
1995	290 510	2,0604	598 567	-
1996	352 140	1,7401	612 759	5
1997	381 000	1,5742	599 771	-
1998	378 500	1,4400	545 040	-
1999	385 000	1,3305	512 243	20
2000	394 000	1,2481	491 752	-
2001	400 300	1,1501	460 386	-
2002	401 000	1,0717	429 752	-
2003	402 500	1,0000	402 500	9
Total:			8 382 510	49

Further, we have to find out the number of calendar days (KD) in the decisive period, i.e. in the period of 1986 - 2003. It will be 18 years, i.e. $18 \times 365 + 4$ days for leap years, 6 574 in total. Afterwards, we have to find out the total sum of excluded days (VD) in the decisive period.

Now, we have all necessary data for the calculation of the personal base of assess:

- total sum of RVZ = 8 382 510,
- number of KD in the decisive period = 6 574,
- number of VD = 49

These values will be inserted to the formula for the calculation of the personal base of assess:

$$OVZ = 30,4167 \times (8\,382\,510 / 6\,574 - 49) = 39\,076$$

The personal base of assess is therefore 39 076 CZC and we have to reduce it now. It means 7 500 + 30 % from the difference of amounts 19 200 a 7 500 + 10 % from the difference of amounts 39 076 a 19 200.

$$7\,500 + [(19\,200 - 7\,500) \times 0.3] + [(39\,076 - 19\,200) \times 0.1] = 7\,500 + 3\,510 + 1\,988 = 12\,998$$

In the given case, the base of calculation is 12 998 CZC.

The total time of insurance is 42 years to the rise of the claim. Further, we have to take into account the gainful employment performed after the rise of the claim for the old-age pension from June 28 to December 30, 2004, i.e. two periods by 90 calendar days.

The formula for the calculation of the percentage assess (PV) of the old-age pension after the insertion of all data is:

$$S = [(42 \times 1.5 / 100) \times 12\,998] + [(2 \times 1.5 / 100) \times 12\,998] = 8\,189 + 390 = 8\,579$$

The basic assess in the amount of 1 310 CZC is finally added to the amount of 8 579 CZC so that the old-age pension is 9 889 CZC monthly in total. In January 2005, this pension will be increased according to the Government Regulation No. 565/2004 of the Digest so that the basic assess will be 1 400 CZC and the percentage assess will be increased by 5.4 %, i.e. it will be 9 043 CZC. Since the batch paid in January 2005 the total value of the pension will be 10 443 CZC.

Variant C: Retirement since June 28, 2004
(the decisive period is from 1986 to 2003)

The base of calculation will be the same as in variant B, i.e. it will be 12 998 CZC.

The formula for the calculation of the percentage assess (PV) of the old-age pension after the insertion of all data is:

$$S = [(42 \times 1.5 / 100) \times 12\,998] = 8\,189$$

After the adding of the basic assess, which is 1 310 CZC she old-age pension will be 8 499 CZC monthly. In January 2005, this pension will be increased according to the Government Regulation No. 565/2004 of the Digest.

Conclusion: From the above shown calculations it follows, that the most advantageous date of retirement of Mr. Novotný, from the point of view of the value of his pension, is January 1, 2005, when the value of the pension is 10 700 CZC.

From the calculation it is obvious, that even one day can affect the value of the pension. If Mr. Novotný decides to be retired on December 31, 2004, his monthly pension will be by 257 CZC lower, than if he does it one day later.

CONCLUSION

In conclusion of this Bachelor Thesis I would like to evaluate the aims set in the introduction of the work.

For me, the main target is to approach the legislative of the pension system in the Czech Republic to all people, who will use these lecture notes. During the work I found out which laws and regulations are used in this area and their content. I also describe, what are the conditions of the claims for single kinds of pensions, how the age of retirement is determined, or how long the time of the pension insurance have to be. Further, I have described in my work, how to ask for the pension, what is the method of the calculation of the pension and how the concurrent pension and gainful employment function in our country.

In the area of the legislative of the pension system I oriented myself also on the question, how the pension insurance of the individually gainfully active persons is performed.

On May 1, 2004, the Czech Republic entered to the European Union. One of the aims of my work was to find out, what was changed for our country in the area of the pension system at the entry to the European Union. I found out, that the European Union in its member countries does not regulate the conditions of the social policy. These conditions are fully in responsibility of Governments of single states. Nevertheless, one change occurred, namely for those citizens of our country, who would decide to work, or who worked, respectively, in some of the member states of the European Union. This change consists in the principle of summarization of times of insurance for the achievement of the claim for the pension. Practically it means, that a person working for a certain period in the Czech Republic and for a certain period in some of the state of the European Union, has a claim for the pension from the Czech Republic, even if he did not participate in the pension insurance in this country required 25 years, or eventually not even 15 years, but the sum of the times of insurance from two or more countries of the European Union with the time of insurance in the Czech Republic founds the claim for the payment of pension from the Czech Republic. Of course, such a citizen has also the claim for the proportional part of the pension according to the number of working years from certain member states.

One of the problems of the pension system of the Czech Republic, and this is also the problem described in my Bachelor Thesis, is the question of the reform of the current pension system. The current pension system unfavourably effects the economic situation of our country by the fact, that the system gets from year to year to larger deficits or by the fact, that in our country there are for the employers relatively high social payments for employees, which can have an effect on higher rate of unemployment.

Our pension system needs a reform, but a very serious question is - what reform. In my work, I have shown which kinds of reforms are proposed by certain political parties of our country. If I have to choose some of these reforms and apply it to our pension system, I will probably choose none of them. I think, that some proposals are interesting, but mostly they do not contain the method, how to finance the reform. In my work, I also referred to some principles of the pension system, which a new reform of the pension system should contain to be acceptable not only for the politicians of our country, but especially for its citizens and also to be able to survive and keep the pension system for future generations.

SUMMARY

The subject of my Bachelor Thesis is the Pension system of the Czech Republic and its effect on the economy. The submitter of this work is EPI, s.r.o. This work will be elaborated as the lecture notes for students of this school.

My Bachelor Thesis describe and analyse the Pension system of the Czech Republic and analyse the proposals submitted by certain political parties in our country on how to redress this problem. And then evaluate them.

The main problem is the unfavourable demographic development of the population. Every year more and more new pensioners arise and less and less children are born. This problem is especially caused by the change in the life style of people. I analyse, which laws and regulations are used in this area and their content, what is the method of the calculation of the pension. There are some usefulness exercises.

On May 1, 2004, the Czech Republic became a member of the European Union. There are some answers on questions, if the pension system will need to be adjusted to the conditions of the European Union. I was also to concentrate the Thesis to the issue, how the pension systems are used in some member countries. I found out, that the European Union in its member countries does not regulate the conditions of the social policy.

One of the problems of the pension system of the Czech Republic is the question of the reform of the current pension system. The current pension system unfavourably effects the economic situation of our country by the fact, that the system gets from year to year to larger deficits or by the fact, that in our country there are for the employers relatively high social payments for employees, which can have an effect on higher rate of unemployment.

Our pension system needs a reform and what kind of reform. In my work, I have shown which kinds of reforms are proposed by certain political parties of our country.

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- [2] Zákon č.155/1995 Sb., o důchodovém pojištění ve znění pozdějších předpisů, § 30 – 31.
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