

# Social security reforms in the Czech Republic

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# Outline

1. Economic and demographic necessity
2. The reform process in the transition countries
3. Possible options for further reform scenario
4. EU social model and the pension reform

# I. Economic and demographic background

There is a need for reform because of

1. the heritage
2. the demographic changes
3. the financial sustainability
4. the transition to market economy

# II. Reforms in the transition

Present difficulties of pension systems in transition:

1. Growing dependency ratio
2. Drop in replacement rates
3. Growing costs of the system becoming unsustainable
4. Deficiencies in collecting contributions

# II. Reforms in the transition (cont.)

Pension reform is an ongoing process; public pensions need revisiting every 10 to 20 years.

In the Czech Republic the reform started early:

- Reform targets in 1990 - remove discrimination, introduce regular indexing and minimum living benefits to meet inflation
- First step – introduce voluntary pension funds
- Reform of pensions in 1995 together with non-contributory state social benefits (family policy)

Reform discontinued after scandals - change of liberal government and election of social-democratic government

# III. Options for a pension reform in Czech Republic

## 1. Parametrical reform options partly exhausted

- Increase of pensionable age
- Prolonged qualifying period
- Tightening eligibility conditions
- Making pensions depend on contributions

## 2. Non-parametrical reform options

- Introducing the NDC (choice of Coalition)
- Introducing mandatory funded „second“ pillar (preference of opposition)

# IV. Constraints to reform

Reform is not merely a macroeconomic exercise

1. Economic constraint – cost of implementation
  - transitional cost, if non-parametrical reform
2. Political constraint – lack of consensus and adverse public opinion, if not properly informed
3. Administrative constraints – lack of capacity to implement, lack of adequate supervision and lack of professional staff to implement

# V. EU social model and the pension reform

- Social protection in accession countries to be compatible with Open Coordination principles
- All pension systems in EU need change to become sustainable, but must provide adequate pensions and encourage prolonged active life of seniors
- Political discussion reluctant to mandatory saving schemes
- Pension reforms in accession countries introduce new approaches which change the EU social model



# Final remarks

- Any social reform should not be piecemeal
- Must be complex
- All social protection branches to be visited
- Must be harmonized with other fiscal reforms
- Success also depends on effective public relations and information – the reform must be sold well