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
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