



Weekly Briefing

Slovakia social briefing:
Slovak Pension System in a Nutshell
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Slovak Pension System in a Nutshell

Summary

The topic of the present text is a description of the pension system in the Slovak Republic, including its recent development as well as the current state and challenges. The baseline of our analysis will be a glance at demographic developments in the country, mostly characterised by the phenomenon of ageing population, that is one of the features of contemporary Slovak population. At the moment, an amendment to the law on retirement pensions is being discussed, as it should remove the upper age line for the entry to one's retirement and bring some more changes to the pension system.

Introduction

Pension system in the Slovak Republic has been subject to several amendments, as the demography and other social affairs are to be reflected in it. A large reform was implemented in 2003, creating three pillars of pension insurance and saving.¹ Social insurance and pensions fall under the competencies and responsibilities of the Ministry of Labour, Social Affairs and Family of the Slovak Republic. As stated on the Ministry's official webpage, it is its task to ensure a peaceful future for everybody. Moreover, the goal is to facilitate fair redistribution of pensions.²

The objective of this briefing is to illuminate the development, current state and future challenges of the Slovak pension system, taking into consideration the contemporary demographic trends.

Demographic development in Slovakia

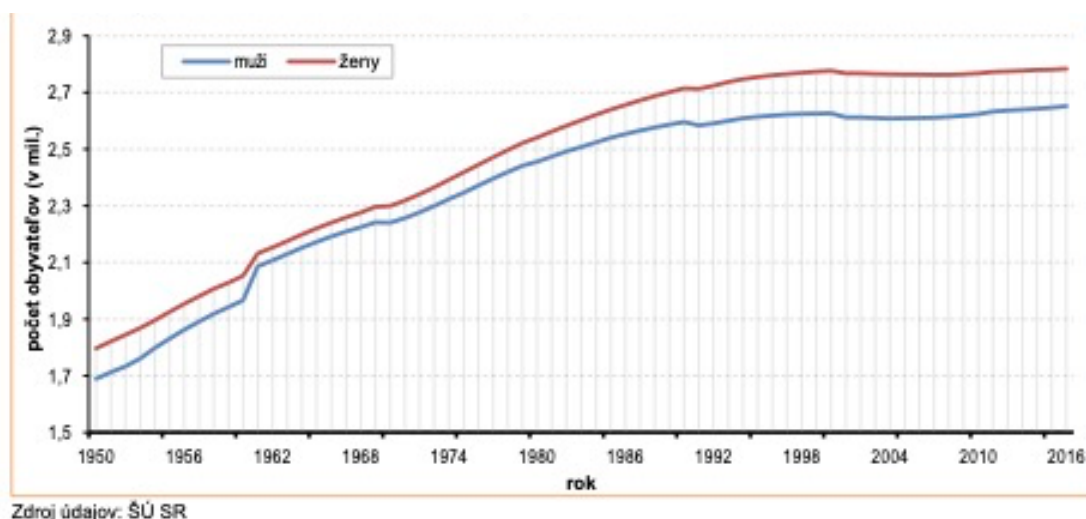
The lifestyle of Slovaks seems to have undergone changes throughout the recent years. The younger generation is aware of the existing career and personal development opportunities,

¹ Ministry of Labour, Social Affairs and Family of the Slovak Republic (2021): Dôchodkový systém.

² Ministry of Labour, Social Affairs and Family of the Slovak Republic (2021): Sociálne poistenie a dôchodkový systém.

borders are no longer closed, the world has opened to the people to explore it. Financial independence, promotion possibilities and inner motivation to work have postponed the age at which people usually start their own family. What used to be normal in the past, namely becoming mother at the age of 18 or 20, is now rather an exception than a rule. It is not unusual to encounter a 35-years old woman who is just about to give birth to her first-born child. Apart from the shift in the age, what has changed as well is the number of children per woman. Families have become smaller; many couples prefer having one child only. All of this has contributed to significant changes in demographic structures in the Slovak Republic, with population aging being one of the most serious issues. In spite of that, the country's population is still slightly growing, as we can see in Graph 1 below, demonstrating the development of Slovak population since 1950. The red curve indicates women; the blue one the number of men. The numbers are in millions.

Graph 1 – Population development in the Slovak Republic (1950-2016)



Source: Podmanická, Z. (ed.) (2017): Hlavné trendy populačného vývoja v SR v roku 2016.

Bratislava: Statistical Office of the Slovak Republic, p. 7.

Without doubts, demographic developments are always to be paid attention to, due to their being closely linked to economic, social policy as well as political situation, and also to

pension systems. The issue of population developments should be debated not only on the level of national economies, but globally as well.³

Taking population structure and demographic tendencies into account is crucial for creation of relevant pension policies. Ageing population and lower natality result in an increase of age when the citizens are allowed to retire. In accordance with the legal regulations concerning social insurance, the retirement age in Slovakia is calculated with regards to three factors, namely the year of birth, gender, and the number of children that have been raised. Let us include several examples for illustration. A woman born in 1944 with no children entered retirement at the age of 57. Another woman born in the same year with three or four children had a right to retire earlier, more specifically at the age of 54. In case of 5 children, the retirement age of a 1944-born woman was 53. A woman born in 1965 is supposed to work until she is 63 years and 10 months old, provided she has no children, while a woman of the same age with more than two children will work until she reaches 62 years and 10 months (or 62 years and 4 months, respectively).⁴ Indeed, we can see the retirement age has been extended significantly, counting in years.

As population ageing or decreasing natality have been a problem of many developed countries, it is possible Slovakia will “copy” their demographic tendencies. For instance, research aimed at comparison of the demographic situation in Slovakia and Austria revealed that the current Slovak population pyramid resembles Austrian population pyramid from 30 years ago. Indeed, Slovak population of the present day can be characterised by an increase in total numbers of inhabitants, while the percentual representation of children has decreased throughout the last decades. On the other hand, what needs to be remembered is the immigration to Austria. In fact, Austria has accepted far more migrants than Slovakia for the past years, which contributed to its population growth. Even though more people have immigrated to Slovakia as those who have left the country, the numbers are in comparison with countries such as Austria only marginal. Of course, this hypothesis is based on the fact that cultural and historic circumstances in the two countries show certain similarities.⁵ Still, we do not expect that migration would significantly contribute to population growth in Slovakia in the future, hence

³ Čiefová, M. – Raneta, L. (2017): Demografické trendy na Slovensku a v Rakúsku, p. 77, 84.

⁴ Ministry of Labour, Social Affairs and Family of the Slovak Republic (2021): Dôchodkový vek.

⁵ Čiefová, M. – Raneta, L. (2017): Demografické trendy na Slovensku a v Rakúsku, p. 83-84.

compensating for the lower natality. Furthermore, based on predictions, the population of Slovakia is expected to start declining around the year 2030, probably in 2025.⁶

Types of pensions in the Slovak Republic

In Slovakia, several groups of people are entitled to a financial contribution from the state. The pension scheme includes following categories:

- retirement pension,
- early retirement pension,
- pension for physically challenged people,
- pension for widows and widowers,
- pension for orphans.⁷

Obviously, it is defined in detail who can be entitled to which type of pension, and there are also responsibilities of the individuals towards the social insurance company. As for the contribution to the elderly – to those who have retired – this contribution is paid out from the retirement insurance, with the purpose to ensure people some income for the future. In order to have a right for this kind of contribution, the pensioner needs to fulfil two conditions, which are as follows (specific cases and exceptions are not analysed within this text):

- have at least 15 years of old age insurance, and
- reach the respective retirement age.⁸

In the previous text, we provided some examples of retirement age based on the number of raised children. At the moment, the upper age to enter retirement is 64 years, relating to women without children and men, and is guaranteed by the law.⁹ Several weeks ago, the media reported on the government's intention to further prolong the working years of Slovaks, thus removing the line of 64 years. The retirement age should be calculated with regards to life expectancy. In the praxis it would mean that the age of retiring would be prolonged based on increasing life expectancy. The objective of this step is to retain financial sustainability of the first pension pillar. The media cited the Ministry of Labour, Social Affairs and Family of the

⁶ Podmanická, Z. (ed.) (2017): Hlavné trendy populačného vývoja v SR v roku 2016, p. 8.

⁷ Sociálna poisťovňa (2021): Dôchodca a žiadateľ o dôchodok.

⁸ Sociálna poisťovňa (2021): Starobný dôchodok.

⁹ Pravda (2020): Dôchodkový strop 64 rokov a penzijný vek nie je to isté.

Slovak Republic, saying that in case this becomes reality, the pensioners would spend approximately the same number of years in their retirement. According to the Ministry of Labour submitting the proposal, such thing would improve solidarity among generations. Another point of the proposal is aimed to allow people to allocate a certain percentage of their taxes to their parents' retirement contribution. Besides, further suggestions are included, for instance an increase of orphans' contribution. To remind, this is just an amendment proposal to the social insurance law, the content of which is planned to be discussed shortly.¹⁰ Should it eventually become law or not, the Slovak pension system is likely to be subject to other changes in the future, reflecting the demographic tendencies.

Conclusion

Similarly as many countries all around the globe, Slovakia is facing the problem of population ageing. Unsatisfactory demographic developments represent a burden for social and pension systems of the countries that simply cannot be ignored and will be one of the challenges to deal with also in the future. The pension system in the country has already been reformed several times. Indeed, population development is a dynamic phenomenon which requires constant monitoring and subsequent adaptation of the relevant policies. Therefore, further changes of the pension system may be foreseen.

Sources

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¹⁰ SME (2021): Dôchodkový vek sa má opäť predlžovať podľa strednej dĺžky života

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