Country Report

SLOVENIA

Current pension system: first assessment of reform outcomes and output

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The Institutional Architecture

The Slovenian pension system underwent two reforms during the 1990s. The 1992 package is described by Stanovnik (2002: 26) as *"too little, too late"*, as the system continued to be used as buffer for labour market redundancies. The public retirement scheme started to generate high deficits after 1996, when the employer contribution rate was slashed almost by half. The second package, the *Pension and Disability Insurance Act*, was approved in 1999. The present pension system is based on three main pillars. Social insurance programmes are combined with social assistance provisions providing the basic safety net for people in need.

The **first (public and mandatory) pillar** is represented by earnings-related programmes, financed through social contributions and related to employment. The zero tier is a *state pension*, which has a markedly universalistic character. It was introduced in 1999 and is unique in the region. It represents a safeguard for those unprotected categories that fall out of general pension systems. To be eligible, the person has to be 65, be a resident of Slovenia and must have resided in a Member State for 30 years when aged 15-65. It is means-tested (income both as flow and stock). The state pension is equal to one third of the current minimum pension assessment base, thereby granting in 2009 a replacement rate of 18.3% to the average net wage. The first tier is financed on a pay-as-you-go basis, through contributions paid by employees (15.5% of gross wages), employers (8.85% of gross wages, before 1996 it was 15.5%), self-employed (total), and through generous state compensatory contributions (compared to other Central, Eastern and Southeastern European countries). Eligibility rules (retirement age) in the public pillar are very complex and flexible, in principle. Once the transition period is over (in 2022), the requirements to be eligible for a public pension are: age 63/65 for women/men with 15 years of insurance period; age 61/63 for women/men with 20 years of pension qualifying period; age 58 with 38/40 years of pension qualifying period for women/men. Under Yugoslavia the latter two represented the full pension qualifying period, for which there was no age criterion to retire. The 1999 reform led to a reduction of pension entitlements through a longer assessment base (best 18 consecutive years, instead of 10) and lower accrual rates (38% and 35% of the assessment base for women/men for the first 15 years and 1.5% for each additional one). This means that a full qualifying period earned benefits equal to 85% of the pension assessment base before 1999 and 72.5% after. There are bonuses and decrements. Bonuses are of two kinds: if the qualifying period is longer than the full one before reaching statutory retirement age, then each additional year is worth more towards the base (up to 3.6% in total); if the age of retirement is higher than the full one, then each month increases the whole pension benefit by a percentage (up to 7.2%). Decrements are of one type only. If an insured retires before the full pensionable age and has accumulated less than the full qualifying period, then his benefits are permanently cut by a variable amount (up to 18%). Indexation is in principle to wages (very complex), and it adapts continuing pensions to stricter eligibility conditions for new pensioner cohorts (a so-called transgenerational equity element). In particular, the combination of the two led to a reduction in net replacement rates, which declined from 89.2% in 1990 to 67.1% of the average wage in 2008 (for old-age pensions).

The **second (private, voluntary or mandatory) pillar** is now either voluntary for private sector employees, mandatory for particular working categories and, since 2004, mandatory for public sector ones. Occupational pension schemes (open- and close-ended) were separated from individual ones (third pillar) in 2001. Different providers are allowed to offer private pension plans: mutual pension funds, pension companies, insurance companies and the public pension fund facility *Kapitalska družba*. These entities are subject to different laws, they are

supervised and licensed by different agencies, they have a different legal status, they evaluate assets differently. As a consequence, neither their products nor their status are comparable, thereby disrupting the level playing field. The Ministry of Labour, Family and Social Affairs approves the schemes. Mutual pension funds are regulated by the *Securities Market Agency*, while for pension and insurance companies the regulator is the *Insurance Supervision Agency*. *Kapitalska družba* is 100% state-owned and enjoys a privileged status. It currently manages four pension funds: i) the Capital Mutual Pension Fund – open-end voluntary supplementary pension insurance fund, which exists since the early 1990s but never took off; ii) the Closed Mutual Pension Fund for Civil Servants – closed supplementary pension insurance fund for civil servants; iii) the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia – compulsory supplementary pension insurance fund covering certain jobs (unhealthy or risky) for whom employers are obliged to pay further contributions as compensation for foregone early-retirement; iv) First Pension Fund of the Republic of Slovenia – close-end fund for those who exchanged pension coupons for insurance policy points (as a result of privatization imbalances). All supplementary schemes are Exempt Exempt Taxed. Occupational pensions are prioritised, as deductions first apply to employer contributions and later, up to the ceiling of 24% of total mandatory pension insurance contributions and 5.844% of the gross wage, to the employee. The Closed Mutual Pension Fund for Civil Servants has the greatest tax advantages and covered 187 thousand members in December 2008. This boosted the overall coverage rate of occupational schemes (some 50% of the working population), which reflects a two-tiered labour market. In December 2007, the 12 providers accumulated assets worth 11.3% of Slovenian GDP.
The **third tier is private and voluntary,** consists of individual savings in pension and life insurance vehicles. Premiums paid to this third tier are subject to tax relief, lower than in occupational schemes. Hence, the third pillar faces considerable obstacles for development.

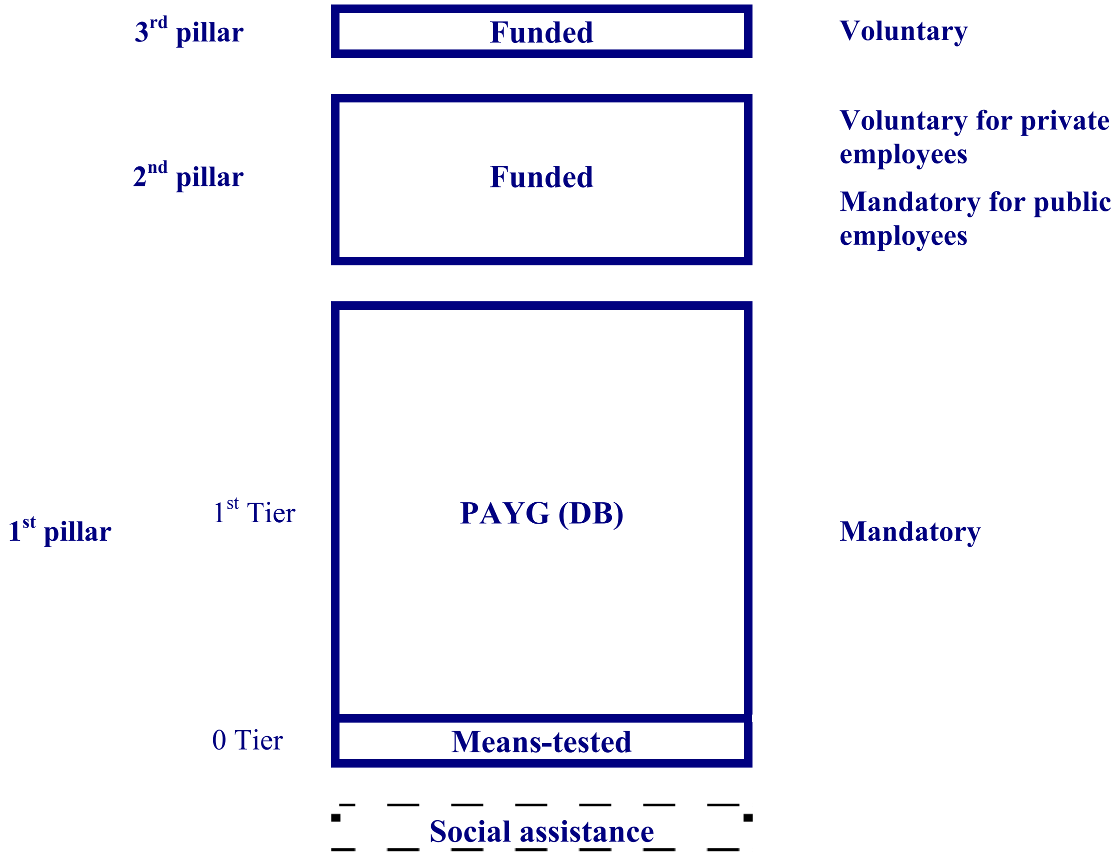
The Administrative Structure

The *Institute for Pension and Invalidity Insurance* (ZPIZ) is an autonomous public finance agency, a monolithic institution that is almost entirely responsible for running the Slovenian public retirement system. It is a tripartite institution, on whose boards sit representatives of the government and the social partners. The *Tax Administration* (DURS) collects social security contributions. The *Ministry of Labour, Family, and Social Affairs* is responsible for policy-making and legislation.

Assessment and Future Challenges

Despite its generosity, two main challenges befall the Slovenian pension system. First, the 1992 and 1999 pension reforms stabilised expenditures only in the medium term. If the starting point is relatively favourable, i.e. 11.0% of GDP in 2004 against 11.9% in EU-25, pension expenditures are bound to rise to 19.3% of GDP by 2050 in a no-reform scenario. Solutions to the problem are to create strong disincentives for early exit and encourage longer labour market participation by using a combination of: penalties, quicker transition to higher retirement ages and Active Labour Market Policies (ALMPs). Second, coverage in occupational and individual supplementary schemes is insufficient. Less than 60% of the active population is insured, showing the typical problems of two-tiered labour markets, as for example in the United Kingdom or Italy. Premia are paltry, amounting to circa 3.6% of the average gross salary in 2007. Most alarming is that even this is too high for labour-intensive industries.

The Main Pillars in the Slovenian Pension System



1st Pillar, universal coverage;
2nd Pillar, occupational schemes;
3rd Pillar, individual programmes.

Annex 1

Key Data about the Pension System in Slovenia

Contribution rates	
Total	24.35%
1st pillar	8.85% (employers) 15.5% (employees)

Supplementary schemes	
Contribution rates	tax-exempt up to 5.844% of gross wages
Coverage (of employees)	56% in 2005
Assets in EUR bln (2007)	1.05
Taxation	Exempt Exempt Taxed
Investment principles	Quantitative Restrictions/Prudent Person Principle

Theoretical replacement rates	Gross	Net
	1st pillar total	1st pillar total
2005	64%	82%
2050	39%	60%

SILC income 2005	Total	Male	Female
Relative income of 65+	0.865	0.943	0.804
Aggregate rep. ratio	0.424	0.515	0.376

Eligibility retirement age	63/65 for women/men with 15 years of insurance period 61/63 for women/men with 20 years of pension qualifying period 58 with 38/40 years of pension qualifying period for women/men
Early retirement	Special provisions only for particular working categories
Deferred retirement	No upper limits

Indexation	To wage growth (with a transgenerational equity element)

Public pension spending (as % of GDP)	2004	2020	2050
	11.0%	12.4%	19.3%

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