

Transformation of the Public Sector



Reforms of the the Social Policy

Social policy in Communist Period (till 1989)

- social policy centralized and bureaucratized → ineffective economy
- full compulsory employment
- state paternalism → citizens became the passive recipients of social services
- publicly providing services free of charge
- existence of “extra services” for the privileged population
- many subsidies prices of energies and goods
- social security schemes financed from the state budget - various types of payments made this system unclear and economically inefficient

The Development of the Social Policy in the Czech Republic

We should take into account following factors:

- the political environment
- the economic environment
- the social environment
- cultural factors
- diffusion of cultural and institutional patterns from abroad
- influence of strong, politically active personalities inside and outside the system

Transformation period- 3 parts:

1. Emergency period- December 1989-1992
 - replacing state paternalism
 - objective → protect population against all risks → development of the social safety net
 - active labour market policy
 - implementation of social benefits
 - new institutions and institutes
2. Institutional building 1992-1997
 - neo-liberal approach
 - pension supplementary insurance act
 - state social support act → implementation of income-tested benefits
3. Adjustment within existing institutions 1998- present
 - social democratic government → “making work pay” → (tax) welfare for families
 - „middle-right wing“ government → public finance reform (2008) → austerity measures

Social security policy – 3 tier system

1. social insurance system
 1. pension system
 2. sickness system
 3. state employment policy system
2. state social support system
 1. income tested benefits
 2. benefits provided without regard to income
3. (means-tested) social assistance system for people who find themselves in:
 1. material need
 2. social need
4. (Social services)
5. (firefighters, army, police)

Contributions to the social insurance scheme (arround 2000)

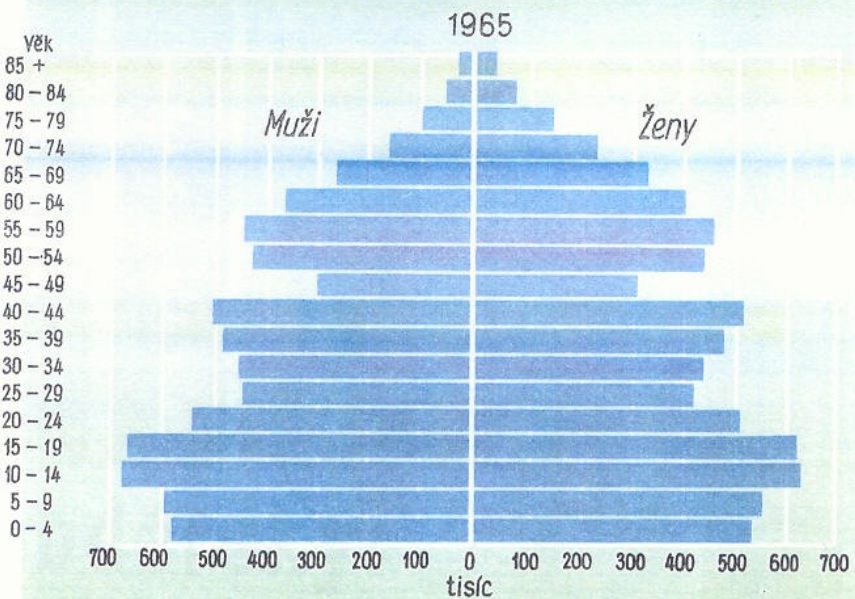
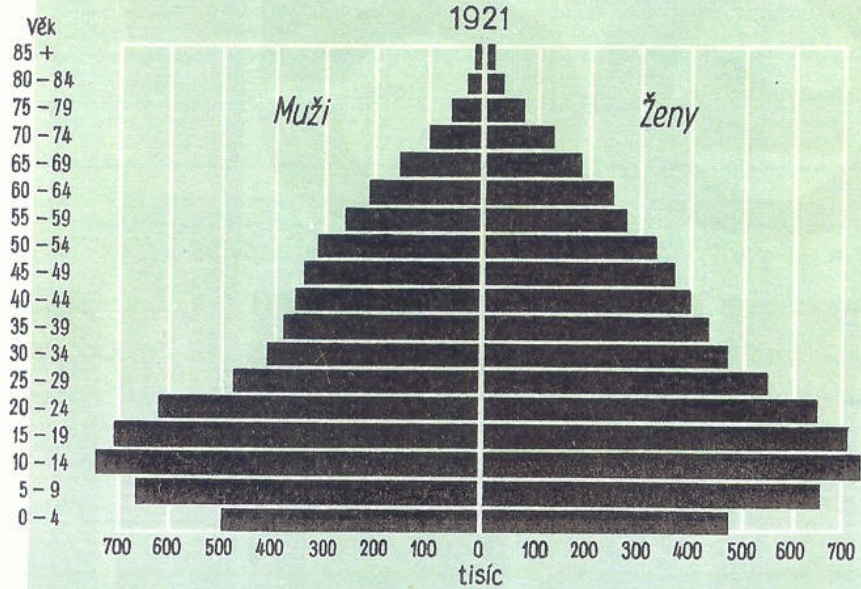
contributions of social insurance system	employee (% of wages)	employer (% of total wage-bill)	self-employed (% of insurance basis)
pensions scheme	6,5	21,5	28
sickness scheme	1,1	3,3	4,4
employment policy	0,4	1,2	1,6
health insurance	4,5	9	13,5
Total	12,5	35	47,5

Pension system in the CR

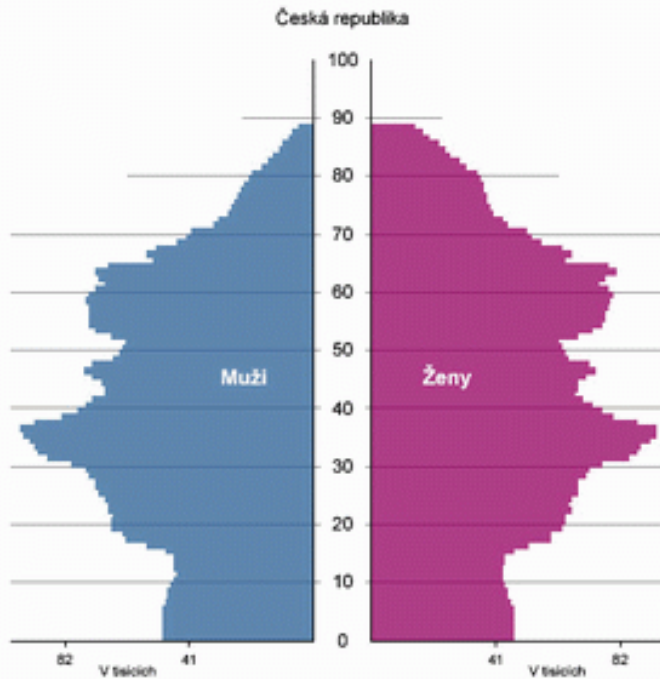
3 tiers:

1. basic obligatory system of pension insurance
 - system is uniform, based on social solidarity with relatively high redistribution of income, current financing - PAYG
 - benefits (DB) replacing income in case of old age, disablement and death (survivors)
 - the system is organized by the state
 - two principles in question: fiscal sustainability and benefit adequacy
2. voluntary (opt-in) pension insurance with a „state contribution“ (from 2013 till 2016)
3. voluntary pension savings from 1994 (with state contribution and tax reliefs)

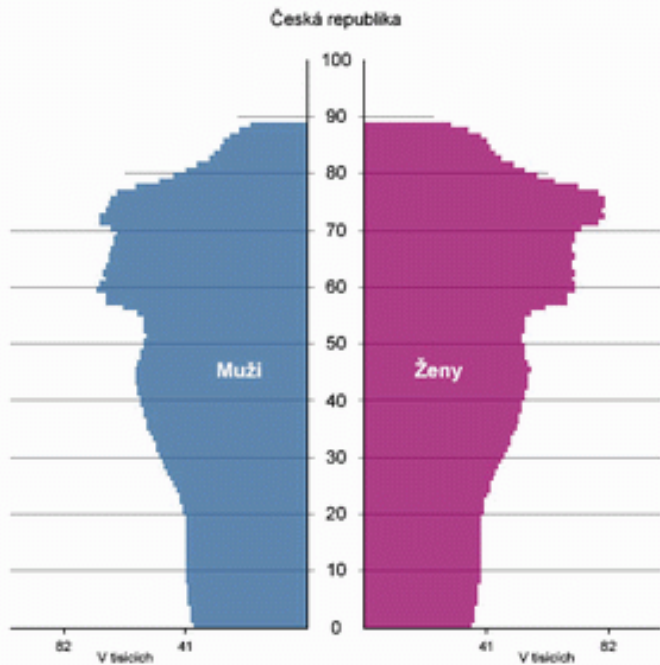
VĚKOVÉ SLOŽENÍ OBYVATELSTVA V ČESKOSLOVENSKU



Věková skladba obyvatelstva: 2010

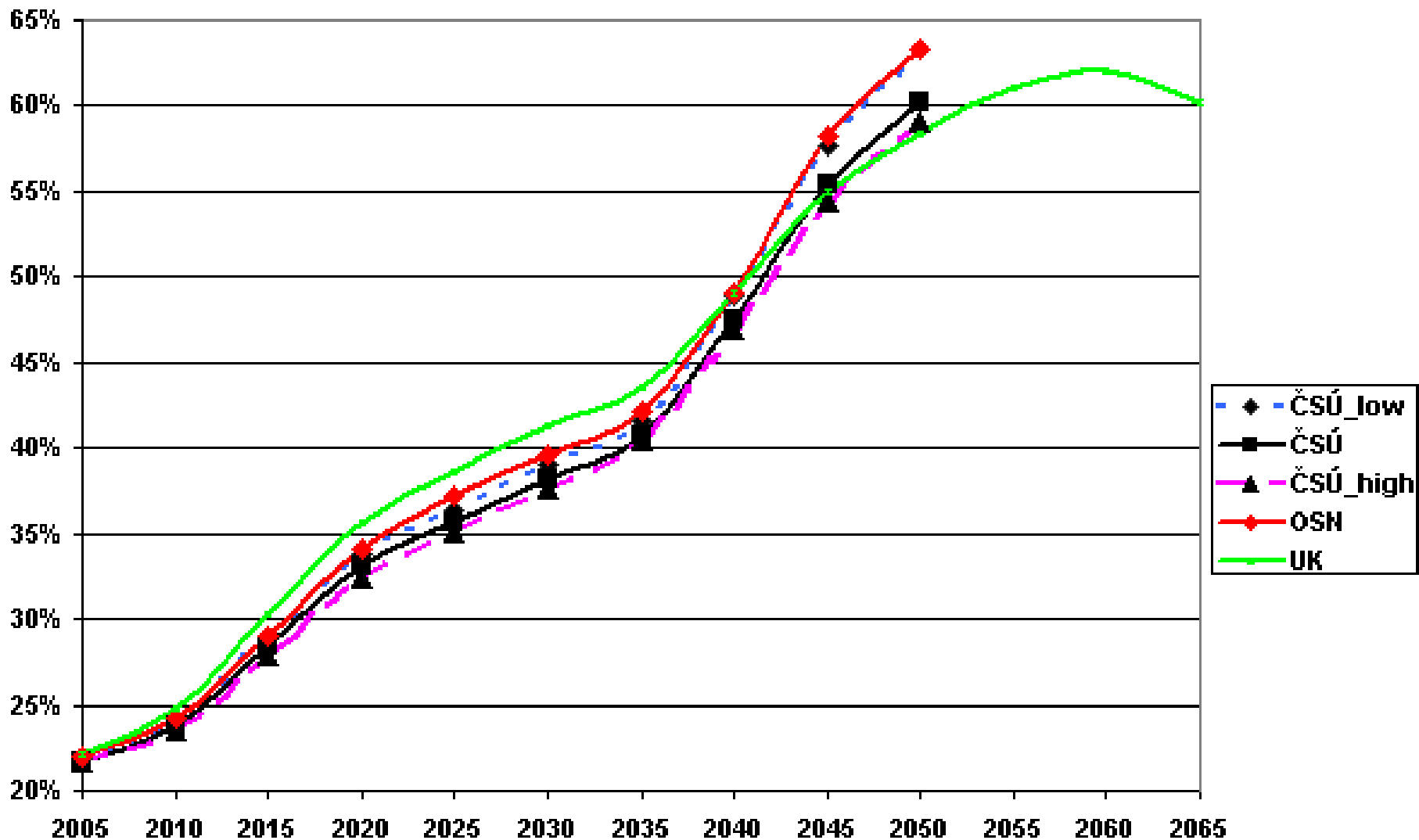


Věková skladba obyvatelstva: 2050

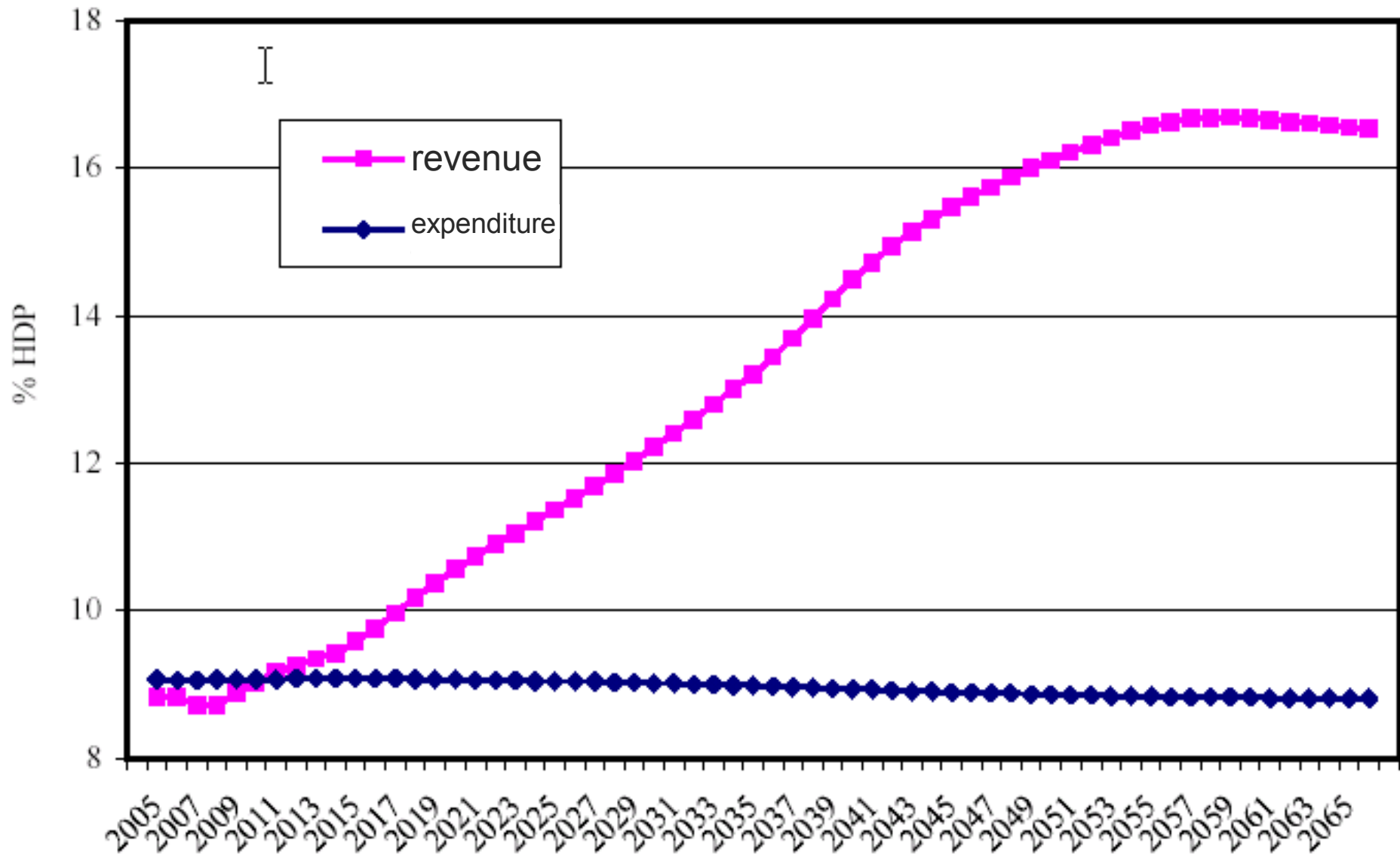


The tree of life of CR

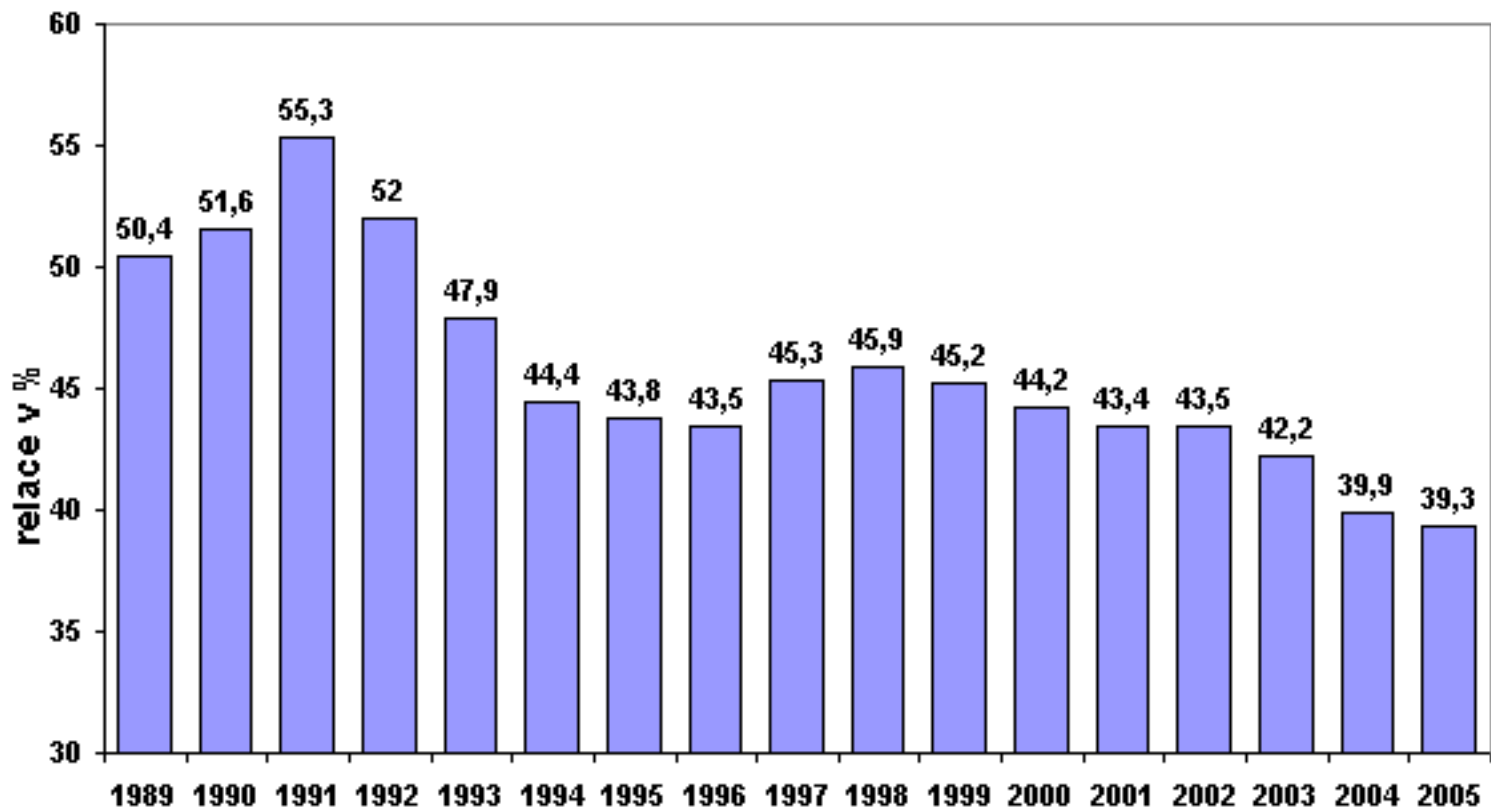
Dependency ratio (65+/20-64)



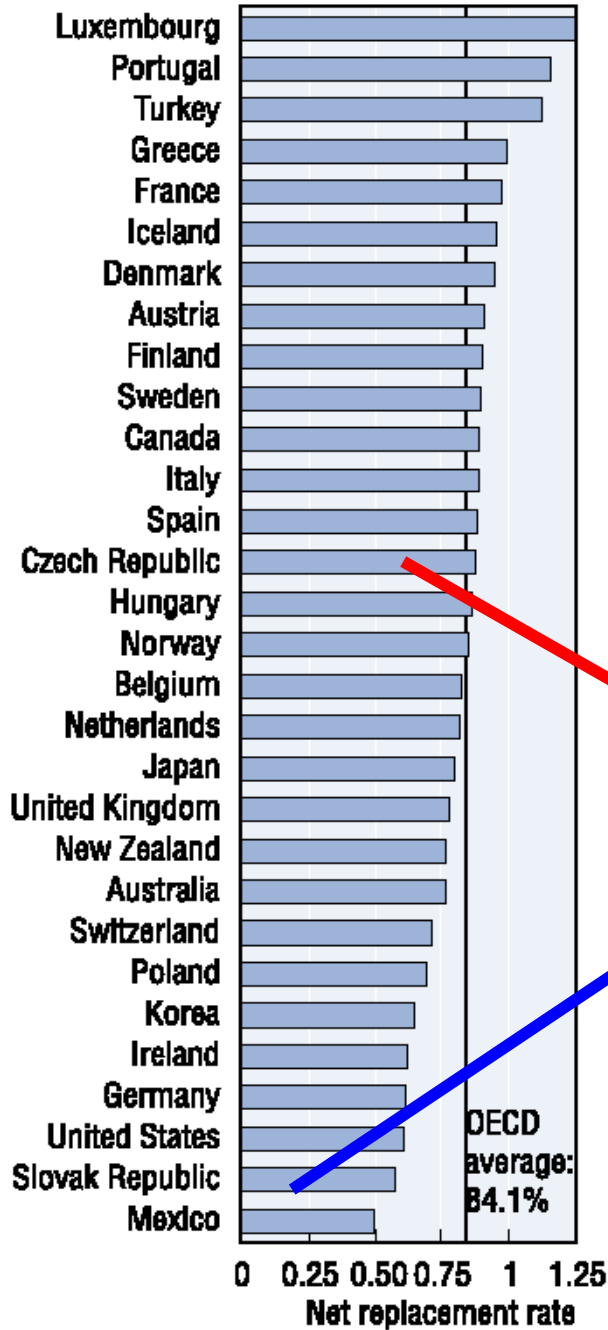
PS Incomes & Expenditures 2004 projection (in % GDP)



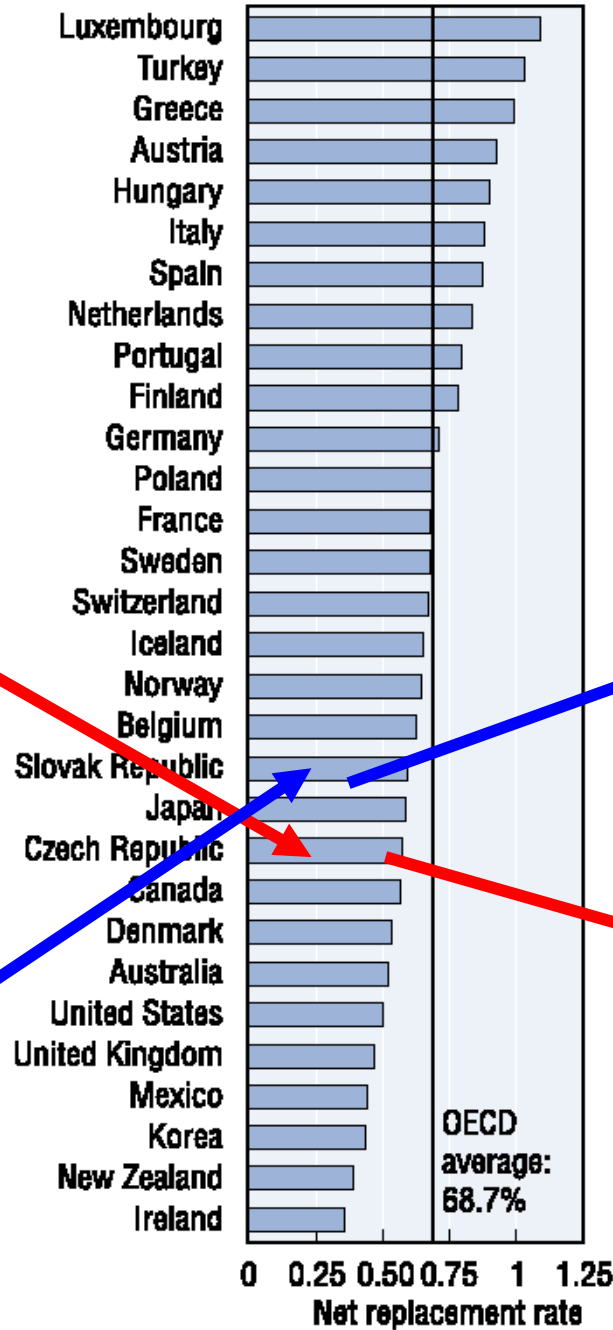
Pensions as a proportion of the average gross wage



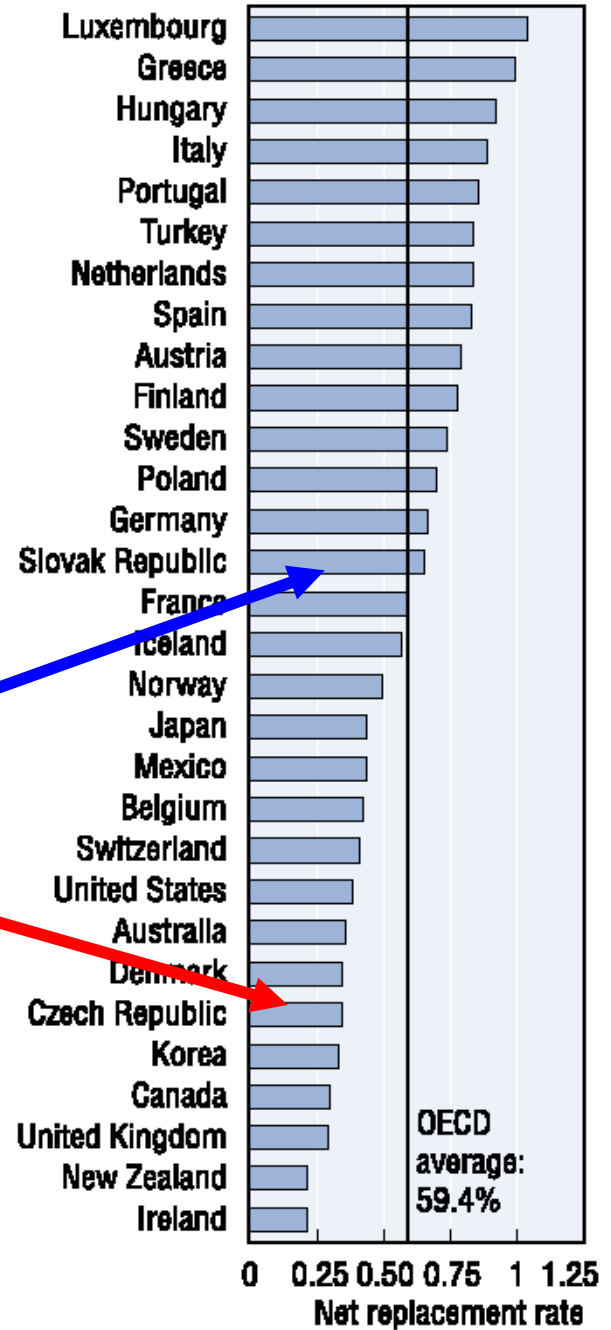
Low earner: half average earnings



Average earner



High earner: double average earnings



Czech Pension System

How to reform?

- suggest viable reform of the pension system
- take into account following factors:
 - Ageing of population
 - Rather good performance ← AROP
 - Heritage of communists period (-;+)
 - little diversified, yet unfair wages
 - full employment record

Reform of Czech Pension System

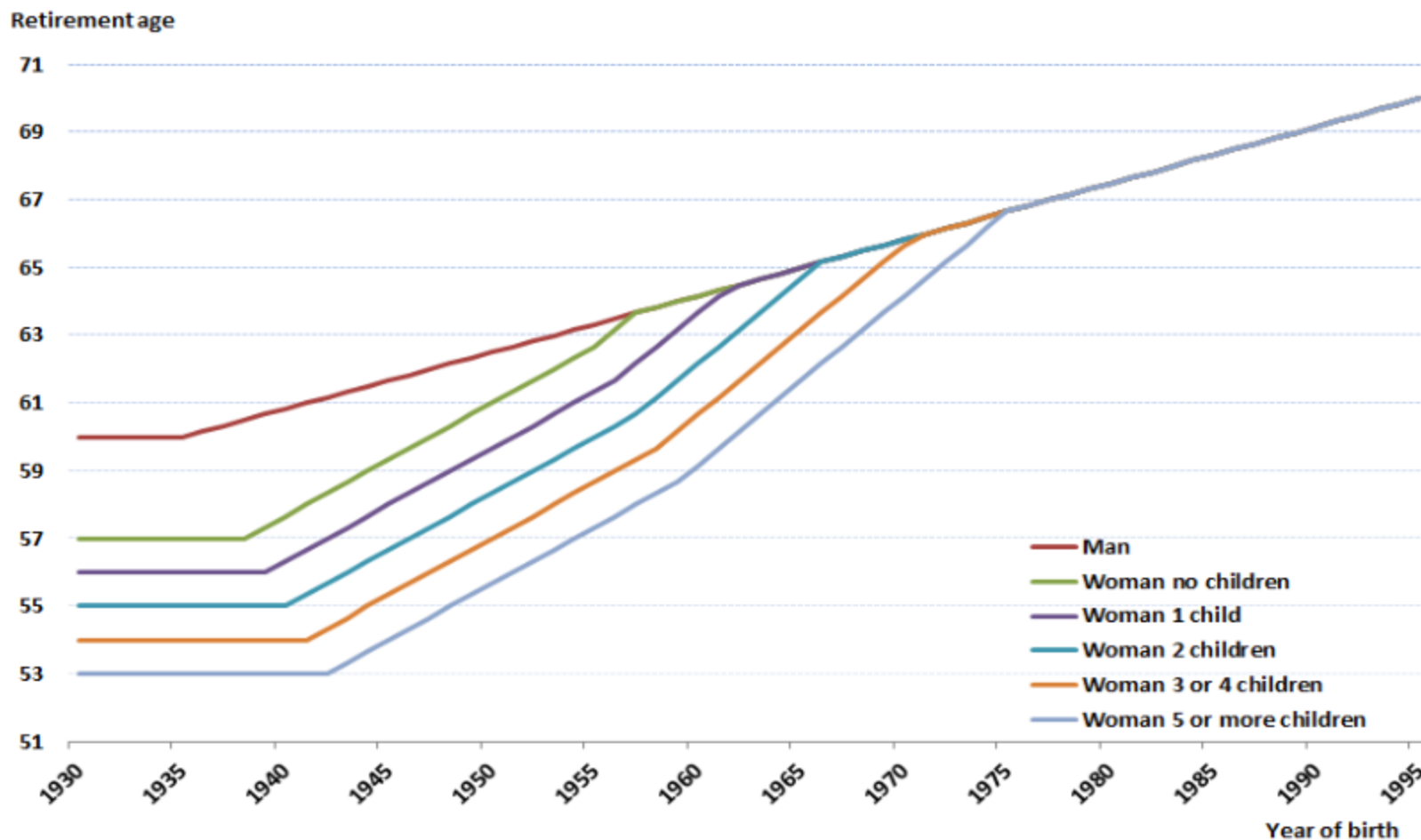
PARAMETRIC

- increase revenues (contribution rate, exit-age)
- decrease expenditures (benefit formula, benefit indexation, exit-age)

SYSTEMIC

- change of the system
 - move towards FDC
 - change to NDC (?)
- migration policy
- population policy

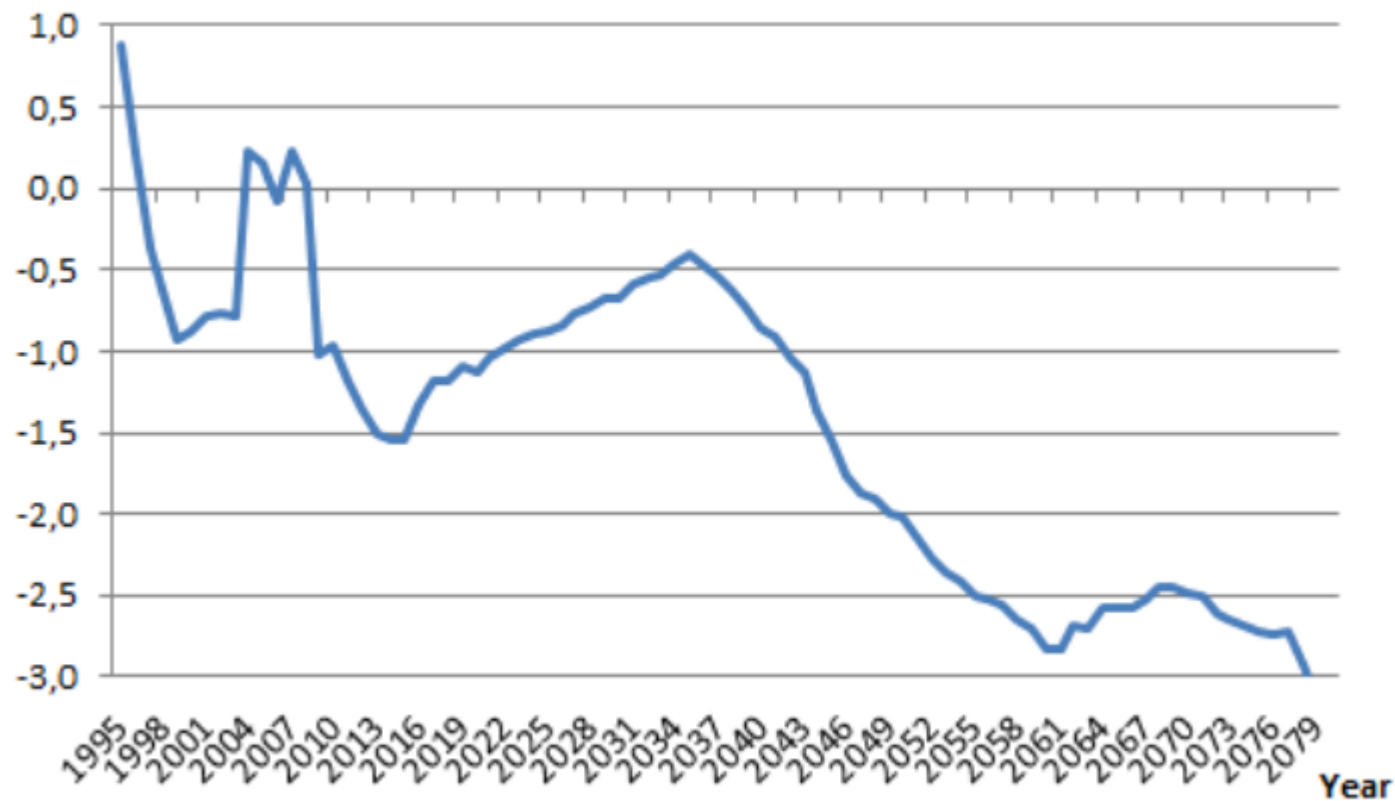
Chart 1 – The process of increase in the retirement age



Source: Ministry of Labour and Social Affairs

PS Incomes & Expenditures 2014 projection (in % GDP)

Chart 65 – Balance of revenues from contributions and pension expenditure, including administration costs, as % of GDP



Source: Ministry of Labour and Social Affairs

Supplementary pension insurance scheme (1994)

Monthly payment (Kč)	State contribution (Kč)
100- 199	50 Kč + 40% from the amount over 100 Kč
200-299	90 Kč + 30% from the amount over 200 Kč
300-399	120+ 20% from the amount over 300
400-499	140 + 10% from the amount over 400
500 and more	150 Kč

Sickness insurance scheme

4 benefits:

1. **sickness benefit**
 - before 2007 rather generous system which provides rather generous benefits
 - open to abuse
 2. family member care benefit
 3. pregnancy and compensation benefit
 4. cash maternity benefit
- how to reform the scheme to avoid abuse?

[State social support]

- a) income tested benefits:
 - child allowance (→ tax allowance)
 - social allowance
 - housing benefit
 - transport benefit (canceled since September 2004)

- b) benefits provided without regard to income (flat-rate benefits):
 - parental allowance
 - maintenance contribution
 - benefits for foster-parent care
 - birth allowance
 - burial allowance

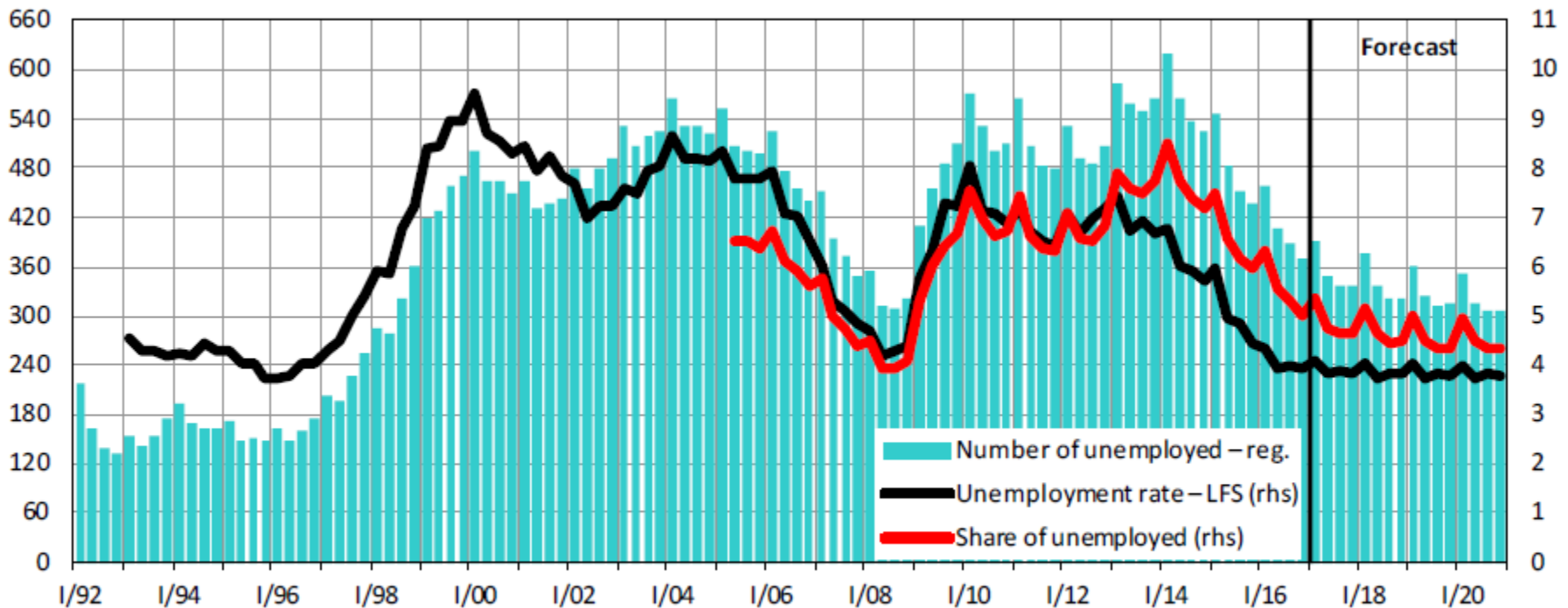
[Social assistance (MIS)]

- residual system for the people who fall into difficult social situation, 2 types:
 - material need
 - social need
- state guarantees living standard at the minimum level (LM) - socially accepted poverty limit
- LM can be further decreased to subsistence minimum

The unemployment since 1992

Graph 3.3.7: Unemployment

quarterly average, in thousands of persons, in % (rhs)



Note: Share of unemployed (Ministry of Labour and Social Affairs) is defined as a share of available job seekers aged 15 to 64 years in the population of the same age.

Source: CZSO, Ministry of Labour and Social Affairs. Calculations of the MoF.

Source: MF CR 2017. Macroeconomic Forecast of the CR (January 2017)