

# European Commission's opinion on the Croatian Pension System

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# PRESS RELEASES

## European Commission's opinion on the Croatian Pension System

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**While being focused on macroeconomic imbalances, the European Commission's latest **Country report** for Croatia also warns of inefficiencies in the national pension system.<sup>1</sup> They mainly include: (a) a large number of early retirees; (b) an excessively generous system of early retirement for „hazardous and arduous“ professions; and (c) numerous pension schemes governed by special regulations. As a result of these factors, and the strong growth in disability retirements over the past period, the ratio between average pension benefit and average salary is lower than in most other EU Member States. It is therefore not surprising that almost one third of the population aged 65 and over lives in poverty or social exclusion, as compared with under one fifth on average in the EU.**

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**Early retirement.** The share of new early pension beneficiaries in the total number of new pensioners has increased in Croatia. Of total pensions granted in 2014 under the Pension Insurance Act (PIA), early retirement pensions accounted for 35%.<sup>2</sup> The Commission emphasizes that Croatia provides weak incentives to work until the statutory retirement age. The gap between early and statutory retirement ages is five years, which exceeds the EU average. Moreover, the early retirement penalty factor is 1.2%-4.1% (depending on the length of the contributory period) for each year of retirement before reaching the statutory retirement age. In other Member States implementing these rules, the level of the penalty is over 5%, regardless of the contributory period. According to the Commission's opinion, the Croatian Government takes no measures to discourage early retirement.

**Retirement from „hazardous and arduous“ professions.** The Commission has found over a hundred of such professions in Croatia.<sup>3</sup> Retirements from „hazardous or arduous“ professions which involved insurance periods counted in extended duration accounted for one fourth of total new early retirements in 2014 (according to the PIA). Insured persons performing „hazardous or arduous“ jobs accounted for 2.7% of total persons insured within the pension system in 2014. This ratio does not include insured persons whose rights are regulated by the Act on the *Pension Insurance Rights of Active Military Personnel*, Police Officers and Authorised Officials (OG 128/99 and 129/00). Half of this 2.7% of insured persons are heavy vehicle drivers, ship crew members or bus drivers. A pension reform of arduous and hazardous professions, announced for December 2014, has been postponed until the last quarter of 2015.

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<sup>1</sup> European Commission, 2015. Country Report Croatia 2015, Brussels 26 February 2015.

<sup>2</sup> Statistical Information of the Croatian Pension Insurance Agency, No. 4/2014, p. 37. The European Commission's report provides data for the first nine months of 2014.

<sup>3</sup> They include „insured persons employed in particularly difficult jobs that are harmful to their health and working ability, and insured persons whose physiological functions, due to the nature and difficulty of their jobs, deteriorate after a certain age to such an extent that they cannot continue to perform such jobs successfully.“ (Act on Insurance Periods Counted in Extended Duration, OG 71/99, 46/07, 41/08 and 61/11).

**Pensions under special schemes.** Pensions under special schemes accounted for 15% of all pensions in 2014.<sup>4</sup> The largest groups of beneficiaries of such pensions were Croatian war veterans and their family members. However, the European Commission draws special attention to categories of beneficiaries with above-average salaries such as members of Parliament, the Government, the Croatian Academy of Sciences and Arts, etc. Given their already high regular pensions, it is unclear why these beneficiaries should be provided with even higher pensions under special rules. The Commission considers the system of special pensions a source of inequality among pensioners and repeated *ad hoc* amendments to the pension system. Moreover, it further encourages early departure from the labour market.

**Disability pensions.** In 2014, new disability pensions accounted for 7% of total new pensions, a sharp decrease from 2008 (25%). This fall was due to stricter disability assessment rules applied over the last few years. As of January 2015, the assessment of disability claims was moved to the responsibility of a single expert evaluation body. As a result, a beneficiary can exercise his/her rights under various systems based on only one evaluation document (containing medical findings and the opinion of the single evaluation body), instead of being separately evaluated within each relevant system<sup>5</sup>. By establishing the single expert evaluation body, uniform physical impairment and disability assessment criteria have been introduced, and the expert evaluation costs and possibilities of abuse have been reduced.

**The effects of pension system's inefficiencies.** According to the EC, short work careers are the main consequence of Croatia's inefficient pension system. Only 12.8% of all pensioners retire after a full service period of 40 years. Given short working lives and unfavourable pension indexation, the ratio between average gross pension and average gross wage remains low. It currently stands at 32% and is envisaged to fall to 27% and 22% by 2030 and 2060 respectively (including the 2<sup>nd</sup> pension pillar rights).<sup>6</sup> This means that pensions will fall by almost 30% from today's levels that are already low. With the widespread old-age poverty, this will pose a considerable social challenge.

**To conclude,** the European Commission has well recognized the main deficiencies of the Croatian pension system. Although this is not an easy task, the Government's priority should be to create a stimulating business and institutional environment to encourage elderly workers to stay longer in the labour market. A decline in the number of new disability pensions suggests that considerable changes can be made in the short run, provided that there is political will to do so. For now, however, Croatian citizens can hardly expect that the pension system will provide them with financial security in their old age. Consequently, they will have to take their own responsibility for ensuring adequate income levels in their old age through various forms of personal savings. It is to be hoped that Croatia will provide enough income opportunities for these persons to enable them to save money.

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<sup>4</sup>Statistical Information of the Croatian Pension Insurance Agency, No. 4/2014, p. 34. The European Commission's report provides data for the first nine months of 2014.

<sup>5</sup> Included here are rights in the field of social welfare, pension insurance, occupational rehabilitation and employment of disabled persons, maternity and parental support rights, protection of military and civilian war victims, education-related rights and other rights based on the findings and opinions of expert evaluation bodies (Act on the Single Expert Evaluation Body, OG 85/14).

<sup>6</sup>The ratio between the average net pension (granted under PIA) and average net wage in December 2014 was 39% (CPIA, Statistical Information No 4/2014). The ratio between the average net *old-age* pension (granted under the PIA) for a contributory period of 40+ years was 59%.