

# Pension beneficiaries who have been granted pensions under more favourable conditions

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## Pension beneficiaries who have been granted pensions under more favourable conditions

*Pension beneficiaries who have been granted pensions under more favourable conditions account for 15.5% of the total number of pensioners in Croatia. Expenditures for the payment of their pensions, financed directly from the budget, accounted for about 20% of total expenditures for pensions and other retirement benefits in 2008. The bulk of expenditures for the privileged pensions (about HRK 4.8bn or 14.5% of total pension expenditures) relate to the beneficiaries of homeland war veterans' pensions, participating with 5% in total pension beneficiaries. Their number doubled over the last six years. A widening of the gap between the privileged and "regular" average pensions is mostly due to the so-called "parliamentary pensions, the pensions of the full members of the Croatian Academy of Sciences and Arts (HAZU), and homeland war veterans' pensions. The privileged status does not only relate to the pension amount, but generally it also includes shorter service periods compared with those of other pension beneficiaries. Early retirement leads to erosion of contribution revenues, but also to the outflow of the working-age population from the economically active population group. Differences between privileged and non-privileged pension beneficiaries cause inequality and ineq-*

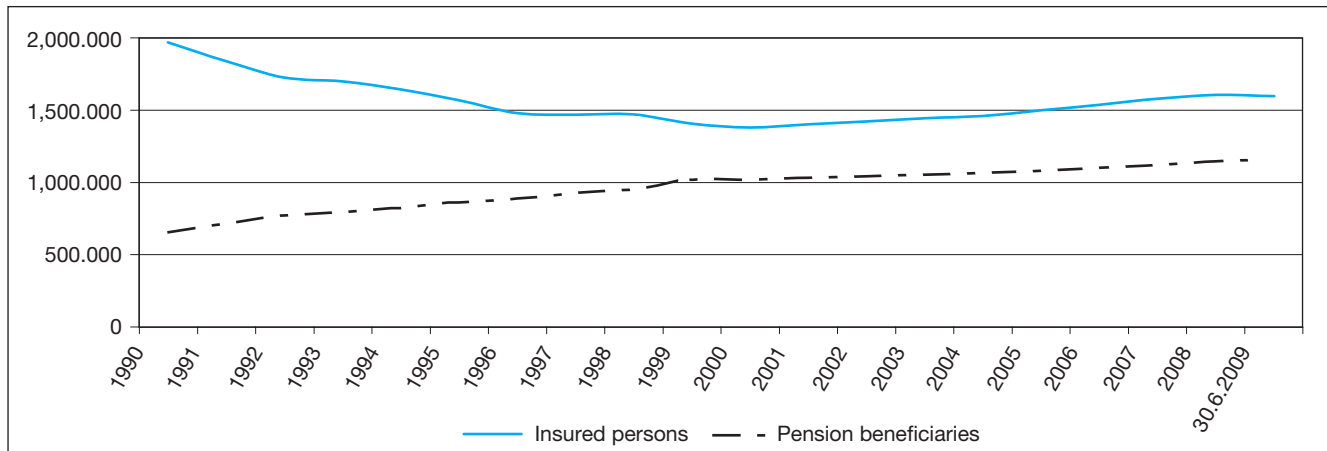
*uity in the system, and increasingly burden the state budget. Therefore, policy makers should review the pension amounts of privileged categories of beneficiaries and control the total number of new recipients of these pensions.*

### 1. Introduction

The number of pension beneficiaries has grown continuously in Croatia, from about 656,000 in 1990 to about 1.2 million today. This means that their number almost doubled in less than two decades (i.e. it went up by 180%). By contrast, the number of insured persons under the pay-as-you-go system dropped from about 2 million in 1990 to a record low of 1.4 million in 2000, but it rose again to 1.6 million in 2008 (See Graph 1). In view of the current global crisis, the number of insured persons, i.e. contributors, decreased by 8,500 in the first half of 2009. These figures clearly point to a negative trend in the system dependency ratio. While in 1990, there were three insured persons per pensioner, today's ratio is as low as (statistically awkward) 1.38 insured persons per pensioner. This, of course, has an adverse impact on the pension expenditure financing.

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Graph 1 Movements in the number of insured persons and pension beneficiaries (as at 31 December)



Source: CBS, Statistical Yearbook, 2008; CPIA, Statistical Information, No. 2/2009.

The movements of the pension system-dependency ratio were determined by a great number of factors. A significant influence was that of the homeland war, as well as of a social policy providing retirement opportunities to those who lost their jobs due to transition, the worsening demographic situation, but also the legal provisions governing the retirement age, early retirement conditions, disability criteria, etc. Owing to the economic recovery in the second transition decade, the number of insured persons increased, but the number of beneficiaries also went up at an almost equal rate (16% and 14% respectively since 2000). The growth in the “privileged pension” beneficiaries also contributed to the increase in the total number of pensioners. The purpose of this report is to warn of the trends in the number of insured persons who have been granted pensions under more favourable terms, to analyse the differences in the levels of average privileged and regular pensions, and to weigh the impact of all this on total pension expenditures.

## 2. Pension beneficiaries who have been granted pensions under more favourable conditions

Who are the “privileged pension” beneficiaries? According to the classification of the Croatian Pension Insurance Agency (CPIA), the “privileged pension” beneficiaries include the following:

- The National Liberation War (NLW) participants;
- Employees performing certain activities within the Internal Affairs and Justice;
- Members of the Croatian Home Guard Army, 1941-1945 (home guardsmen);

- Former political prisoners;
- Members of the former Yugoslav National Army (YNA);
- Full members of the HAZU;
- Members of the Parliamentary Executive Council, Federal Executive Council and administratively retired public servants (relates to the former SFRY);
- Members of the Croatian Parliament, members of the Government, Constitutional Court judges and the Auditor General;
- Federal cadres (former delegates to the Federal Council and the Council of Republics and Provinces of the Assembly of the former SFRY from the Republic of Croatia, who, at the invitation of the Government of the RC, resigned from their duty of delegates in these Councils in the period between 25 June 1991 and 8 October 1991, and put themselves at the disposal of the Government of the RC);
- Miners from the Istrian coal mines “Tupljak”, d.d. Labin, and workers professionally exposed to asbestos;
- Members of the Croatian Army;
- Croatian homeland war veterans;
- Members of the Croatian Defence Council (CDC).

A list of regulations pursuant to which these beneficiaries and their family members have been granted pensions under more favourable terms is given in the Annex.

Now, what is the number of privileged pension beneficiaries? In June 2009, it stood at 180,061 (a record high since 2003). There were no significant changes in the total number of privileged pensioners over years, because the growth in certain categories of beneficiaries was off-

Table 1 The numbers of privileged pension beneficiaries (June)

|  | 2003           | 2004           | 2005           | 2006           | 2007           | 2008           | 2009           | Index<br>2009/2003 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------------|
| The NLW participants   | 72,878         | 65,843         | 61,264         | 56,679         | 52,269         | 47,763         | 43,557         | 60                 |
| Members of the Croatian Home Guard Army, 1941-1945   | 27,552         | 29,283         | 27,776         | 25,994         | 24,193         | 22,265         | 20,481         | 74                 |
| Members of the Parliamentary Executive Council, Federal Executive Council and administratively retired public servants | 405            | 506            | 466            | 417            | 378            | 348            | 307            | 76                 |
| Members of the former YNA  | 14,698         | 14,261         | 13,781         | 13,313         | 12,763         | 12,149         | 11,540         | 79                 |
| Former political prisoners   | 5,776          | 5,801          | 5,818          | 5,731          | 5,612          | 5,629          | 5,441          | 94                 |
| Employees performing certain activities within Internal Affairs and Justice  | 14,127         | 16,592         | 16,636         | 16,498         | 16,400         | 16,302         | 16,125         | 114                |
| Full members of the HAZU   | 136            | 158            | 165            | 167            | 158            | 160            | 162            | 119                |
| Federal cadres   |                | 63             | 77             | 76             | 78             | 78             | 75             | 119*               |
| Members of the Croatian Army   | 7,646          | 8,149          | 11,263         | 11,358         | 11,332         | 11,218         | 10,863         | 142                |
| Miners from the Istrian coal mines "Tupljak", d.d. Labin, and workers professionally exposed to asbestos               |                | 254            | 254            | 254            | 265            | 282            | 363            | 143*               |
| Members of the Croatian Parliament, members of the Government, Constitutional Court judges and the Auditor General     | 281            | 326            | 346            | 368            | 389            | 450            | 479            | 170                |
| Members of the Croatian Defence Council  |                |                |                |                |                | 3,029          | 6,174          | 204**              |
| Croatian homeland war veterans   | 30,865         | 33,155         | 37,961         | 42,920         | 51,892         | 59,246         | 64,494         | 209                |
| <b>Total</b>   | <b>174,364</b> | <b>174,391</b> | <b>175,807</b> | <b>173,775</b> | <b>175,729</b> | <b>178,919</b> | <b>180,061</b> | <b>103</b>         |

\* Index calculated relative to 2004.

\*\* Index calculated relative to 2008.

Source: CPIA, Statistical Report, No. 2; for each reference year.

set by a decline in others. Table 1 shows beneficiaries by category and according to whether their numbers grow or shrink over years. Logically, the largest decrease since 2003 has been observed in the number of NLW-pension beneficiaries (40%), followed by members of the Croatian Homeland Army, 1941-1945, the group comprising former members of the Parliamentary Executive Council, Federal Executive Council and administratively retired public servants, as well as members of the former YNA and former political prisoners. Interestingly, in June 2009, there were about 64,000 beneficiaries of pensions directly related to the World War II, while at the same time, the number of recipients of homeland war veterans' pensions stood at about 64,500. Croatian homeland war veterans are the fastest growing category. Their number more than doubled in the period from June 2003 to June 2009. A twofold increase (in only two years) was also observed in the number of pensions of the Croatian Defence Council members. A sharp rise (70%) was recorded in the category of members of the Croatian Parliament, members of the Government, Constitutional Court judges and the Auditor General. Their pension rights are reg-

ulated by the legislation governing the rights to pension of members of the Croatian Parliament.

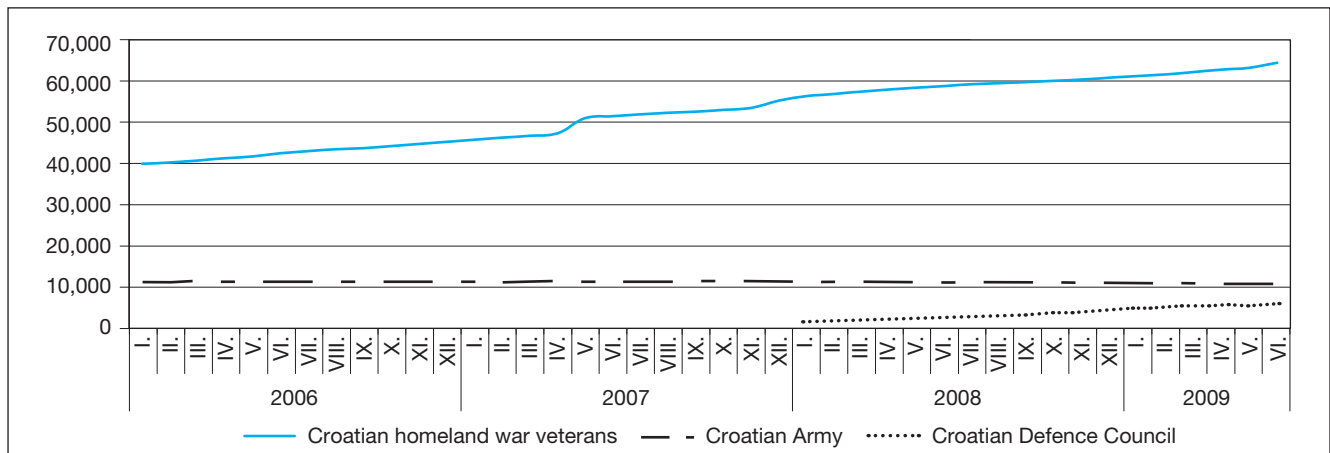
Monthly data are only available for three categories of privileged pension beneficiaries, as from 2006. Graph 2 shows a monthly increase in homeland war veterans' pensions and the pensions of the CDC and Croatian Army members. While the Croatian Army pensions show a slight decrease, the number of veterans' pensions rose markedly, by about 25,000 in 3.5 years. During this period, total number of pension beneficiaries went up by about 78,000, which means that homeland war veterans' pensions accounted for as much as one-third of this increase!

### 3. Average pensions

According to the data from the Croatian Pension Insurance Agency, average pension for June 2009 (paid in July, net of tax and surtax), excluding the pensions of Croatian homeland war veterans, the Croatian Army and CDC<sup>1</sup>, stood at HRK 2,166. According to the CPIA publications, average pension relates to the pension grant-

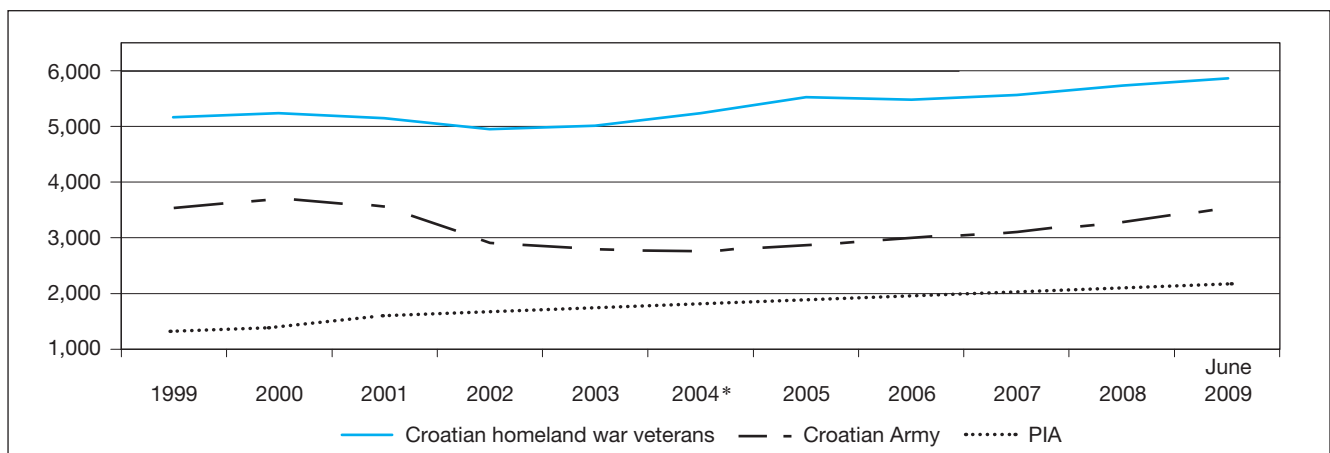
<sup>1</sup> The pensions include the "compensatory supplement" to pension pursuant to the Pension and Disability Insurance Act (PDIA) which was in force until 31 January 1998, and a supplement to pension pursuant to the Act on a Supplement to Pensions granted pursuant to the Pension Insurance Act (OG 79/2007) which entered into force on 7 August 2007.

Graph 2 Beneficiaries of homeland war veterans', Croatian Army and CDC pensions



Source: CBS, Monthly Statistical Reports.

Graph 3 Average pensions (net of tax and surtax)



\* The pension amounts include a supplement to pension of HRK 100 plus 6% of the pension paid for June 1998. Since March 2004, the amount of the supplement (HRK 100 and the 6 percent) is included in the pension amount and paid to beneficiaries as pension. The pension amounts also include a supplement to pension.

Source: CPIA, Statistical Report, No.2/2009.

ed pursuant to the Pension Insurance Act (PIA). It amounts to about 40% of average monthly net wage. However, the average military pension amounted to HRK 3,525; whereas the average homeland war veterans' pension stood at HRK 5,861, i.e. double the amount received by beneficiaries under the PIA. A gap between the average amounts of these three types of pension can also be observed when broken down by year. Pensions granted on account of participation in the CDC are only paid since 2008, and their average amount in June 2009 was HRK 2,857.

Further differences can be observed when comparing three average pension categories: ((a) up to HRK 1,500; (b) from HRK 1,500.01 to HRK 5,000; and (c) over HRK 5,000.01. Table 2 jointly presents old-age, survivors' and disability pensions, Table 3 shows disability pensions and Table 4 survivors' pensions. As shown in Table 2,

the bulk of pension beneficiaries belong to the second category, with the exception of veterans' pension beneficiaries of whom 60% receive average pensions over HRK 5,000, i.e. HRK 7,417. Of the total number of beneficiaries under the PIA, only 3% belong to this category. Here we should note that this percentage also includes privileged pension beneficiaries (apart from homeland war veterans, Croatian Army and the CDC). Furthermore, concerning the beneficiaries under the PIA, there is a considerable difference in the amount of pension between those who acquired the right to pension until 31 December 1998 and those after 1 January 1999. In the former category (comprising 595,829 beneficiaries), 18% of beneficiaries belong to the lowest bracket, and in the latter category (including 482,521 beneficiaries) 40%. Similarly, average pension for the entire first group (until



Pension beneficiaries who have been granted pensions under more favourable conditions

*Table 2 Beneficiaries by pension amount (average pension for June paid in July 2009, net of tax and surtax); old-age, survivors' and disability pensions*

|  | up to HRK 1,500 |                 | HRK 1,500 – 5,000 |                 | over HRK 5,000 |                 | Total                 |                 |
|--|-----------------|-----------------|-------------------|-----------------|----------------|-----------------|-----------------------|-----------------|
|  | Share (%)       | Average pension | Share (%)         | Average pension | Share (%)      | Average pension | Number of beneficiar. | Average pension |
| Total, excluding Army, homeland war veterans and CDC | 27              | 853             | 70                | 2,555           | 3              | 6,039           | 1,078.350             | 2,166           |
| – until 31 Dec.1998                                  | 18              | 825             | 79                | 2,590           | 3              | 5,847           | 595,829               | 2,367           |
| – after 1 Jan.1999                                   | 40              | 867             | 57                | 2,466           | 3              | 6,298           | 482,521               | 1,918           |
| Army   | 2               | 1,224           | 86                | 3,182           | 12             | 6,354           | 10,863                | 3,525           |
| Homeland war veterans                                | 1               | 1,200           | 39                | 4,315           | 60             | 7,417           | 64,494                | 5,861           |
| CDC  | 17              | 1,055           | 74                | 2,884           | 9              | 6,074           | 6,174                 | 2,857           |

Source: CPIA, Statistical Report, No. 2/2009; author's calculation.

*Table 3 Disability pension beneficiaries by pension amount (average pension for June 2009 paid in July, net of tax and surtax)*

|  | up to HRK 1,500 |                 | HRK 1,500 – 5,000 |                 | over HRK 5,000 |                 | Total                 |                 |
|--|-----------------|-----------------|-------------------|-----------------|----------------|-----------------|-----------------------|-----------------|
|  | Share (%)       | Average pension | Share (%)         | Average pension | Share (%)      | Average pension | Number of beneficiar. | Average pension |
| Total, excluding Army, homeland war veterans and CDC | 31              | 893             | 68                | 2,319           | 1              | 5,872           | 249,100               | 1,925           |
| – until 31 Dec.1998                                  | 19              | 814             | 79                | 2,432           | 2              | 5,807           | 130,291               | 2,182           |
| – after 1 Jan.1999                                   | 44              | 931             | 55                | 2,141           | 1              | 6,027           | 118,809               | 1,643           |
| Army   | 2               | 1,236           | 94                | 3,059           | 4              | 6,384           | 8,363                 | 3,148           |
| Homeland war veterans                                | < 1             | 1,194           | 46                | 3,493           | 54             | 7,084           | 52,001                | 5,407           |
| CDC  | 19              | 1,055           | 72                | 2,839           | 9              | 6,092           | 5,743                 | 2,801           |

Source: CPIA, Statistical Report, No. 2/2009; author's calculation.

*Table 4 Survivors' pension beneficiaries by pension amount (average pensions for June 2009 paid in July, net of tax and surtax)*

|  | up to HRK 1,500 |                 | HRK 1,500 – 5,000 |                 | over HRK 5,000 |                 | Total                 |                 |
|--|-----------------|-----------------|-------------------|-----------------|----------------|-----------------|-----------------------|-----------------|
|  | Share (%)       | Average pension | Share (%)         | Average pension | Share (%)      | Average pension | Number of beneficiar. | Average pension |
| Total, excluding Army, homeland war veterans and CDC | 33              | 934             | 66                | 2,278           | 1              | 5,751           | 237,456               | 1,853           |
| – until 31 Dec.1998                                  | 23              | 958             | 76                | 2,211           | < 1            | 5,464           | 121,311               | 1,930           |
| – after 1 Jan.1999                                   | 43              | 920             | 56                | 2,174           | 1              | 5,436           | 116,145               | 1,788           |
| Army   | 5               | 1,134           | 72                | 3,121           | 23             | 6,945           | 442                   | 3,909           |
| Homeland war veterans                                | < 1             | 1,267           | 9                 | 4,137           | 91             | 8,253           | 1,223                 | 7,863           |
| CDC  | 0               | 0               | 90                | 3,358           | 10             | 5,859           | 431                   | 3,608           |

Source: CPIA, Statistical Report, No. 2/2009; author's calculation.

31 December 1998) amounts to HRK 2,367, and for the second group (after 1 January 1999) it stands at HRK 1,918. Consequently, the average pension received by beneficiaries under the PIA (after 1 January 1999), which was 2.7 times lower than the average homeland war veterans' pension is presently 3.1 times lower than the average for veterans.

It is interesting to note that in July, 20% of beneficiaries received pensions (for June) between HRK 3,000 and 6,000, whereas only 1% received over HRK 6,000 (these amounts represent pension brackets for crisis tax purposes). These data do not cover the beneficiaries of home-

land war veterans' pensions, Croatian Army pensions and CDC pensions. If they are added to the first bracket, the percentages go up to 21% and 3.7% of total pension beneficiaries respectively.

Viewed by structure, as many as 80% (52,001) of homeland war veterans' pension beneficiaries receive disability pensions. More than a half of them receive average pensions amounting to HRK 7,084. By contrast, among the beneficiaries of pensions under the PIA, 68% receive average pensions of HRK 2,319, whereas only 1% of the total receive average disability pensions over HRK 5,000. A detailed comparison is given in Table 3.

*Table 5 Average pensions of beneficiaries who have been granted pensions under more favourable conditions (pensions for June 2009 paid in July; net of tax and surtax)*

|   | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009   |
|---|-------|-------|-------|-------|-------|-------|--------|
| Members of the Croatian Home Guard Army, 1941-1945  | 1,622 | 1,801 | 1,889 | 1,940 | 2,007 | 2,095 | 2,208  |
| The NLW participants  | 1,876 | 2,103 | 2,229 | 2,309 | 2,405 | 2,530 | 2,683  |
| Members of the Parliamentary Executive Council and Federal Executive Council and administratively retired public servants | 1,753 | 1,973 | 2,109 | 2,203 | 2,342 | 2,501 | 2,700  |
| Croatian Defence Council  |       |       |       |       |       | 3,038 | 2,857  |
| Members of the former YNA   | 2,170 | 2,426 | 2,562 | 2,641 | 2,742 | 2,870 | 3,029  |
| Miners from the Istrian coal mines "Tupljak", d.d. Labin, and workers professionally exposed to asbestos                  |       | 2,635 | 2,804 | 2,904 | 3,045 | 3,139 | 3,125  |
| Croatian Army   | 2,773 | 2,747 | 2,838 | 2,967 | 3,097 | 3,268 | 3,525  |
| Federal cadres  |       | 3,128 | 3,278 | 3,370 | 3,433 | 3,584 | 3,789  |
| Former political prisoners  | 3,050 | 3,280 | 3,400 | 3,451 | 3,549 | 3,635 | 3,818  |
| Employees performing certain activities within Internal Affairs and Justice   | 2,816 | 3,111 | 3,285 | 3,391 | 3,531 | 3,712 | 3,926  |
| Croatian homeland war veterans (Act on the Rights of Croatian Homeland War Veterans and Their Family Members (ZOPHBDR))   | 4,972 | 5,173 | 5,516 | 5,421 | 5,553 | 5,697 | 5,861  |
| Full members of the HAZU  | 3,538 | 6,668 | 6,872 | 6,951 | 7,443 | 8,040 | 8,470  |
| Members of the Croatian Parliament, members of the Government, Constitutional Court judges and the Auditor General        | 7,760 | 8,244 | 8,742 | 8,980 | 9,258 | 9,875 | 10,453 |

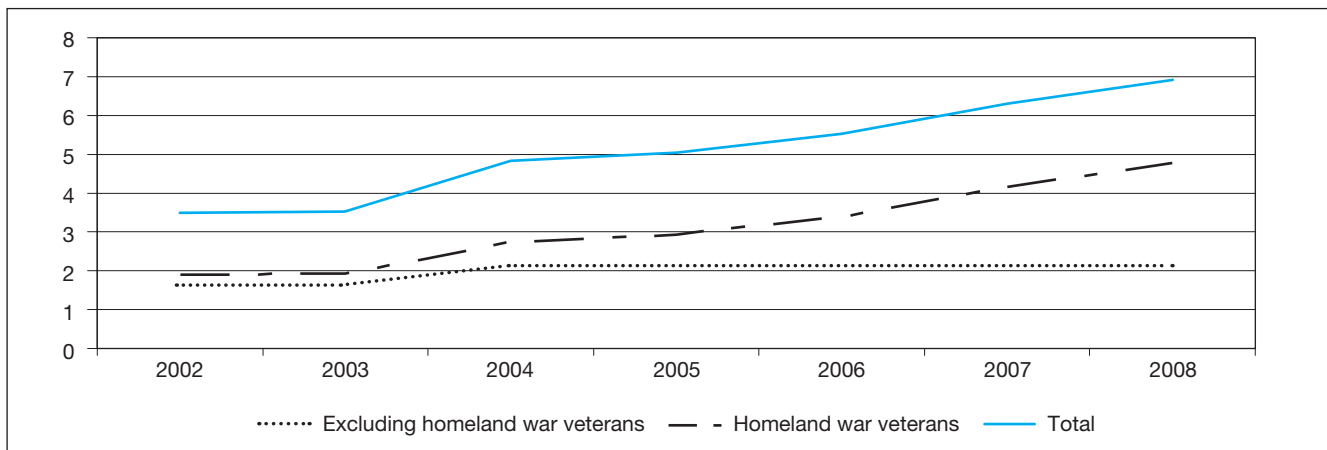
Note: In 2003, the supplement to pension was not included in the pension amount.

Source: CPIA, Statistical Report, No. 2; for all reference years.

Among survivors' pensions, the most pronounced differences are perceived between the beneficiaries under the PIA and those belonging to the three separate categories. Specifically, the average survivors' pension for beneficiaries under the PIA in June stood at HRK 1,853. The average survivors' pensions for CA members, homeland war veterans and CDC members amounted to HRK 3,909, HRK 7,863 and HRK 3,609 respectively. However, 91% of the beneficiaries of homeland war veterans' survivors' pensions received an average of HRK 8,253. It should be noted, that the number of such beneficiaries is 1,223, whereas the number of beneficiaries under the PIA stands at 237,456.

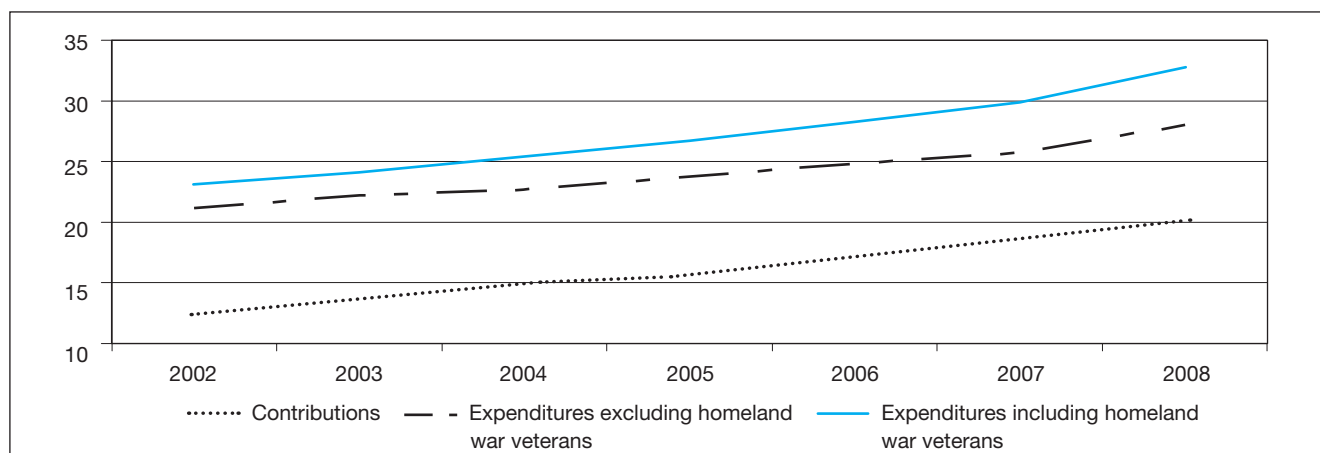
Old-age pensions are excluded from the analysis, because there are only 257 beneficiaries of such pensions among homeland war veterans, and because they represent the so-called lowest pensions. There are no old-age pension beneficiaries among the CDC members, whereas in the case of the CA, old-age pensions are received by 2,058 (19%) of total beneficiaries. Generally, the shares of old-age, disability and survivors' pensioners in the total number of pension beneficiaries (excluding homeland war veterans, the Croatian Army and CDC) stand at 55%, 23% and 22% respectively. These percentages will require a more detailed examination in the future.

*Graph 4 Expenditures for pensions granted under more favourable conditions (in billion HRK)*



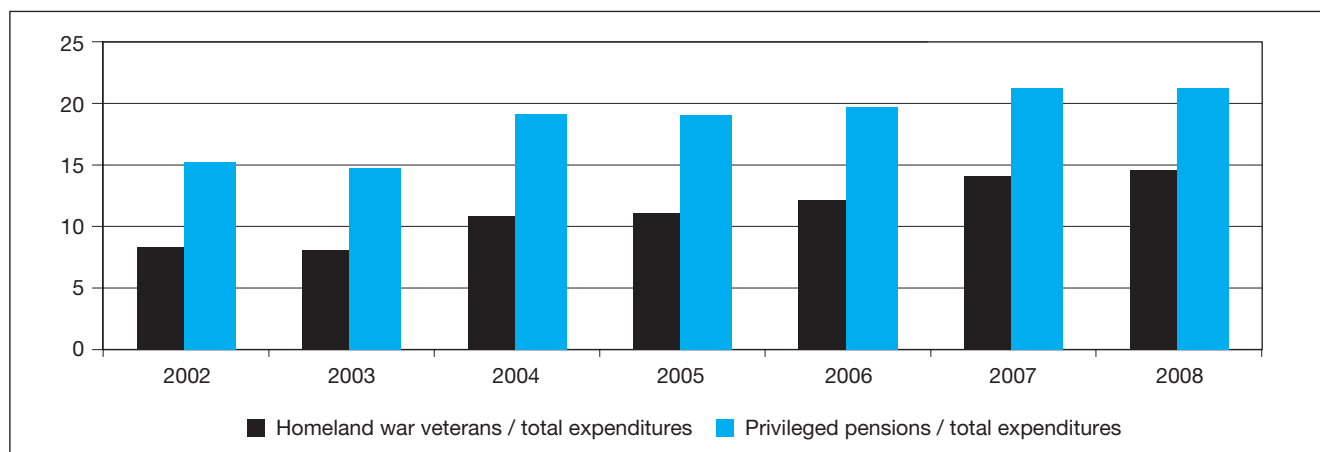
Source: Croatian Pension Insurance Agency, Annual Reports (Section V: Financial Operations).

**Graph 5 Revenues from contributions and total expenditures for pensions and other retirement benefits (in billion HRK)**



Source: Croatian Pension Insurance Agency, Annual reports (Section V: Financial Operations).

**Graph 6 Shares in expenditures for pensions and other retirement benefits**



Source: Croatian Pension Insurance Agency, Annual Reports (Section V: Financial operations).

Table 5 shows average pension movements for all beneficiaries who have been granted pensions under more favourable conditions. Beneficiaries are arranged by average pension amount. On the top are the beneficiaries whose pensions have been determined pursuant to special regulations applying to members of the Croatian Parliament, with pensions amounting to HRK 10,453, followed by full members of the HAZU (HRK 8,470) and homeland war veterans (HRK 5,861). The average parliamentary pension is almost five times the average pension under the PIA (excluding the homeland war veterans', CA and CDC pensions). Starting with the pension for July 2009, parliamentary pensions are reduced by 10%<sup>2</sup>. A sharp increase in the amount of average pensions of full members of the HAZU was noticed in 2004.

Apart from the average pension amount, it is interesting to look at the average service period for the total of old-age, disability and survivors' pensions. At end-June 2009, the average service period for beneficiaries under the PIA was 29.1 years. For the Croatian Army pension beneficiaries it was 28.7 years, and for beneficiaries under the ZOPHBDR 17.7 years. Average service period for beneficiaries pursuant to the Agreement with Bosnia and Herzegovina (CDC beneficiaries) was as short as 8.5 years. The last category does not include old-age pensions, but only disability and survivors' pensions. Unfortunately, data for other privileged categories are not available. In any case, the privileged status is not only due to higher pension amounts but also due to shorter service periods.

<sup>2</sup> Act on Reducing Pensions Determined Pursuant to the Act on the Rights and Duties of Members of the Croatian Parliament, OG No. 36/2009.



## 4. Pension expenditures

In 2008, total spending on pensions amounted to HRK 32.8bn, which accounts for over 25% of the consolidated general government expenditure or 9.6% of GDP. What was the amount of spending on pensions granted under more favourable conditions? Expenditures for homeland war veterans' pensions and other "privileged" pensions stood at HRK 4.76bn and HRK 2.17bn respectively, which totals about HRK 6.9bn. As shown in Graph 4, the growth of expenditures for pensions granted under more favourable conditions is basically determined by the growth of expenditures for homeland war veterans' pensions. These expenditures amounted to HRK 1.9bn in 2002, (HRK 0.3bn more than expenditures for other pensions granted under more favourable conditions). In time, this difference increased to HRK 2.59bn.

How did this impact on total expenditures for pensions and other retirement benefits? As shown in Graph 5, expenditures for pensions (including privileged pensions except homeland war veterans' pensions) stood at HRK 28.3bn. However, including expenditures for veterans' pensions, they amount to HRK 32.78bn. Concurrently, revenues from contributions were as low as HRK 20.15bn.

As shown in Graph 6, the share of expenditures for homeland war veterans' pensions in total pension expenditures (including veterans' pensions) has grown since 2002, from 8.2% in 2002 to 14.5% in 2008. The share of expenditures for homeland war veterans' pensions in revenues from contributions has also increased, from 15.2% in 2002 to 23.6% in 2008.<sup>3</sup> In terms of total expenditures for pensions granted under more favourable conditions, these shares are even larger. The share of expenditures for these pensions in total pension expenditures in 2008 stood at 21.1%, their share in revenues from contributions standing at 34.3%. As there were 179,733 beneficiaries of privileged pensions in 2008 (in December), and 1,158,665 beneficiaries in total, pension expenditures for only 15.5% of all beneficiaries accounted for 21.1% of total pension beneficiaries. The recipients of homeland war veterans' pen-

sions, participating with 5.3% in total beneficiaries, accounted for 14.5% of total expenditures for pensions and other retirement benefits<sup>4</sup>. This was due to high levels of average homeland war veterans' pensions.

## 5. Conclusion

Beneficiaries who have been granted pensions under more favourable conditions account for 15.5% of total pension beneficiaries in Croatia. Expenditures for their pensions, financed directly from the budget, amounted to about HRK 6.9bn in 2008, i.e. 20% of total expenditures for pensions and other retirement benefits. The bulk of this amount, about HRK 4.8bn or 14.5% of total pension expenditures, was spent on the beneficiaries of homeland war veterans' pensions, participating with 5% in the total number of beneficiaries. Moreover, there is a pronounced upward trend in the number of beneficiaries of homeland war veterans' pensions (their number doubled from June 2003 to June 2009, making them the largest category of privileged pension beneficiaries). In these six years, the increase in the beneficiaries of homeland war veterans' pensions accounted for one third of the increase in total pension beneficiaries. Such a growth trend raises the issue of limits on the growth of expenditures for homeland war veterans' pensions. This is exactly why it is important to publish a Croatian homeland war veterans registry.

The main contributors to the gap between "privileged" and regular average pensions are the recipients of the so-called parliamentary pensions, pensions of full members of the HAZU and homeland war veterans' pensions. Concerning the privileged pensions, from the equity point of view, it is not only their level (relative to the regular pensions) that is questionable, but one should also take account of the fact that the "privileged status" includes shorter service periods compared with those required from other pensioners. The problem of early retirement consists not only in reduced contribution revenues but also in the outflow of the working-age population from the economically active population group. The activity rate (the share of economically active population in the working-age population) in

<sup>3</sup> Expenditures for homeland war veterans' pensions and other pensions granted under more favourable conditions are not financed from the CPIA contribution revenues, but from budget revenues (transfers). In 2008, total CPIA revenues from the budget amounted to HRK 13.2bn. Apart from the pensions granted under more favourable conditions, these revenues are also used to finance the supplement of HRK 100 plus 6% and obligatory insurance based on individual capitalised savings. The Act on Increasing Pensions for the Purpose of Obviating Differences in the Levels of Pensions Granted in Different Periods and Act on Supplement to Pension Granted Pursuant to the PIA.

<sup>4</sup> In 2008, the costs arising from all rights pursuant to the Act on the Rights of Croatian Homeland War Veterans and Their Family Members amounted to HRK 6.21bn, of which HRK 4.76bn were spent on pension insurance rights, as already mentioned (the Government of the Republic of Croatia, Report on the application of the Act on the Rights of Croatian Homeland War Veterans and Their Family Members for the period between 1. January 2008 and 31 December 2008; March 2009). Here we should also mention the HRK 62m spent on customs and tax relief, as well as HRK 193m spent on health insurance rights.

Croatia already stands at a low of 50%. Moreover, it is important to note that beneficiaries from most privileged pension categories used to work in the government or public sector during their active life, and as such they already enjoyed privileges such as greater job security, holiday cash grant, Christmas bonus, etc.

Apart from causing inequality and inequity in the system, the differences between privileged and non-privileged pension beneficiaries also increase the burden on the state budget. Therefore, policy makers in Croatia should review the pension amounts of privileged categories of beneficiaries and control the total number of new recipients of these pensions.

## Annex

Legal basis for granting pensions under more favourable conditions:

*The NLW participants:* Pension and Disability Insurance Act, PDIA (which ceased to be valid on 31 December 1998 and was superseded by the Pension Insurance Act), OG, Nos. 26/83, 5/86, 42/87, 34/89, 57/89, 40/90, 9/91, 26/93, 96/93, 44/94 and 59/96.

*Employees performing certain activities within the Internal Affairs and Justice:* Act on Rights Arising from the Pension Insurance of Military Personnel, Police Officers and Authorised Officials, OG, Nos. 128/99, 129/00, 16/01, 22/02 and 41/08.

*Members of the Croatian Home Guard Army, 1941-1945:* PDIA.

*Former political prisoners:* Act on the Rights of Former Political Prisoners, OG, Nos. 34/95, 164/98 and 109/01.

*Members of the former YNA:* Act on the Realisation of Rights Arising from the Pension and Disability Insurance of Former YNA Members, OG, No. 96/93.

*Full members of the HAZU:* Law on the Croatian Academy of Sciences and Arts, OG, Nos. 34/91, 43/96, 150/02 and 65/09.

*Members of the Parliamentary Executive Council and Federal Executive Council, and administratively retired public servants:* PDIA

*Members of the Croatian Parliament, members of the Government, Constitutional Court judges and the Auditor General:* Act on the rights and Duties of Members of the Croatian National Parliament, OG, Nos. 87/94, 72/95, 14/96, 129/99, 55/00, 107/01 and 86/09; Act on the Government of the Republic of Croatia, OG, Nos. 101/98, 117/01, 199/03 and 77/09; Constitutional Act on the Constitutional Court of the Republic of Croatia, OG, Nos. 99/99, 29/02 and 49/02; and State Audit Act, OG, Nos. 49/03 and 177/04.

*Federal cadres:* Act on Amendments to the Pension Insurance Act, OG, No. 147/02.

*Miners from the Istrian coal mines "Tupljak", d.d. Labin and workers professionally exposed to asbestos:* Act on Special Rights Arising from Pension Insurance and Rights Arising from Unemployment Insurance of Employees of the Istrian Coal Mines "Tupljak", d.d. Labin, OG, No. 79/07.

*Croatian Army:* Act on Rights Arising from the Pension Insurance of Military Personnel, Police Officers and Authorised Officials, OG, Nos. 128/99, 129/00, 16/01, 22/02 and 41/08.

*Croatian Homeland War Veterans:* Act on the Rights of Croatian Homeland War Veterans and Their Family Members, OG, Nos. 174/04, 92/05, 107/07 and 65/09.

*Members of the Croatian Defence Council:* Act on the Ratification of the Agreement between the Republic of Croatia and Bosnia and Herzegovina on Cooperation Concerning the Rights of Sufferers of War in Bosnia and Herzegovina Who Were Members of the Croatian Defence Council and Their Family Members, OG, International Agreements, No. 2/06.

*Note: The above mentioned groups of beneficiaries are also subject to the provisions of the Pension Insurance Act.*

**Poštarina plaćena  
u poštanskom uredu  
10000 ZAGREB**

**TISKANICA**