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Seniors´ income: work, retirement pensions and their valorisation

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Summary of the key facts

- The regular incomes of people of retirement age come almost exclusively from the 1st pillar of the pension system in the form of the state old age pension. Most retired people do not have any income from employment and their voluntary contributions to the third pillar of the pension system are small and are usually claimed as a one-off payment at the moment of retirement.

- The pensions system does not take work during retirement sufficiently into account. If a senior citizen works a year beyond retirement age without claiming their pension, their future monthly pension increases by approximately 7.6%. This means that if they work beyond retirement age for the minimum wage, the money they lose by sacrificing their pension and paying social security contributions and tax will come back to them only after 28 years, which most men who work beyond retirement age will not live to see.

- For the state, senior citizens and society as a whole, it is advantageous to have people continue to work even after they have reached retirement age. Pursuing gainful activity, senior citizens improve their quality of life. The state receives higher taxes and social security contributions from working pensioners and pays out less to them in social benefits. Furthermore, when older colleagues leave the labour market, society loses their valuable professional experience and human capital, the use of which is crucial for long-term economic growth.

- Only 13% of Czech pensioners work beyond retirement age, compared with more than 30 percent in the countries with the greatest involvement of pensioners in the labour market. The vast majority of Czechs retire when they reach the statutory retirement age simply because they have the right to claim an old age pension. Health restrictions and redundancy are not significant reasons when it comes to Czech people's decisions to retire, and not to work beyond standard retirement age.

- Old age pensions, which provide most old age pensioners' main income, only replace their previous incomes to a limited extent. An employee who had worked all their life on an average salary and retired in 2013 would have seen their net income fall by 42 percent upon retirement.

- The pension system substantially redistributes wealth from higher earning senior citizens to those with lower income. For example, the old age pension for a male employee earning twice the average salary in the economy corresponds to 41 % of his previous net income, while for an employee earning 50 % of the average salary the old age pension corresponds to 85 % of their net salary.

- Pension valorization settings are crucial in determining how the value of the old age pension will develop in the coming years. At present, the system is set to maintain individuals' real purchasing power throughout their retirement at the level they enjoyed during their working life, but in reality it usually lags behind natural growth in real salaries. The higher the initial old age pension, the more it will lag behind in this way.

- The way in which the pensions system is currently set up relatively effectively protects Czech pensioners from falling below the poverty line. The seven percent share of the population aged over 65 years who fall below the line is the fourth smallest in the EU. Nevertheless, in most cases the pensions system does not protect pensioners from a substantial reduction in quality of life.