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## THE CZECH PENSION SYSTEM ON CROSSROADS: WHO WILL BENEFIT FROM JOINING THE SECOND PILLAR?

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### **Abstract**

In 2011 and 2012, the Czech pension system underwent the largest transformation since 1995. The second pillar should be established in 2013. Because of the voluntary opt-out, future pensioners will be able to divert 3 percentage of their wages outside the pay-as-you-go pension system by adding another 2 percentage from their own savings. Therefore, this potentially involves a transfer of 5 percentage of wages into pension funds. The biggest unknown in the proposed reform is the interest of Czech citizens in using this possibility and thus long-term saving in pension funds. The study shows that under quite conservative circumstances, the transfer to the new system could be advantageous for 50% of men and 30% of women. Nevertheless, the advantage of this transfer would be relatively low – somewhere around the amount of one half of their annual salary. We can assume that the interest in the reformed system and its second pillar will probably be lower than a simple analysis of its financial benefits tends to suggest. Considering the conservative nature of Czech employees and entrepreneurs, the voluntary form of this saving option, and overall insufficient financial literacy, we can realistically expect that without any additional persuasive campaign, the new system will register far fewer participants than expected. However, even if 20% of eligible citizens do participate in the new system, the amount of money invested through pension funds would exceed 10 billion Czech crowns annually.

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[Download](#) the complete study (in Czech only).

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