

**WHAT KIND OF RETIREMENT AWAITS US? DEVELOPMENT
ALTERNATIVES OF PAY-AS-YOU-GO PENSION SYSTEM**

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Abstract

The Czech pension system still operates solely as a pay-as-you-go pension system and redistributes roughly 9% of country's GDP. Despite the increase of retirement age and the pension short-term valorization mechanism changes, the deficit of the pension system will most probably continue to gradually grow. The shock of an aging population on the pension system will be so rampart in the coming decades that avoiding a huge government debt while preserving current parameters will be impossible. The government will most probably try to avoid the deepening of public debt. One possibility is to increase the compulsory wage deductions, thus essentially increasing taxes. Another possibility is reducing the ratio of pension remuneration to average wages. If the current compensation ratio profile is preserved, the system ends up in a continuous deficit and a gradual accumulation of the debt. However, the government can reduce the compensation ratio throughout the whole age profile over long-term, including for starting pensions. According to our projections, the ratio of the starting pension and the average wages needs to decrease from the current 45 percent of gross wages, down to approximately 35 percent by 2030 and 25 percent by 2050. Such pension reduction in a pay-as-you-go system emphasizes the pensioners' need for an alternative income from other non-state sources.

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

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