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PROJECT OF THE ECONOMICS INSTITUTE OF THE CZECH ACADEMY OF SCIENCES

Study 1/2026

Pension Fund Clients Trapped by Low Returns and High Fees[2]

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LUKÁŠ NÁDVORNÍK*, FILIP PERTOLD*

Summary

The current Czech third-pillar capital-based pension savings system **fails to deliver on its purpose**. It requires citizens to make **unrealistically high contributions** due to **extremely low effective returns** and a **high fee burden**. A fundamental revision is necessary, as maintaining the status quo risks fees depriving fund clients of up to **half of their returns**.

- **10× Higher contributions for the same benefit:** Due to low returns and high costs, the average client in the Czech Republic must contribute up to **10 times more** funds than a client of Slovak index funds to achieve the same capital rent.
- **Dynamic funds lag significantly:** Even the most profitable part of the pillar—Dynamic Funds—lagged behind market returns by **more than 5% annually** in the last decade and delivered less than half the appreciation compared to foreign low-cost index funds (e.g., Slovakia, Sweden).
- **Fees absorb up to half of wealth:** High fees in dynamic funds can deprive a client of up to **50%** of their future wealth over a 40-year horizon; in the last decade, they **erased 37–49%** of the funds' total returns.
- **Solution - reduce costs, introduce life-cycle funds, and better target state support:** Key improvements involve revising fee caps to incentivize pension companies to create low-cost index funds and introducing a mandatory life-cycle strategy that automatically balances the dynamic profile with the client's age and increases yield potential. State support should be directed only towards clients investing in funds that make the most sense from a pension perspective—specifically, life-cycle funds and more dynamic funds.

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