MINISTERSTVO FINANCIÍ SLOVENSKEJ REPUBLIKY

Spending review of labour market and social policies

Draft measures

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Measures of the spending review

The expenditures subject to the spending review of labour market and social policies amounted to EUR 3 bn (3.7% of GDP). The Value for Money Division at the Ministry of Finance SR proposes saving measures beyond the scope of the spending review in the amount of EUR 160 mil. (0.2% of GDP) yearly. Most of these measures reduce spending on family policies, which amounts to nearly EUR 1 bn in Slovakia, and it is not aimed at targeted support to low-income households. Thus public funds can be used for measures improving the declared goals – increasing employment rates and poverty reduction. The package also includes measures to improve efficiency of retirement saving schemes.

The spending review of labour market and social policies carried out by the Ministry of Labour, Social Affairs and Family and the Social Insurance Company examined annual expenditures which sum up to 3.7% GDP. The objectives of the spending review are to increase the employment rate and decrease the at-risk-of-poverty rate of citizens. The review is focused on the possible improvement of effectiveness and targeting of policies, especially on expenditures on social transfers and insurance, pensions, social services, employment policy, operation and investments of the ministry, its organisations and of the Social Insurance Agency, while maintaining the level of expenditures in line with the Stability Programme of the Slovak Republic for 2017 – 2020. The spending review doesn't evaluate parameters of the pension system.

The measures can potentially save EUR 160 mil. (0.2% of GDP) yearly. There is a margin for saving especially in family allowances (child allowance, tax bonus).

The saving measures create opportunity for increasing employment rates and poverty reduction. Higher social expenditures can be directed, in particular, to population ageing-sensitive measures, access to nursery schools (children up to age three) and protection of families at risk. The spending review also identifies value-adding measures in form of improved social inclusion or employment, which do not require additional spending, such as reform of active labour market policies (ALMPs) or the old-age pension saving scheme.

Table 1: Draft measures (EUR mil.; negative saving = higher spending or lower income)

					Baseline scenario			*Draft savings*		
Saving										
	Measure	*S2015*	*S2016*	*R2017*	*2018*	*2019*	*2020*	*Ú2018*	*Ú2019*	*Ú2020*
1	Linking amount of tax bonus to income	260	263	264	265	267	271	20	20	20
2	Lower age limit for entitlement to tax bonus	260	263	264	265	267	271	25	26	26
3	Linking amount of tax bonus to income and lower age entitled to tax bonus (1+2)	260	263	264	265	267	271	45	46	46
4	Lower age limit for entitlement to child allowance	315	313	315	315	316	319	29	29	30
5	Paternity leave	355	352	364	379	386	396	37	38	39
6	Annual social contributions clearing	-	-	-	-	-	-	0	0	49
Value										
	Measure	*S2015*	*S2016*	*R2017*	*2018*	*2019*	*2020*	*Ú2018*	*Ú2019*	*Ú2020*
7	Flexible use of parental allowance	355	352	364	379	386	396	-11	-28	-4
8	Extended offer of nursery schools	-	-	-	-	-	-	TBC	TBC	TBC
9	Social higher-education scholarship	21	-	-	-	-	-	-18	-18	-19
10	Social services*	73	82	83	85	86	88	TBC	TBC	TBC
11	Segmentation of ALMPs tools	172	191	190	193	190	172	-	-	-
12	Higher efficiency of pension saving scheme	-	-	-	-	-	-	-	-	-

Note: S – Actual; R – Budget; Ú – Saving (negative value = higher spending); *Source: VfM Unit*
TBC – To be confirmed
** - Only expenses of the MPSVR SR are included*

Family support is not linked to the beneficiary's income, i.e., it is allocated equally on all citizens, irrespective of their income. (*This issue is discussed in detail in the Spending Review – Final Report, Graph 49*) Slovakia's public spending on family policies expressed as a percentage of GDP nearly equals to the OECD average (*Graph 56*) and amounts nearly EUR 1 bn each year. However, cash benefits are higher than the OECD average. The length of financial support provided according to the child's age to the family of a child in formal education in

Slovakia is the third longest in OECD (*Graph 59*). By contrast, the scope of services provided (nursery schools for children up to age three and kindergartens) is relatively smaller.

Limitation of family support (child allowance and tax bonus) in case of high-income households will enable a more effective use of public finance and reallocation to identified priorities:

1. Linking amount of tax bonus to income. The measure suggests retaining the full tax bonus entitlement up to income equal to 100-multiple of the minimum subsistence level (EUR 19 809 yearly in the first half of 2017) and subsequent decrease up to 176.8-multiple of the minimum subsistence level (EUR 35 022 yearly in the first half of 2017). With higher income, the entitlement expires. The reduction will be scaled using the intervals applied to non-taxable part of the tax base.

2. Lower age limit for entitlement to tax bonus. The measure removes the entitlement to tax bonus for parents of adult (aged 18+) higher-education students. The cancellation of the entitlement to tax bonus will be compensated by higher social scholarship for children from low-income families so that they are not deprived of access to higher education.

3. Linking amount of tax bonus to income and lower age entitled to tax bonus. This measure is a combination of previous two measures.

4. Lower age limit for entitlement to child allowance. The draft measure cancels entitlement to child allowance for parents of adult (aged 18+) higher-education students. The cancellation of the tax bonus entitlement will be compensated by higher social scholarship for children from low-income families to prevent barriers to access higher education.

5. Paid paternity leave in duration of 6 months; on the other hand, the entitlement to parental leave and parental allowance is reduced to 24 months (30 months for those who did not receive maternity benefit before). Fathers have been given the possibility to take six months of parental leave and parental allowance. The measure is expected to contribute to the gender equality and equality of chances for men and women at the labour market.

Mothers with young children tend to withdraw from the labour market. When compared with the EU, Slovakia considerably lags in employment rate of mothers aged between 25-35. Supported parental leave – until the child is three years of age – is the second longest leave in OECD, which is reflected in one of the highest percentages of women, who decide to stay at parental leave for longer than 12 months (*Box 11*).

6. Establishing an annual clearing of social contributions assumes establishing clearing under the existing assessment basis**.** The effects of establishing the annual clearing in social insurance are expected to become evident in January 2019, and the first annual clearing is scheduled to be prepared in 2020 for the previous year. The positive impact on general government revenues from taxes and contributions is estimated at approximately EUR 49 mil., depending on the final draft and excluding the implementation costs. Considering the present recognition of accruals in social contributions, the accrual effect is expected to demonstrate first results in public finance for 2020 (MF SR, 2017).

The social insurance system should be characterised by a fair collection of social contributions . The present setting of the system makes it possible, in a legitimate way, to avoid payment of social contributions on high income cumulated up to one month. Establishing an annual clearing eliminates the motivation to intentionally cumulate high bonuses in one month, enabling fairer distribution of the social contributions burden and increasing the revenues of the general government.

7. Flexible use of parental allowance. Establishing a flexible length of taking the parental allowance (an amount, that parents of a child up to three years of age may decide about the time of using the allowance at their own discretion) for parents that were receiving a maternity benefit, will facilitate financial planning for young families and may help to mitigate the postponement of parenthood until they are better-off.

Rather than regulating birth rate (*Graph 60*), the purpose of the family support policy is to contribute to compensation of costs associated with birth and upbringing of a child. Financial benefits have an undeniable impact on the timing of births (Thévenon a Gauthier, 2011). Families planning to have a child postpone births to higher age, when they are better-off.

8. Extended offer of nursery schools. Currently, there is no overview available about missing nursery school capacities. It is necessary to identify capacities and locations with most critical lack of nursery school places. Higher availability of early childhood educational institutions is a prerequisite for stay-at-home mothers' earlier decision to join the labour force.

The decision to have or not to have children is strongly influenced by work-family balance policies. Such measures include sufficient capacity of pre-school facilities, legislation supporting teleworking from home and part-time jobs. Participation of children aged below 2 in nursery schools ranks among the lowest in OECD and EU countries, as in this age home care prevails. Low participation of children in pre-school facilities may be associated with lower employment rate of women in this age category (*Graph 63*).

9. Increasing social scholarship for higher-education students. We recommend to strengthen the social scholarship system for students from low-income families. The measure suggests an increase in expenditure on social scholarships for higher-education students in the amount being equivalent to revenues from cancellation of the child allowance and tax bonuses on higher-education students in the three lowest income deciles. From the point of view of the spending review, the assignment of competencies for the social scholarships, which by now are the competence of the Ministry of Education remains an unresolved. An alternative may be administration of social scholarships by the Ministry of Labour, Social Affairs and Family.

Higher social scholarships for university students are meant to compensate families after cancellation and/or reduction of family allowances. In order to prevent restricted access to higher education for children from low-income families, the government intends to ensure greater possibilities for obtaining social scholarship. It is also important that the social scholarships are thoroughly targeted.

10. The spending review of labour market and social policies identified social services as the area which, potentially, can bring higher value, mainly considering the strong demographic pressure faced by Slovakia recently. The spending review does not suggest any specific expenditure measures. Slovakia has one of the fastest ageing populations in the European Union (EC, 2015, Eurostat) (*Graph 74, 75*).

Ageing of the population exerts pressure on future public spending. As a result, expenditures for social services, pension security and healthcare expenditures are expected to grow. The European Commission estimates that by 2060, expenditures for long-term care will double (*Graph 73*). One of the measures suggests that the provided social and healthcare services are consolidated into a single long-term care system, which would enable improving quality of the provided care and cost savings.

11. The spending review suggests segmentation of active labour market policies (ALMPs) tools based on profiling the unemployed at the first registration of a job-seeker with the public employment services, which could increase employment rates of ALMPs participants by nearly a half. Extension of the scope of job-seekers' background information obtained at registration, together with labour market history information for each jobseeker facilitate selection of proper ALMPs for each jobseeker and their successful integration into the labour market (*Graph 34*).

Active labour market policies (ALMPs) need to be focused on improving employment rates, in particular, integration of the long-term unemployed into the labour market. Expenditures for the ALMPs rank among the lowest in OECD countries, and their effectiveness and efficiency is low. The number of vacancies is growing and creation of jobs does not need to be further subsidised. Despite it, demand-side programmes prevail over supply-side (education and training) programmes and advisory services, which are internationally proven as most effective (*Box 4*).

12. Higher efficiency of pension saving scheme. The spending review suggests several measures in pension saving; the measures are focused on a more efficient operation of the 2nd and the 3rd pillar:

- Mandatory harmonization of the investment strategy of the existing savers with time horizon of saving, including transfer of young savers to equity funds,
- Mandatory offer of index fund also in the 3rd pillar,
- Increased competition in voluntary pension saving, for example, through the option of employers' contributions to the 2nd and the 3rd pillar,
- Adjustment of remuneration for supplementary pension companies and pension management companies.

High percentage of savers in bond funds results in a low yielding capacity of savings (the lowest among OECD countries). Increasing the average real performance of the 3rd pillar funds by 1 p.p. could increase beneficiaries' monthly pensions by as much as 25%. Majority of savers' funds are placed in conservative guaranteed bond funds with lower returns (*Chapter 5.2 Performance and Cost Intensity of the 2nd and the 3rd Pillar*).

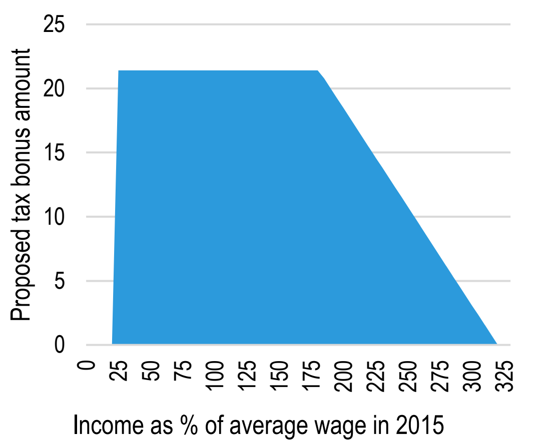
Annex: Description of the Measures

1. – 3. Limitation of entitlement to tax bonus

Family support benefits and the tax bonus improve the situation of low-income families, while for high-income households it is a negligible item of the family budget. Family support is not means tested. The length of financial support provided to the family of a child in formal education in Slovakia is the third longest in OECD. Providing regular financial child support until the adult age is a commonly used practice in OECD countries. Higher-education students from low-income families are usually supported through social scholarships. In Slovakia, children are supported up to 25 years of age, along with provided social scholarships. **The draft measures include three options of limitation of tax bonuses:**

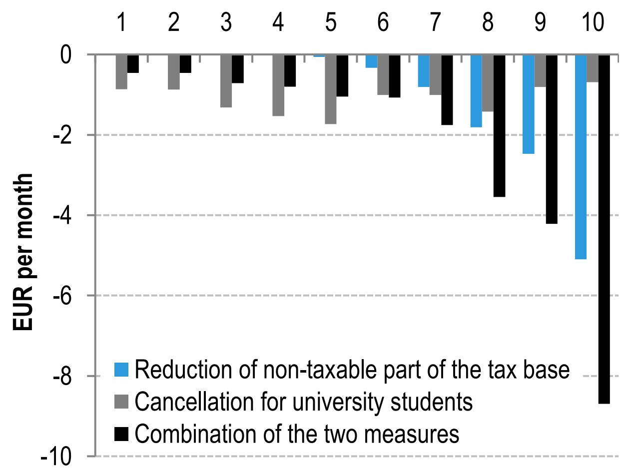
1. Gradual reduction of entitlement to tax bonus for high-income individuals, by the level of income. The reduction will be scaled using the intervals which are currently applied to non-taxable part of the tax base. (Full amount up to income equal to 100-multiple of the minimum subsistence level, and subsequently the non-taxable part of the tax base should fall evenly to 176.8-multiple of the minimum subsistence level. With higher income, the entitlement expires);
2. Cancellation of entitlement to tax bonus for parents of adult children studying at a higher-education institution;
3. Combination of the two above-mentioned measures.

Graph 1: Tax bonus by level of income (% of average earnings, 2015)



Source: VfM Unit

Graph 2: Impact of the change in tax bonus on an average household by income deciles



Source: VfM Unit

The savings were calculated using Euromod model. It is a microsimulation model allowing to evaluate amendments in tax and social policies, their impact on the government budget and household income. The model uses the last available data from 2013, with quantification of saving potential from implementation of the draft measure.

The tax bonus year-on-year change index was calculated for the period from 2013 to 2020. Until 2016, the index uses actual data, the 2017 data is estimated and the data for 2018-2020 are the draft budget. Indexation was applied to quantify savings in expenditures between 2014 - 2020.

The calculation of the second and the third option was refined by using data about number of students enrolled at Slovak universities, by age[1] (administrative data, more detailed than SILC survey questionnaire used in Euromod) and the scope of data underlying the calculation was extended to include estimated number of Slovak students

[1] UNESCO/OECD/Eurostat (UOE) Education database, Enrolment by age, 2014. http://stats.oecd.org/viewhtml.aspx?datasetcode=EDU_ENRL_AGE&lang=en#.

studying abroad[2]. The distribution of students by income deciles remained unchanged as used in Euromod. Under the second option, the loss of income for the three lowest deciles amounts to EUR 8 mil.

Each of the options of the proposed measure was quantified separately. The difference between actual data and/or the baseline scenario and the quantified option is the amount of expenditures for tax bonus in 2018-2020.

Table 2: Budget and expenditure impacts of the proposed measure (EUR mil.)

Year	2015	2016	2017	2018	2019	2020
Present legislation	260	263	264	265	267	271
Gradual reduction of entitlement by income						
Proposed amendment	-	-	-	245	247	250
Saving	-	-	-	20	20	20
Cancellation of bonus for higher-education students						
Proposed amendment	-	-	-	240	242	245
Saving	-	-	-	25	26	26
Combination of the two above-mentioned measures						
Proposed amendment	-	-	-	220	222	224
Saving	-	-	-	45	46	46

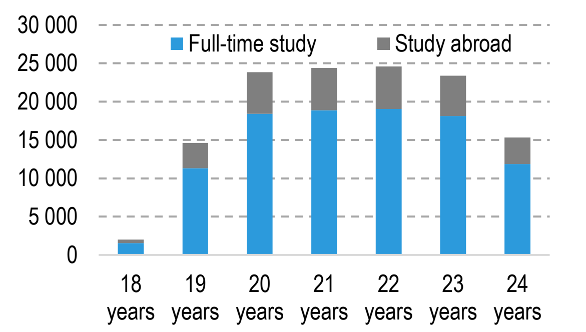
Note: The discrepancy in the table is caused by rounding. *Source: Budget IS, VfM Unit*

[2] OECD data about number of foreign students by country of origin, 2014, OECD Education at the Glance, Share of international or foreign students enrolled by country of origin http://stats.oecd.org/Index.aspx?datasetcode=EAG_ENRL_MOBILES_ORIGIN#.

4. Reduction of age limit for entitlement to child allowance

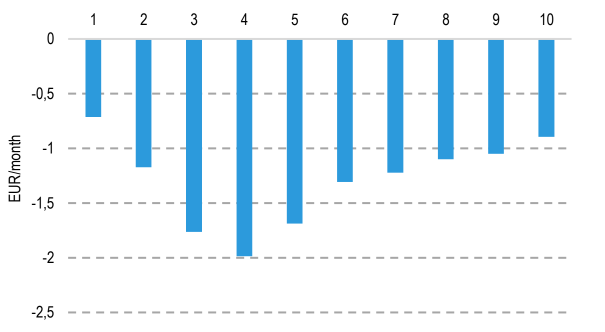
The draft measure suggests cancellation of entitlement to child allowance after the child leaves the secondary school. Thus, this measure is going to affect only families with adult children, who are higher-education students. The saving in the first year was calculated using Euromod model. It is a microsimulation model that enables to evaluate changes in tax and social policies, impact of the changes on the government budget and household income. The model uses the latest available data of 2013, with quantification of saving potential of implementation of the draft measure.

Graph 3: Distribution of higher-education students by age



Source: VfM Unit

Graph 4: Impact of the change in the amount of child allowance on an average household by income deciles



Source: VfM Unit

The index of year-on-year change in child allowances was calculated for the period from 2013 to 2020. Until 2016, the index uses actual data, the 2017 data is estimated and the data for 2018-2020 are the draft budget. Indexation was applied to quantify savings in expenditures between 2014 - 2020. The difference between actual data and/or the baseline scenario and the calculated saving is the amount of expenditures for child allowances in 2018-2020

Table 3: Budget and expenditure impacts of the proposed measure (EUR mil.)

Year	2015	2016	2017	2018	2019	2020
Current legislation	315	313	315	315	316	319
Proposed amendment	-	-	-	286	287	289
Saving	-	-	-	29	29	30

Source: Budget IS, VfM Unit

The calculation of the second and the third option was refined by using data about number of students at Slovak universities, by age [3] (administrative data, more detailed than SILC survey questionnaire used in Euromod) and the scope of data underlying the calculation was extended to include estimated number of Slovak students studying abroad[4]. The distribution of students by income deciles remained unchanged as used in Euromod. It is recommended that the loss of income for the three lowest deciles is compensated by increasing social scholarships by the same amount (total EUR 10 mil.).

[3] UNESCO/OECD/Eurostat (UOE) Education database, Enrolment by age 2014 http://stats.oecd.org/viewhtml.aspx?datasetcode=EDU_ENRL_AGE&lang=en#.

[4] OECD Education at the Glance, Share of international or foreign students enrolled by country of origin, 2014, http://stats.oecd.org/Index.aspx?datasetcode=EAG_ENRL_MOBILES_ORIGIN#.

5. Fathers taking parental leave

Paternity leave currently lasts until the child reaches 3 years of age. The draft measure suggests that period for providing parental allowance to mothers is reduced to max. 24 months (30 months, for those who did not receive maternity benefit before). Additionally, it is proposed that fathers are given the possibility to take parental leave and to receive the allowance for at least 6 months. The decision about the sequence and duration of parental leave should remain in competence of parents. The draft measure does not affect the entitlement to parental leave until the child turns 6, if the child suffers from poor health.

The calculation was based on the assumption that the parental leave taken by the parent who was receiving the maternity benefit, lasts five half-years (after the childbirth, the mother takes maternity leave lasting 6 months). Thus 20% of total expenditures are assigned to every half-year. The proposed measure assumes that parental leave and allowance are taken by only half of the fathers.

Table 4: Budget and expenditure impacts of the proposed measure (EUR mil.)

Year	2015	2016	2017	2018	2019	2020
Current legislation	355	352	364	379	386	396
Proposed amendment	-	-	-	342	348	357
Saving	-	-	-	37	38	39

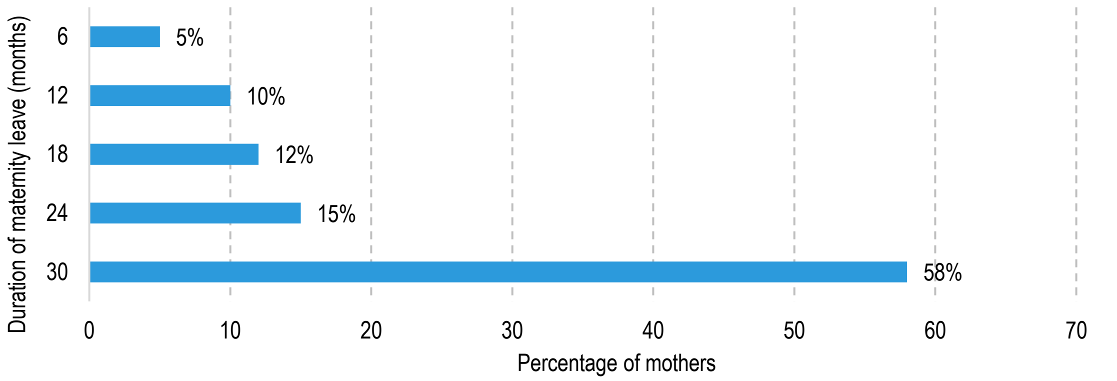
Source: Budget IS, VfM Unit

The option given to fathers to spend six months with their child is expected to shorten the time spent by mothers on parental leave and to contribute to gender equality. Earlier return to work after parental leave will help mothers by mitigation of the risk of losing working habits and qualification. Besides that, part-time employment will be encouraged so that mothers can smoothly join the labour force. Adjusted entitlement to tax bonuses for the benefit of part-time jobs is meant to make part-time employment more attractive for people parenting a young child who prefer gradual return to the labour market. Besides giving the child proper care, the priority should begiven to maintaining working habits .

7. Flexible collection of parental allowance

The proposed flexible use of parental allowance provides parents with the option to collect the allowance in full within a time period decided by the parents. The option of flexible collection will only be available to parents of a child, for which maternity benefit was taken by the mother. Currently, maternity benefits are received, on average, by 25 thousand mothers per month. Each month, around 3 186 mothers switch from receiving maternity benefits to parental allowance. With average duration of 29.54 months and amount of EUR 213 per month, the present total amount paid per child is EUR 6,292 (to simplify the calculation, we ignored the possibility that the mother may give birth to another child during that period). To quantify the effects of collection of full parental allowance by parents whose maternity leave ended in one month, distribution was based on the assumed demand for different lengths of flexible collection of parental allowance.

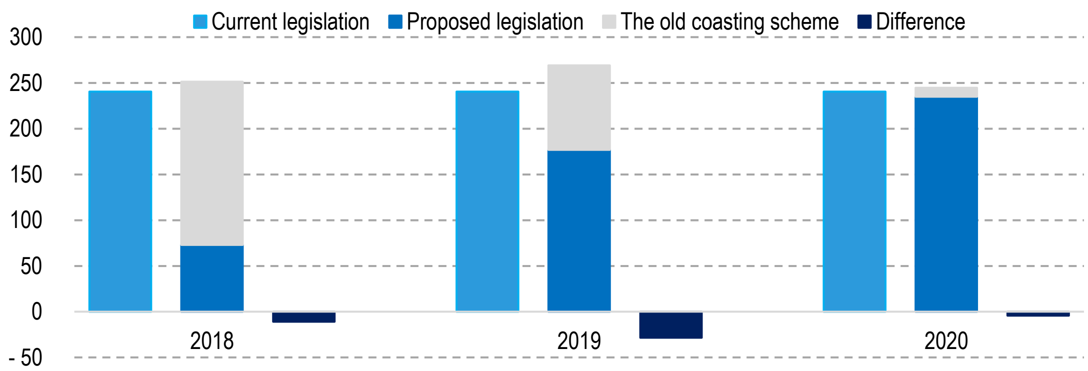
Graph 5: Assumed flexible collection of parental allowance



Source: VfM Unit

Budgetary effects of the measure are expected to be negative in the period, when majority of the mothers will keep receiving the parental allowance under the former scheme, while new mothers will be allowed to shorten the period of receiving the allowance (and thus increase the monthly amount).

Graph 6: Expenditure on parental allowance, present scheme and proposed amendment (EUR mil.)



Source: VfM Unit

The quantification assumes higher spending for parental allowance in the first three years, from the fourth year on, the measure has zero fiscal effect.

Table 5: Budget and expenditure impacts of the proposed measure (EUR mil.)

Year	2015	2016	2017	2018	2019	2020
Current legislation	355	352	364	379	386	396
Proposed amendment	-	-	-	390	414	400
Saving	-	-	-	-11	-28	-4

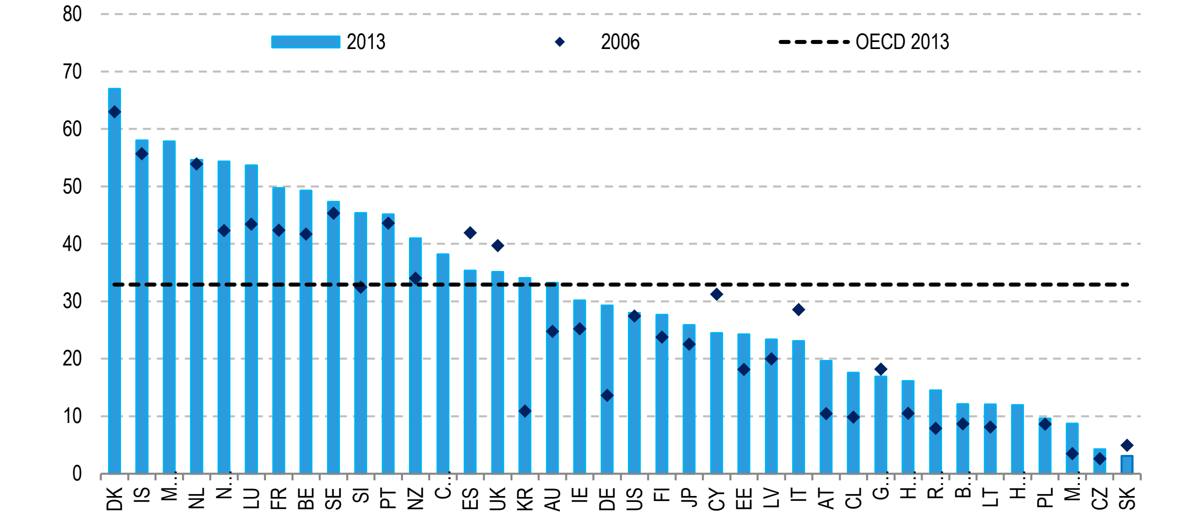
Source: Budget IS, VfM Unit

8. Enlarging the existing capacity of nursery schools (for children up to age 3)

Sufficient capacity of nursery schools is one of prerequisites for mothers' return to the labour market. Improving the network of nursery schools (for children up to age 3) will facilitate mothers' entry to the labour market and facilitate the work-family balance.

Participation of children aged below 2 in nursery schools ranks among the lowest in OECD and EU countries, as in this age home care prevails. Low participation of children in pre-school facilities may be associated with lower employment rate of women in this age category.

Graph 7: Participation in formal care at age 0-2 years (% of the age group)



Source: VfM Unit

Numbers of available nursery school places and their regional distribution have not been examined. The only requirement for establishing a nursery school for children up to age 3 was holding a general trade licence and there was no register of providers. After amendment of the existing legislation[5] registers of providers will be maintained by offices of higher territorial units. The present absence of data about number of places in each region is an obstacle to analysing the existing supply and demand for nursery schools. Establishing the register of providers will provide data to analyse need for nursery schools in each region and to examine impacts on work-family balance.

Increasing the number of nursery schools places is one of the assumptions underlying the project financed from EU funds under the Integrated Regional Operational Programme (IROP). Besides mothers' work-family balance, the project under the IROP is also aimed at inclusive education of children up to age 3. This will pave the way for further education with the highest potential for children from disadvantaged background.

[5] Act No. 448/2008 Coll. on social services.

11. Segmentation of ALMP tools and job-seekers profiling

A more effective allocation of ALMPs financing would make it possible to more than double availability of ALMPs tools for registered job-seekers and thus to increase the number of job-seekers placed in jobs through ALMPs tools by as much as 46%[6]. Assuming average costs per unemployed person in the amount of EUR 1,214 additional placement of job-seekers would save approximately EUR 8.6 mil. per year.

Better availability of employment services, without higher spending in this area, can be achieved through a more detailed profiling of clients and segmentation of the provided services. An increasing number of OECD or EU countries provide employment services based on some profiling type (Manoudi et al., 2014, Loxha and Morgandi, 2014).

Considering the existing profiling models, it appears that the most favourable option is the combination of expert opinion by client's staff, taking account of results from the statistical model (Loxha a Morgandi, 2014). In this combination, the model facilitates understanding the client's situation by the Public Employment Services staff and, at the same time, offers a high level of complexity of processed information.

In international comparison, Slovakia's system of collection data about registered job-seekers is of a relative high quality and it can be linked to other administrative data sources. The model could identify 3 main types of job-seekers based on the assumed duration of registration (A – less than 6 months / B – from 6 to 12 months / C – more than 12 months). The output from the statistical model would help with assessment of clients by the Public Employment Services staff. Clients with special needs who are beneficiaries of specialised services, should be excluded from the mainstream and from the client profiling right away at registration. This applies, for example, to clients with severe health disabilities or cases where assistance of field staff or a specialised legal counselling is required.

The next step is to segment the provided services, by clients' profiles.

Table 6: Draft model combining ALMPs tools for job-seekers without severe health disabilities

Group	Duration of registration	Share in total inflow (%)	ALMPs tools first offered:	Potentially offered ALMPs tools
A	Less than 6 months	50	At registration	Zone 1
			Beginning of 6th month	Zone 1 and Zone 2
B	6 - 12 months	25	At registration	Zone 1 and Zone 2
			Beginning of 6th month	Zone 1, Zone 2 a Zone 3
C	More than 12 months	25	At registration	Zone 1 and Zone 3

Source: Prepared by authors

Zone 1: Information and advisory services and supporting special mobility

This includes client's registration, assistance with completion of the profile in the Information system and profiling. Access to this zone is provided to all registered clients. In Zone 1, job-seekers will be provided with information and advisory services related to finding a job, and other services currently provided by the Citizen Service Department (OSO)[7]. Additionally, ALMPs measures encouraging job-seekers' spatial mobility (§53 a §53a)[8] could be provided above the scope of these services.

[6] In 2015, only 10% of registered cases participated in any of the ALMPs tools. According to IFP (2016), effective application of ALMP tools would enable placing more than 15 thousand job-seekers in jobs thanks to activation through the tools. If equal amount of funds was allocated only to the three most effective tools, availability of ALMPs tools would grow from 10% to 21% and thanks to activation, the number of job-seekers placed in jobs would grow by 46% to 22 409.

[7] For more details see: http://www.upsvar.sk/sl/oddelenie-sluzieb-pre-obcana-1/zoznam-sluzieb.html?page_id=531543

[8] Designation of the tools in accordance with Act No. 5/2004 Coll. on employment services.

Zone 2: Agency services, education and “stay-in-touch” policy
In this zone job-seekers are provided with a more intense career guidance in combination with ALMPs education tools, tools allowing to stay in touch with the workplace and encouraging self-employment (§32, §43, §53, §53A, §49, §51, §52a, §46, National Project NP-REPAS). Access to Zone 2 services is provided to Group B and Group C job-seekers from the moment of registration. Zone 2 services are available to Group A job-seekers after being registered for more than 6 months, which is expected to filter-out approximately a half of the registered job-seekers and thus considerably release the pressure on client service staff operating in Zone 2.

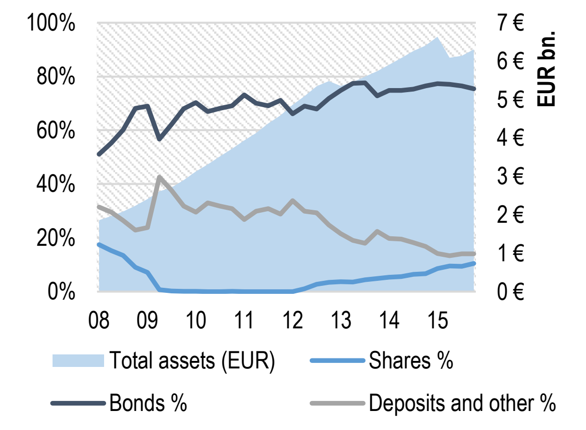
Zone 3: Individual advisory services and subsidized employment
Services in Zone 3 are provided to Group C clients after registration and Group A and B clients after 12 months from registration. That will release the pressure on client service staff operating in this Zone, and allow them to spend more time with each client receiving a customized consulting. In this regard, involved may be professional consultants hired engaged under National Project Support to Individualized Consulting.

Besides individualized consulting in Zone 3, clients should right after registration be provided with access to Zone 1 and Zone 2 tools. After 12 months from registration, clients in Zone 3 could be offered the most costly measures of subsidized employment, currently provided under: §50, §50J and §54.

12. Higher efficiency of pension saving scheme

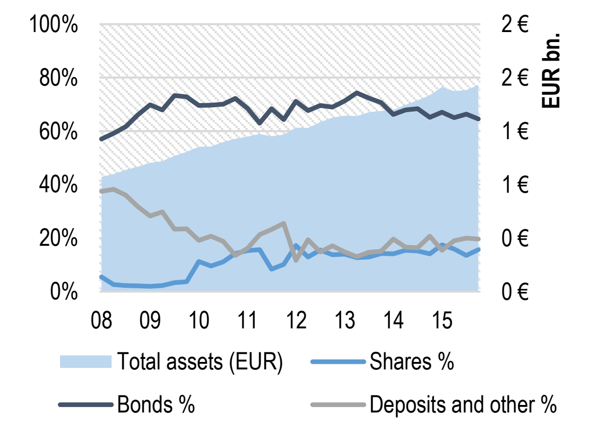
The existence of pension saving in the 2nd and the 3rd pillar are costs for the government budget (in form of deficit of the 1st pillar and tax reliefs), and efficiency of the scheme is low owing to the low yielding capacity of funds. The existing performance of funds in the 2nd and the 3rd pillar ranks among the lowest in OECD. Savers mostly invest their funds in low-yielding conservative bond guaranteed funds. The yielding capacity can be improved by automatic assignment of savers in index funds right after entering the 2nd pillar and mandatory development of basic investment strategy with high proportion of shares at the commencement of saving and with gradual transfer of savings into bonds.

Graph 8: Assets in PFMC funds



Source: NBS

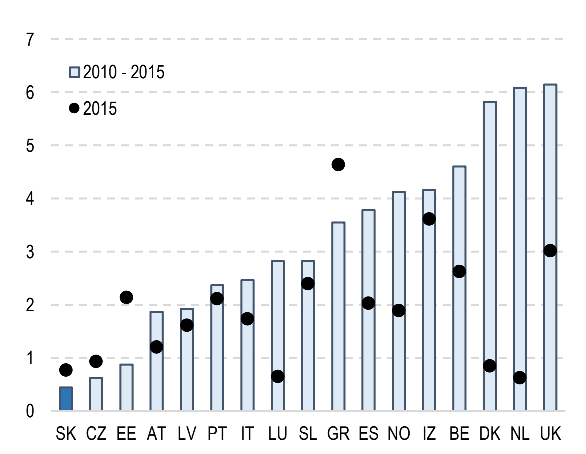
Graph 9: Assets in SPMC funds



Source: NBS

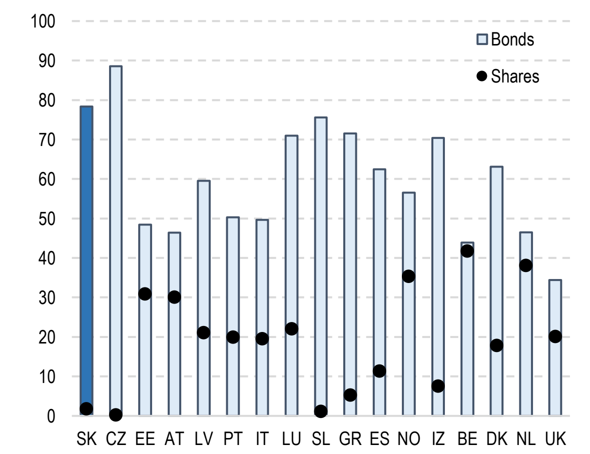
Yield and cost ratios can be improved by mandatory offer of an index fund in the 3rd pillar and freedom of choice as to whether employer's contributions are to be made under the 2nd or the 3rd pillar. Participation in the saving scheme is motivated mainly by contributions from employers. Increasing the real average yield by 1 p.p. in this pillar could increase monthly pensions for future beneficiaries by as much as 25%.

Graph 10: Real weighted yield of pension funds (%)



Source: OECD

Graph 11: Composition of pension fund assets



Source: OECD

Mandatory harmonization of the investment strategy of the existing savers with time horizon of saving would increase average yielding capacity of assets and duration of assets will get closer to the investor's retirement horizon. The spending review recommends development of a default investment strategy with optional back-out (choice of own strategy), for active management of savings considering individual term of saving (dynamic „life-cycle" strategy). This is expected to encourage young savers to enter non-guaranteed equity funds and later, with saver's growing age, the savers are expected to transfer the assets to guaranteed bond funds.

Yields of pension management companies (PFMC) and supplementary pension companies (SPMC) can be increased by amending the charge calculation methodology. Currently, the highest fees are charged for account management. On the other hand, the charge for appreciation of assets is 17% (SPMC) and 42% (PFMC) of total charged amount. Higher percentage of charge for appreciation would have impact on behaviour of pension management companies. In the future, higher revenues generated by the change would be reflected in higher income for pensioners.

Table 7: SPMC charges (EUR thousands)

	2012	**2013**	**2014**	**2015**
For management	24,942	25,871	21,954	22,642
For changing to other SPMC	3	2	0	117
For appreciation of assets	4,665	3,376	4,445	5,006
For severance pay	2,629	3,703	1,963	1,088
Total	32,239	32,952	28,362	28,853

Source: SPMC Annual Reports

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