OECD Reviews of Pension Systems

SLOVENIA

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OECD Reviews of Pension Systems: Slovenia

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Foreword

This OECD Pension Review provides an assessment of Slovenia's retirement income provision from an international perspective and focuses on the capacity of the pension system to deliver adequate retirement income in a financially sustainable way. The review highlights OECD best practices for the design of pensions by covering all components of pension systems: safety nets, public pensions and private funded plans. The analysis is based on both OECD flagship pension publications, *Pensions at a Glance* and *Pensions Outlook*, and country-specific sources and research. This Pension Review was written in the context of a technical support project financed by the European Union through the Structural Reform Support Programme (SRSP) and implemented by the OECD in co-operation with the European Commission's Directorate-General for Structural Reform Support (DG REFORM).

The report was prepared by a team of pension analysts from the OECD's Directorate for Employment, Labour and Social Affairs and the Directorate for Financial and Enterprise Affairs and the Economics Department: Pablo Antolin, Hervé Boulhol, Wouter De Tavernier, Elsa Favre-Baron, Diana Hourani and Maciej Lis. Editorial assistance was provided by Lucy Hulett.

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This review is published with the financial assistance of the European Commission. The opinions expressed and arguments employed herein should not be taken to reflect the official views of the European Commission or the Government of Slovenia.

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Executive summary

This review provides a detailed analysis of the different components of the Slovenian pension system, which consists of public pensions, occupational pensions and voluntary individual schemes. It assesses the system according to the OECD best practices and guidelines, and draws on international experiences to make recommendations for improvement.

The average disposable income of individuals older than 65 in Slovenia is slightly above the OECD average. Due to redistributive elements in the pension system, old-age income inequality is much lower than in most OECD countries, while relative income poverty rates among older people are similar to the OECD average. Driven by longer lives and very low fertility rates during several decades, population ageing has started to accelerate and is projected to be fast until the mid-2050s. Combined with loose eligibility conditions for earnings-related pensions and low employment rates of older workers, this is expected to result in the highest increase in pension spending as a share of GDP in the EU. On top of addressing financial sustainability, the analysis suggests ways to: improve public earnings-related pensions, in particular through simplifying the pension rules and increasing transparency of pension finances; better co-ordinate earnings-related and first-tier benefits; and, increase the coverage of supplementary funded pensions and improve the way they operate. The recommendations to improve public and private pensions are the following.

Improving public earnings-related pensions

- Simplify the pension rules, while adjusting accrual rates as needed for example to stabilise pension levels on average, by: increasing the reference period from the best 24 years to lifetime earnings, using gross wages for the reference-wage calculation; and, eliminating the annual discretionary allowance.
- Improve the transparency of pension finances by: creating an independent expert body in charge of monitoring pensions to provide support for a sound management of the system; separating the financing of old-age and disability pensions as a first step to run separate budgets; improving the reporting of the net cost of minimum and maximum reference wages; and explicitly recording the cumulative balance between contributions and entitlements over time.
- Remove the restrictions to combine work and pensions once a worker is eligible for a full pension, provided that combining work and pensions does not deteriorate public finances in the long term.
- Raise the contribution base of the self-employed from 75% of profits (86% of profits will harmonise contributions with employees).
- Roll back the reform which removed the requirement to provide a justified reason when dismissing an employee who has met eligibility conditions to the old-age pension.
- Align pension contributions and entitlements between civil servants and private-sector workers.

Addressing financial sustainability issues

- Tighten the minimum eligibility conditions to pensions (minimum retirement age and contribution-period condition for a full pension) and link retirement ages to life expectancy.
- Remove the lowering of the minimum retirement age based on childcare periods.
- Lower indexation of pensions in payment.

In addition, pension finances would be enhanced by combining some of the following options, with different impacts as discussed in the text:

- Adjust benefits to life expectancy or to the ratio of contributors-to-pensioners, increase contribution rates, finance pension redistributive components from the state budget, and lower the minimum and/or the maximum reference wages.

Improving first-tier pensions

- Remove the means-testing of social assistance benefits (both financial social assistance and supplementary allowance) to children of beneficiaries.
- Eliminate the conditionality of financial social assistance and supplementary allowance on employment and hours worked; make the supplementary allowance eligible at the statutory retirement age for both men and women; and, merge the supplementary allowance with financial social assistance by granting a higher benefit level for people older than the retirement age relative to people below the retirement age.
- Merge the guaranteed pension with the minimum pension in a budget-neutral way.
- Adopt an integrated framework for old-age safety nets and contributory pensions by ensuring that contributions paid (at least from 15 years) result in higher total benefits through the withdrawal of safety-net benefits at a much lower rate than the current 100%.

Improving supplementary pensions

- To boost coverage of retirement savings plans, introduce compulsory enrolment, or if it is not opportune, automatic enrolment, for occupational plans for all workers.
- Improve incentives for lower income earners to contribute to supplementary schemes, such as through fixed nominal subsidies or matching contributions.
- Improve communication on the effect of retirement savings on future retirement income and to boost awareness of the supplementary pension system.
- To improve investment returns, allow for investments in riskier investment options. Better communicate on the potential risks and rewards of different investment strategies and provide tools to help people assess their personal risk profile and investment horizon. Introduce an appropriate default investment strategy that applies to all providers.
- To narrow the gender gap in retirement savings, make employer contributions to occupational pension schemes mandatory during maternity and parental leave, and automatically split pension assets in divorce settlements.
- Take steps to reduce the incidence of multiple retirement savings accounts. Define the lump sum threshold at the individual level, rather than the account level. Ensure occupational accounts follow when members change employers and encourage sector-wide occupational schemes. Set up a central register of all supplementary pension savings accounts.
- Establish frameworks for communicating on fees and costs and computing retirement income projections.
- Clarify the objectives of the scheme for workers in arduous and hazardous occupations, and revise the list of occupations and the criteria to retire early.

1 Earnings-related public pensions

This chapter analyses public earnings-related pensions in Slovenia compared with other OECD countries. It first provides contextual information related to demographic developments and labour market performance. The chapter then discusses pension eligibility conditions and benefit calculation rules, as well as their implications for future replacement rates for employees, civil servants and the self-employed. It shows the implications of career interruptions due to childcare or unemployment on future pensions.

1.1. Introduction

This chapter reviews the parameters of the public earnings-related pension scheme and identifies the main weaknesses. However, it does not discuss issues directly related to financial sustainability, which is the focus of Chapter 2. This chapter starts by describing the demographic and labour market context in Section 1.2. Section 1.3 provides an overview of the pension system today and reform trends since its introduction in 1992. Pension eligibility conditions are then discussed in Section 1.4. The calculation of pensions is analysed in the next section (Section 1.5). Based on these, pension replacement rates are analysed, including full-career cases, the impact of incomplete careers due to unemployment and childcare on pensions (Section 1.6). An analysis of pension rules for the self-employed follows (Section 1.7).

1.2. Economic and demographic context of Slovenian pensions

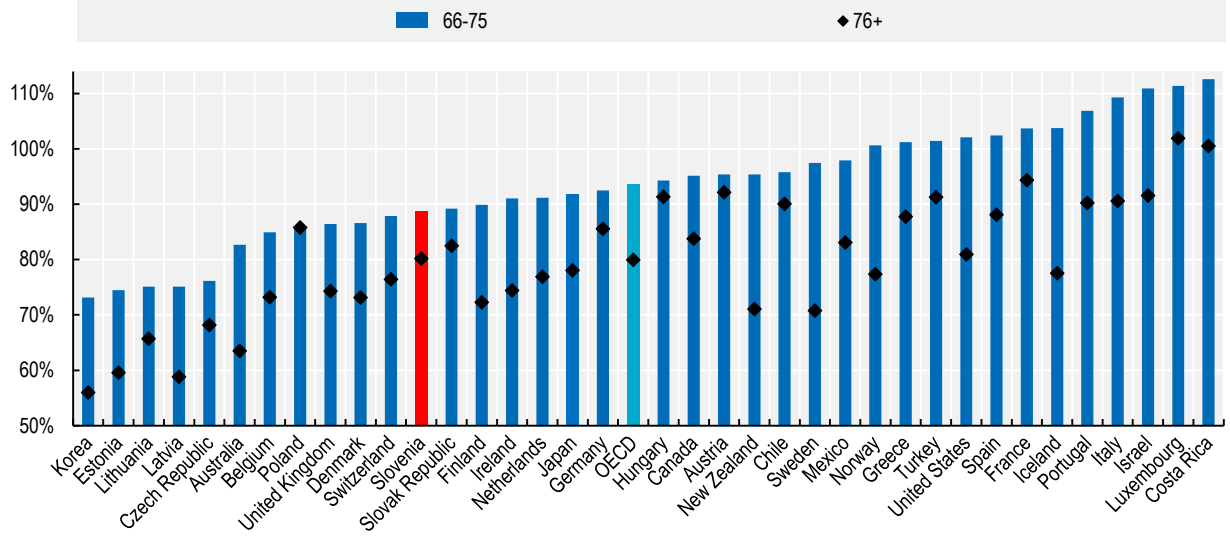
1.2.1. Relative income of older people close to OECD average

As in many OECD countries, older people in Slovenia have on average a lower disposable income than the entire population (Figure 1.1). The average disposable income of the 66-75 age group is equal to 89% of that of the full population, below the OECD average of 94%. This relative income ratio is below 80% in the Baltic states, the Czech Republic and Korea while it exceeds 100% in 12 OECD countries including Greece and Italy.

People aged 76+ have a lower average income than the 66-75 in Slovenia as in all OECD countries except Poland. The mean disposable income of this age group equals 80% of that of the entire population in both Slovenia and the OECD on average. Across the OECD, this ratio varies from less than 60% in Estonia, Korea and Latvia to more than 90% in Austria, Chile, Costa Rica, France, Hungary, Israel, Italy, Luxembourg, Portugal and Turkey.

Figure 1.1. Relative income of older Slovenians is around the OECD average

Mean disposable income of age groups 66-75 and 76+ relative to mean disposable income of the full population, 2018 or latest



Source: OECD Income Distribution Database.

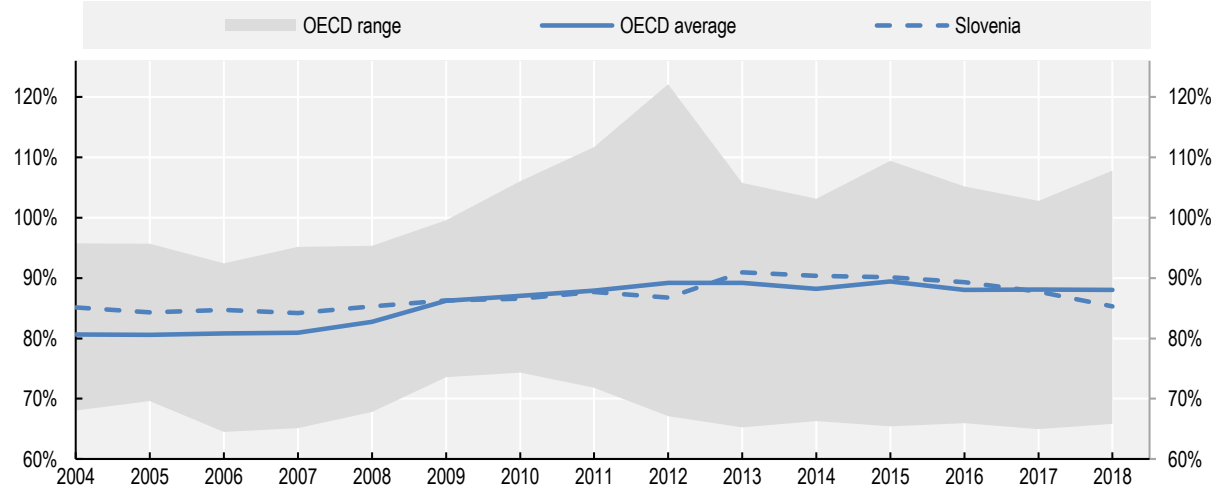
StatLink https://stat.link/5l2fa9

The relative income of people older than 65 improved in Slovenia between 2004 and 2015 from 85% to 90%, but it declined slightly thereafter. The average income of older people increased faster in the OECD on average from 80% of that of the entire population in 2004 to 88% in 2018 (Figure 1.2).

With a Gini coefficient – a measure of inequality that equals 0 if every person receives the same income and 1 if one person receives all income – of 0.256 among the population aged 66 and over, old-age income inequality in Slovenia is substantially below the OECD average of 0.304. The Slovenian level is comparable to that of Germany, Hungary and Poland. Relative poverty among older people is just below the OECD average (Chapter 3).

Figure 1.2. Relative income of older Slovenians has been stable over time

Mean disposable income of the age group 65+ relative to mean disposable income of the full population, 2004-18



Note: The range indicates the difference between the OECD country with the lowest and the OECD country with the highest score in every year.
Source: OECD Income Distribution Database.

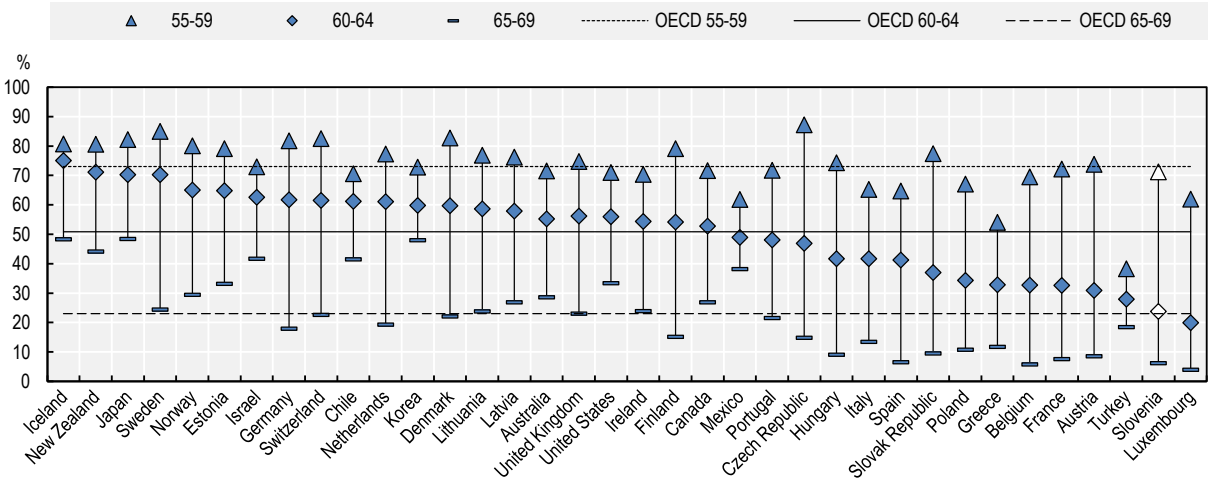
StatLink https://stat.link/43mv2x

1.2.2. Employment after age 50 has been increasing but still plummets around age 60

Employment after age 60 is very low in Slovenia. In 2019, 68.6% of people aged 55-59 were employed in Slovenia, only slightly below the OECD average (Figure 1.3). The drop of employment at older ages is much sharper in Slovenia than in most OECD countries. In the 60-64 age group, one-quarter of Slovenians were in employment, half of the OECD average. The employment rate for this age group is lower only in Luxembourg. Similarly, among the 65-69, the employment rate in Slovenia at 6.2% remains well below the OECD average of 23.0%, with several Central and Eastern European countries having a similar rate, including Hungary at 9.1%, Poland at 10.8% and the Slovak Republic at 9.5%, as well as Austria at 8.6%.

Figure 1.3. Employment rates plummet around age 60

Employment rates of people aged 55-59, 60-64 and 65-69 in OECD countries, 2019



Source: OECD Labour Force Survey database (https://stats.oecd.org/Index.aspx?DataSetCode=LFS_D).

StatLink https://stat.link/sie3tv

However, employment of people in their fifties has significantly improved over the last two decades (Figure 1.4). Between 2000 and 2019, male employment increased by 9 percentage points to 87% in the age group 50-54, just above the OECD average level. Over the same period and for the same age group, the female employment rate increased even stronger by 35 percentage points, to 86%, compared to the OECD average of 75%. In 2019, only the Czech Republic and Sweden had higher employment rates among women aged 50-54.

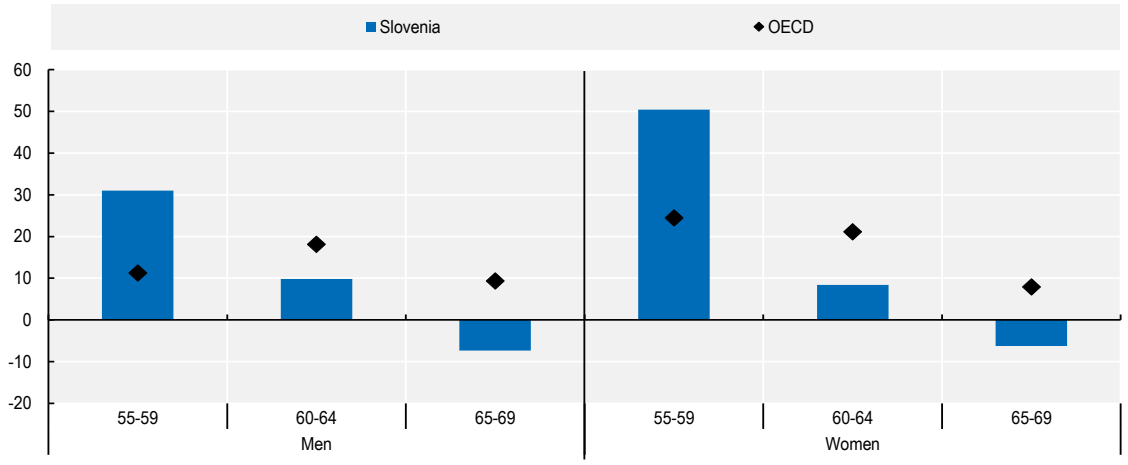
While the Slovenian employment rates in the age group 55-59 were among the lowest in the OECD in 2000, employment increased among both men and women over the last two decades. Much less than half of men (44%) in this age group were in employment in 2000, increasing to three-quarters (75%) by 2019, reducing the substantial gap with the OECD average to less than 5 percentage points. The employment rate among women in this age group took off over this period, from 17% to 68% between 2000 and in 2019, surpassing the OECD average in 2018.

Employment rates in the age group 60-64 have increased less strongly since 2000. Male employment in this age group increased by around 10 percentage points to 29% in 2019, and from 10% to 19% among women. Throughout this period, Slovenia consistently was among the countries with the lowest employment rates for both men and women in this age group.

Finally, in the age group 65-69, employment fell over this period. In 2000, 16% of men and 10% of women in this age group were in employment, compared to 8% and 4%, respectively, two decades later. Over the same period, the average employment rate among people aged 65-69 in the OECD increased. As a result, the difference between the employment rate in Slovenia and the OECD average increased from 6 percentage points in 2000 to 26 percentage points in 2019 for men, and from 1 to 18 percentage points for women over the same period.

Figure 1.4. Employment has increased strongly in 50s and plateaued in 60s since 2000

Changes in employment rates by sex and age group, Slovenia and OECD average, 2000-19, percentage points



Source: OECD Labour Force Statistics database, LFS by sex and age.

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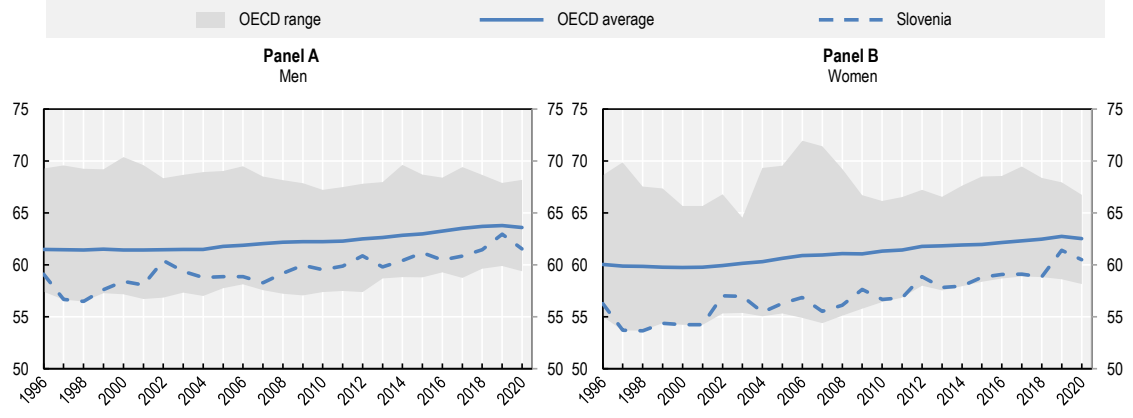
Correspondingly, Slovenia has systematically been among the OECD countries with the lowest average labour market exit age, especially for women (Figure 1.5). Steadily increasing from around 57 years in the late 1990s, the male average labour market exit age reached 61.5 years in 2020. Over the same period, it increased from around 54 to 60.5 years among women. Across OECD countries, men and women on average left the labour market at substantially older ages in 2020, 63.8 and 62.4 years, respectively. On top of Slovenia, eight other OECD countries have an average labour market exit age of 61.0 years or below, when averaging men and women.

Figure 1.5. Labour market exit ages increased but remain below the OECD average

Evolution of the average labour market exit age by gender, 1996-2020



Note: The average labour market exit age is calculated as a weighted average of (net) withdrawals from the labour market at different ages over a 5-year period for workers initially aged 40 and over. These changes are calculated for each (synthetic) cohort divided into 5-year age groups. The range indicates the difference between the OECD country with the lowest and the OECD country with the highest score in every year.
Source: OECD (2021[1]), *Pensions at a Glance 2021, OECD and G20 Indicators*, https://doi.org/10.1787/ca401ebd-en.

StatLink https://stat.link/4suqvz

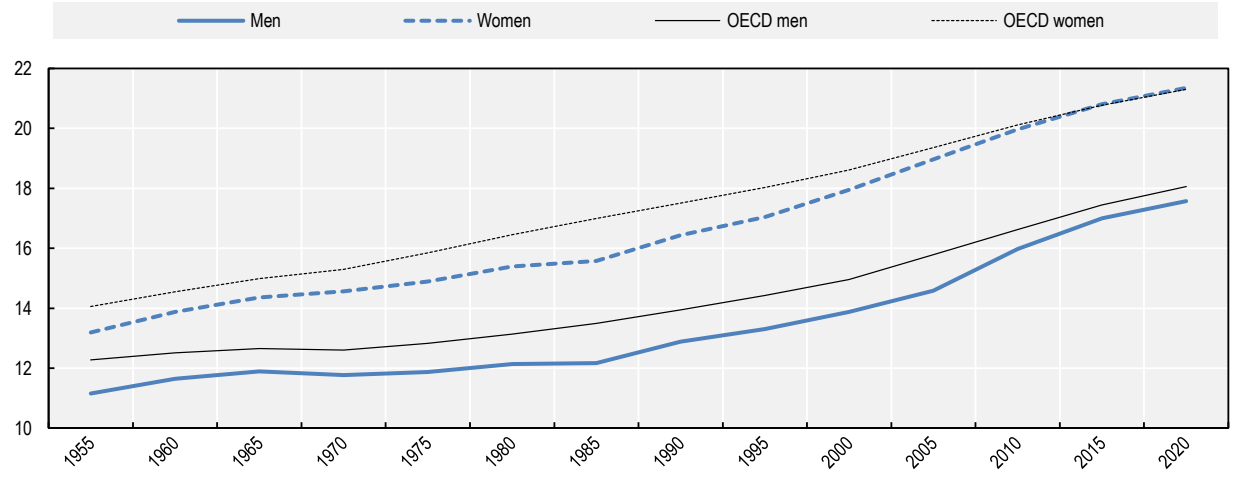
1.2.3. Population ageing will be accelerating at a fast pace

Life expectancy in Slovenia is now close to the OECD average

Life expectancy at age 65 increased faster in Slovenia than in the OECD on average over the last decades (Figure 1.6). Women's life expectancy at 65 caught up with the OECD average around 2010, reaching 21.4 years in 2020. Male life expectancy at age 65 has also increased faster in Slovenia since 2000, but remained half a year below the OECD average at 17.6 years in 2020. Based on UN projections, remaining life expectancy would grow in the future by about 0.9 years per decade for women, while it would grow faster for men by 2040 (1.3 years) before slowing to 1.0 year per decade.

Figure 1.6. Life expectancy in Slovenia has almost caught up with the OECD average

Evolution of remaining life expectancy at age 65 by gender, 1950-2015



Source: United Nations, Department of Economic and Social Affairs, (2019). World Population Prospects 2019, Online Edition.

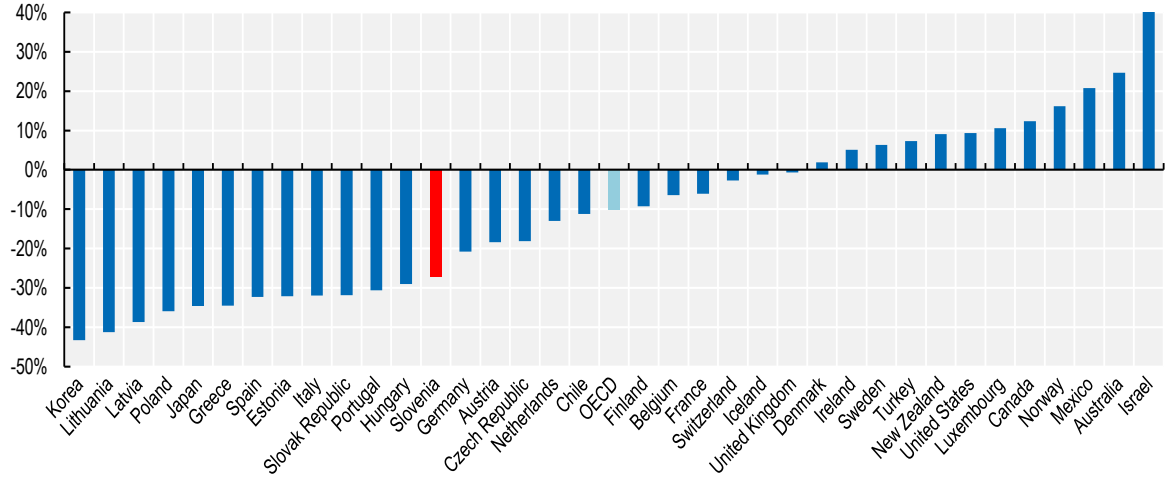
StatLink https://stat.link/m19kv0

Working-age population will shrink in Slovenia

The working-age population (20-64) is projected to decrease by 10% in the OECD on average between 2020 and 2060, i.e. by 0.26% per year. The projected fall in Slovenia will be much larger, by 27%, but substantially less than by around 40% in Latvia, Lithuania and Poland (Figure 1.7). This will lower future contribution revenues posing challenges to the financial sustainability of pay-as-you-go (PAYGO) pensions. By contrast, in Australia, Israel and Mexico, the working-age population is projected to grow by more than 20% by 2060.

Figure 1.7. Working-age population will shrink in Slovenia

Projected change in the size of population aged 20-65 between 2020 and 2060



Source: Figure 1.3 in OECD (2019[2]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://doi.org/10.1787/b6d3dcfc-en.

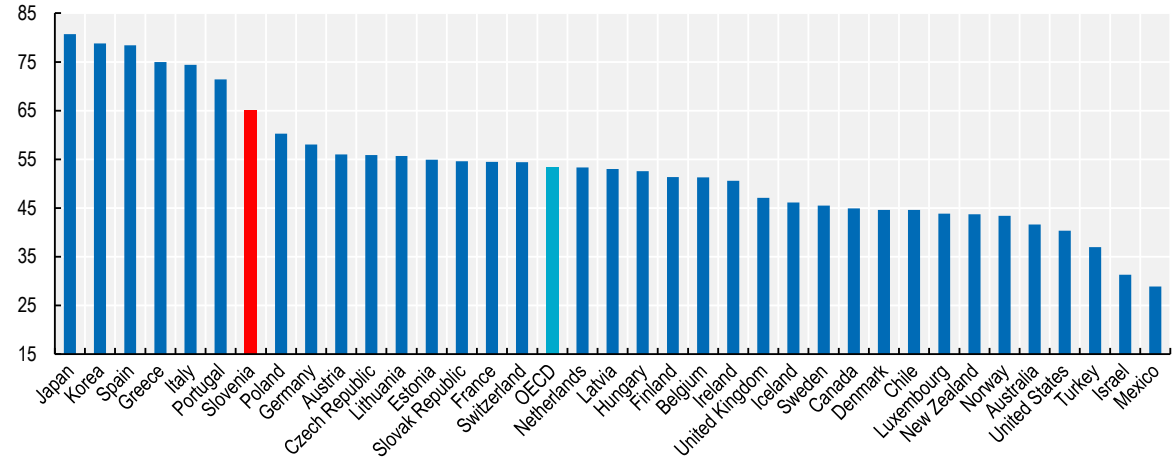
StatLink https://stat.link/9f1w2b

Demographic old-age to working-age ratio has accelerated

By 2050, Slovenia is projected to have 65 people aged 65+ per 100 people aged 20-64 against an OECD average of 53 (Figure 1.8). Slovenia's demographic old-age to working-age ratio would be the seventh highest in the OECD, after Japan and Korea, and Southern European countries with a ratio of 71 for example in Portugal and 78 in Spain. Among other Central and Eastern European countries, it would range from 53 in Hungary to 60 in Poland.

Figure 1.8. Slovenia will have a high demographic old-age to working-age ratio in 2050

Number of individuals aged 65 and over per 100 people of age 20-64



Source: United Nations, Department of Economic and Social Affairs (2019). Probabilistic Population Projections based on the World Population Prospects 2019, http://population.un.org/wpp/.

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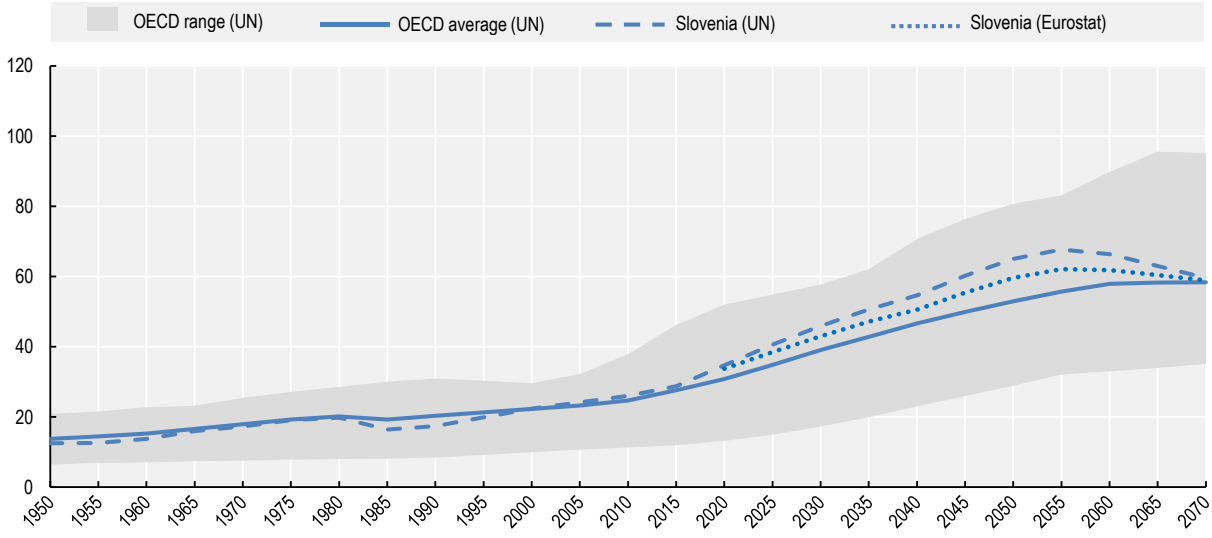
These 2050 old-age to working-age ratios are much higher than current levels of 35 for Slovenia and 31 for the OECD on average, which are themselves up from 17 and 20, respectively, in 1990. Figure 1.9 shows that this ratio is projected to peak at 68 around 2055 in Slovenia and highlights that the pace of ageing (as measured by the increase in this indicator) is expected to be significantly faster than in the OECD on average in the next three decades. By comparison, Eurostat projects a somewhat slower shift in the demographic structure than based on UN data, with the old-age to working-age ratio reaching 62 in 2055 in Slovenia. Different migration assumptions partially explain the differences between Eurostat's and UN's projections.[1]

Figure 1.9. Slovenian demographic old-age to working-age ratio expected to peak around 2055

Evolution of the demographic old-age to working-age ratio in Slovenia and the OECD average, 1950-2100



Note: The demographic old-age to working-age ratio is defined as the number of people aged 65+ per 100 people aged 20-64. Medium projections are shown, corresponding to the 50% percentile of probabilistic projections. The range indicates the difference between the OECD country with the lowest and the OECD country with the highest score in every year.
Source: United Nations, Department of Economic and Social Affairs (2019). Probabilistic Population Projections based on the World Population Prospects 2019: http://population.un.org/wpp/.

StatLink https://stat.link/gz54wq

1.3. Overview of the Slovenian public pension system

This section presents pension rules in Slovenia as of 2020 and the evolution of these rules since the introduction of the current pension system in 1992. An in-debt analysis of these rules in international perspective follows in the next sections.

1.3.1. Public pension system today

The pension system in Slovenia consists of the public pension scheme, occupational pensions and voluntary individual schemes. Occupational schemes are funded, defined contribution and voluntary except for civil servants and persons employed in hazardous and arduous occupations, for whom mandatory occupational pensions top up the universal scheme. Chapters 5 and 6 cover individual and occupational private pension arrangements.

Eligibility conditions to public pension

Eligibility to an old-age pension requires being 60 or older and having worked, and contributed, for at least 40 years. This period of paying contributions whilst working is called the "pensionable service without purchase" in the Slovenian pension law and it includes all work-related periods for which contributions have been paid, e.g. dependent employment, self-employment, agricultural activity, unemployment spells or parental leave, but it does not include the insurance periods based on either purchased periods or voluntary contributions. Alternatively, one can claim an old-age pension at age 65 with at least 15 years of insurance period. "Insurance period" is a broader term and it includes all periods for which contributions have been paid. Based on having children, military service or having started the career before the age of 18, the age condition can be lowered to 56 and 58 for women and men with 40 years of pensionable service without purchase, respectively, while 38 years of pensionable service without purchase grant eligibility in those cases from age 61. It is also possible to purchase up to 5 years of insurance, but the purchased contributions are not used to relax age requirements. If the eligibility conditions are met thanks to purchased periods, retiring before age 65 is subject to a permanent reduction of 3.6% for each year before age 65, capped at 18% in total. Very few people use this option.[2]

Public pension entitlements

The Slovenian public pension scheme covers all workers and is mandatory, defined benefit and pay-as-you-go. Public pensions are administered by a governmental agency named Pension and Disability Insurance Institute (ZPIZ). The benefits are earnings-related and calculated by multiplying total accruals by the reference wage. In turn, the reference wage is the average of the best consecutive 24 years of "adjusted" earnings, with past earnings valorised by the average-wage growth. Earnings are adjusted every year by multiplying gross earnings by the ratio of net average wages divided by gross average wages; this ratio was equal to 64.63% in 2019.[3] Hence, "adjusted" earnings are conceptually close to net earnings; they are exactly equal to net earnings at the average wage.

Pension entitlements require at least 15 years of contributions. They will be equal to 29.5% of the reference wage plus 1.36% of the reference wage for any additional year beyond the first 15 years for both men and women from 2025 onwards, when accrual rates of men have converged to those of women. As a result, from 2025 onwards, after 40 years of contributions a person can expect gross pension to replace 63.5% (= total accruals) of the reference wage (63.5% = 29.5% + 1.36%*25). As of 2019, men accrue 27% of the reference wage for the first 15 years and 1.26% of the reference wage for each additional year of contributions. Once eligibility conditions to pensions of age 60 with 40 years of pensionable service without purchase are met, continuing to work generates an annual accrual rate of 3% for the first three years instead of the standard 1.36%. The benefits during retirement are indexed to 40% of price inflation and 60% of average-wage growth.

On top, all pensioners receive an additional payment once a year, called the annual allowance. The benefit level is set discretionarily and has been higher for low pensions since 2013, ranging from EUR 437 in 2019 for *monthly* pensions lower than EUR 470 (hence boosting low pensions by at least 7.7%) to EUR 127 for pensions higher than EUR 810 (hence increasing high pensions by at most 1.3%). This compares with the average annual pension of EUR 8 052 in 2019 (or 671 per month).

Part-time workers acquire pension rights proportionally to their working hours (relative to full-time working hours of 40 hours per week). Working part time affects pension entitlement through lower accruals, but not through the reference wage. More precisely, total accruals take into account the working time while for reference wage calculation, the wage of a part-time worker is converted into a full-time equivalent. For example, if a person works 20 hours a week for a year, only half a year is taken into account for total accruals. This also means that for eligibility conditions the insurance period for part-time work is also prorated. Someone who worked half-time during 28 years validates 14 years of contributions and is

therefore not eligible to pensions. Consequently, part-timers need to work for longer periods to meet eligibility conditions.

Minimum pension

In the case of low earnings during the whole career, the reference wage is set at a minimum of 76.5% of the net average wage, thereby effectively providing a floor to the earnings-related pension, i.e. minimum pension. This minimum pension is by definition unrelated to past earnings and increases with the pensionable service from 22.6% of net average wage after a full-time career of 15 years to 48.6% after 40 years. On top of this floor, the reference wage is also subject to a ceiling, set at four times the minimum reference wage, which then imposes a ceiling to pension levels. Hence, earnings higher than about three times (~ 4 * 76.5%) the average wage do not generate any pension entitlements while there is no ceiling to contributions. Additionally, a guaranteed pension was introduced in 2017 at EUR 500 (EUR 620 in 2021) for those who have met full conditions regarding pensionable service (Chapter 3).

Survivor pensions

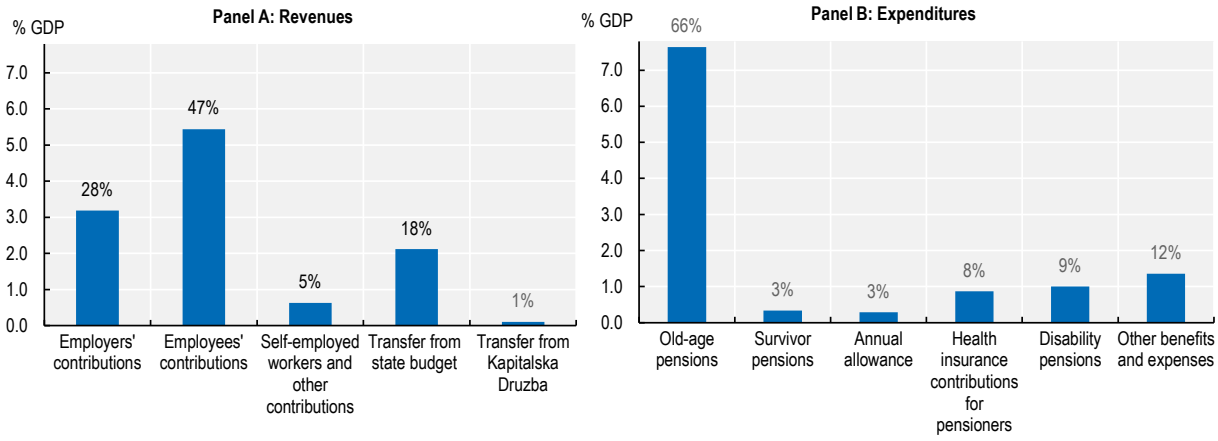
Survivor pensions are paid to widows and widowers and to other dependent family members, including children and parents. From 2022, claiming pensions after the death of a spouse will be possible from the age of 58 and being at least 53 when the death occurred. The right to a survivor pension applies also after a divorce if the deceased person paid alimony. Survivor pensions equal to 70% of the deceased's pension but it is eligible only if the survivor does not work and does not receive an own pension. The survivor having an own pension can choose to combine it with the survivor pension, which in that case is reduced to 15% of the deceased's pension subject to a ceiling of 11.7% of the minimum reference base, or to forego the own pension and receive the full survivor pension of 70%.[4]

Public pension finances

Old-age and survivor pensions are financed along with disability pensions from contributions equal to 24.35% of gross wages for employees[5] – 15.50% paid by employees and 8.85% by employers – or of earnings for the self-employed, direct transfers from the state budget and a small transfer from publicly owned assets, managed by a state-owned enterprise, Kapitalska Druzba. In 2019, contributions covered 81% of all revenues while transfers from the state budget accounted for 18%, and transfers from Kapitalska Druzba covered the remaining 1% (Figure 1.10, Panel A). Any pension deficit is always financed by the state budget, in particular as there is no buffer fund.

ZPIZ expenditures equal 11.5% of GDP (2019 data), with old-age pensions, survivor pensions and the annual allowance representing 66%, 3% and 3% of total spending, respectively (Figure 1.10, Panel B). In addition, 8% of the social security budget finances health insurance of all pensioners. Indeed, while workers pay separate contributions to the National Health Insurance Institute at the rate of 12.92% (6.56% paid by employers and 6.36% by employees), pensioners do not pay any health contributions and the ZPIZ contributes for them at the low rate of 5.96%. Finally, 9% of ZPIZ expenditures relate to disability pensions, with about four-fifths of recipients of disability pensions being 60 or older. Other benefits account for 12% of spending and include mainly long-term care benefits. The financing of non-contributory benefits, which top up low pensions or are granted to those with less than 15 years of contributions, was shifted from the ZPIZ to the state budget in 2012 (Chapter 3).

Figure 1.10. Revenues and expenditures of social security (ZPIZ) in Slovenia in 2019



Note: Share of total expenditure and revenues above the bars.
Source: OECD calculations based on ZPIZ data.

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1.3.2. Evolution of the Slovenian public pension system

The social security system in Slovenia originates in the 19th-century Austro-Hungarian Empire. A Bismarck-type social insurance system covered risks related to health, work accidents and old age, first for miners and then expanded to civil servants at the beginning of the 20th century. A population-wide old-age insurance was introduced after World War I in Yugoslavia, replaced by a new one in 1948 when all accumulated assets were nationalised and the system became fully pay-as-you-go (Kresal, 2013[3]; Stanovnik, 2002[4]). After Slovenia gained independence in 1991, the first national pension system was introduced in 1992. It inherited many elements of the Yugoslavian system along with the employment and earnings records dating back to the 1960s. Parametric reforms took place since 1992 within the PAYGO defined benefit framework. However, in contrast to many Central and Eastern European Countries (CEECs), Slovenia did not go through a systemic reform.[6] Table 1.1 summarises the main measures, which were taken as part of the 1999, 2012 and 2019 reforms.

Table 1.1 Recent policy developments in Slovenia

Policy area		Reforms
Eligibility conditions		Elimination of the option to retire early with 20 years of insurance (2012). Increase of the retirement age for men from 58 to 60 years with 40 years of insurance (2012). Increase of the eligibility conditions for women from age 53 with 35 years of insurance to age 60 with 40 years of insurance (1999, 2012). Increase of the retirement age of women from 60 to 65 with 15 years of contribution (1999, 2012). Introduction of a lower retirement age based on childcare (1999, 2012). Increase of the eligibility to survivor pensions from age 53 to 58 (2012).
Pension calculation	- reference wage	Extension of the period used to calculate the reference wage from 10 to 18 years (1999) and to 24 years (2012).

Policy area		Reforms
	- accrual rate	Decrease of the total accrual rate from 85% to 72.5% (1999). Extension of the period to accrue full pension from 35 to 38 years for women (1999). Change in pension calculation: decrease in accrual rate to 64.25% for women and 57.25% for men after a 40-year career offset by eliminating the adjustment to the valorisation of past wages (2012). Extension of the period to accrue full pension from 38 to 40 years for women (2012). Elimination of further drops in women's total accrual rate and stabilisation at 63.5% for women, and increase in men's total accrual rate to 63.5% (2019).
	- indexation rule	Setting the indexation rule to 60% of wages and 40% of prices (2012).
Combining work and pensions		Introduction of an option to claim 20% (2012) and 40% (2019) of a pension when working full time. Increase of the accrual rate for the first three years of combining work and pensions to 4% (2012) and to 3% (2019).

Source: OECD based on MLFSAEQ.

Tighter eligibility conditions combined with lower retirement ages for having children

Since 1992, pension eligibility conditions have depended on both age and the length of insurance record. People were initially allowed to retire at 65 for men and 60 for women based on 15 years of insurance; for women, this age condition increased gradually to 65 between 2000 and 2016. Moreover, having 20 years of insurance used to provide access to pensions at younger ages.[7] The 2012 law gradually eliminated this possibility, which was closed in 2020.

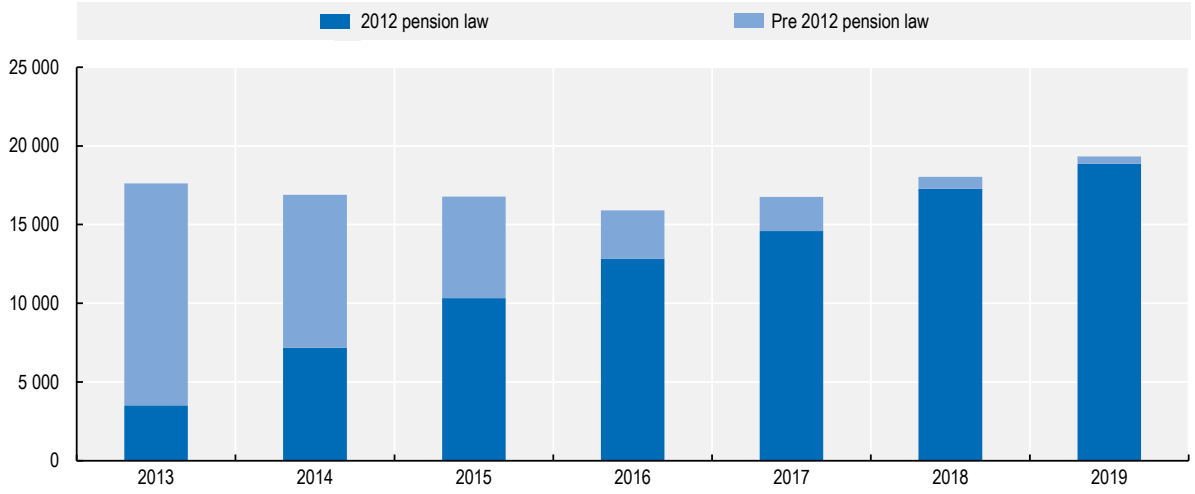
However, in the old system, the most frequent retirement option required 35 and 40 years of insurance period at age 50 and 55 for women and men, respectively. The 1992 law gradually increased the age conditions to 53 and 58 years, respectively, by 1998. The 1999 law gradually raised the insurance period condition to 38 years for women. Finally, the 2012 law gradually increased these eligibility conditions to 40 years of pensionable service without purchase at age 60 for all by 2019.[8] The option to purchase up to 5 years of insurance period was maintained but retiring thanks to the purchased period has become subject to benefit reduction. Additionally, the age requirement to survivor pensions was increased from 53 to 58 years by 2022.

People who reached eligibility conditions before 2012 have retired following the previous rules. Figure 1.11 shows that until 2014, the majority of new pensions were granted following the previous law and that the transition was almost over by 2018 when 96% of new pensions followed the 2012 law.

The tightening of the eligibility conditions since 1999 was partially offset by providing exemptions for having children, to one of the parents. Which parent should benefit from the exemption was to be agreed between them. In 2000, the retirement age was lowered depending on the number of children. For each child, the reduction was initially of 0.50, 0.75, 1.00 and 1.25 months for the first, second, third and each subsequent child, respectively, and set to increase gradually to 8, 12, 16 and 20 months by 2015. However, the 2012 law limited these reductions to 6, 10, 10 and 10 months, respectively, and 12 months for the fifth child and 0 for any subsequent ones. In addition, a floor was introduced for the retirement age, at 56 and 58 years for women and men, respectively, while, upon meeting other eligibility conditions, the mother has become the default parent unless the father has received parental benefits.

Figure 1.11. From 2015 the majority of pensions are granted based on the 2012 rules

Number of newly-granted pensions by type of rules in 2013-19



Note: The newly-granted pension do not include 20% of pension benefit paid to people who combine pension with full-time work.
Source: OECD calculations based on data provided by ZPIZ.

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Changes in pension calculation over the last two decades

Under the 1992 law, the reference wage was calculated based on wages from the 10 best consecutive years. This period was gradually extended to 18 years by the 1999 reform and to 24 years by the 2012 reform, to be fully effective by 2017. The impact of a longer reference period on pension levels and pension distribution is discussed in a subsequent section.

The 1992 law granted total accruals of 85% of the reference wage after 35 years of insurance for women and 40 years for men, i.e. 2.4% and 2.1% annual accrual rates, respectively. The total accrual could not exceed 85%, no matter how long the insurance period was. The uprating of past wages with average-wage growth was further adjusted by some complicated formula (Guardiancich, 2012[5]), resulting in the reduction of the reference wage by 16% in 2000 and 27% in 2012, compared to its value without this further adjustment (Majcen and Verbic, 2009[6]; Čok, Sambt and Majcen, 2010[7]), affecting all reference wages similarly, irrespective of the exact earnings trajectory.

The 1999 reform lowered total accruals to 72.5% after 38 and 40 years of insurance for women and men, respectively, i.e. to 1.9% and 1.8% annually, while eliminating the ceiling of 85%. There was a gradual phase-in for new pensions as the changes only affected entitlements accruing after 1999. The full effect would have thus been fully visible after 2020 when new pensioners would have worked most of their career under the 1999 law.

The 2012 reform lowered total accruals further to 64.25% and 57.25% after 40 years of contributions for women and men, respectively, i.e. to 1.6% and 1.4% annually. In addition, total accruals would gradually decrease to 60.25% for women by 2023. However, these reductions were largely offset by uprating past wages fully to average-wage growth through the elimination of the unfavourable adjustment discussed above. Moreover, this elimination improved transparency.

The 2012 reform was legislated as the Global Financial Crisis was exerting large public finance pressure. In contrast to previous reforms, it was introduced with a very short transition period while sharply limiting

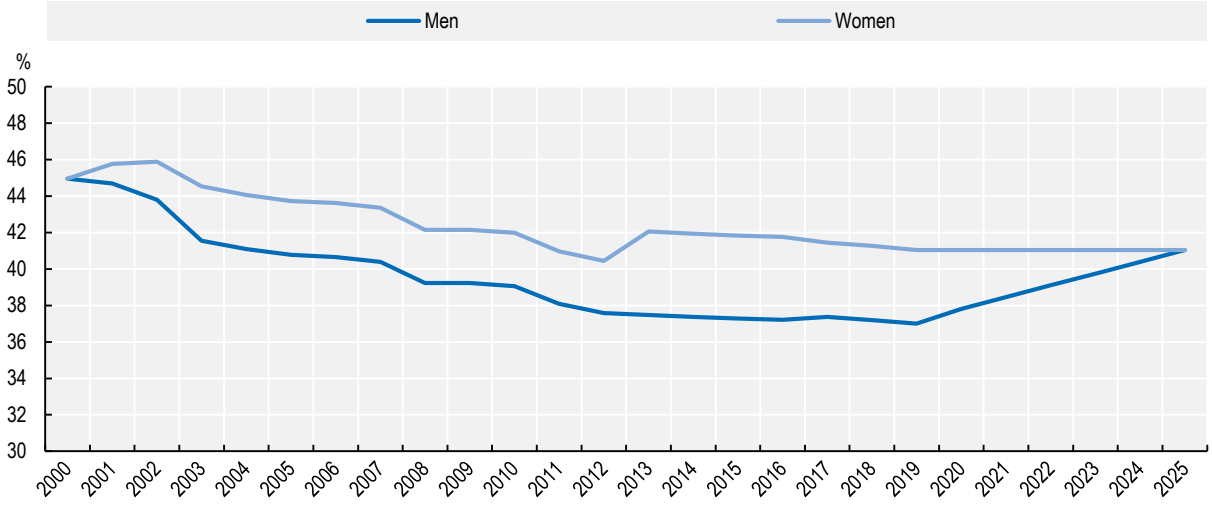
the grandfathering of past entitlements. Indeed, for those who had not reached the eligibility conditions by 2012, the new accrual rates were applied to the whole earnings histories. This change was particularly important for insurance periods prior to 2000, when the accrual rates were substantially higher.

However, the 2019 reform backtracked and eliminated any further decrease, freezing women's total accruals at 63.50% after 40 years of insurance. In addition, the reform introduced a pension bonus for having children, at 1.36% accrual per child up to three children. This bonus does not apply if the retirement age condition is lowered based on childcare. The 2019 reform also increased men's total accruals from 57.25% to 58.50% in 2020 and then gradually to the new women's level of 63.50% by 2025.

Figure 1.12 shows the joint effects of changes in accrual rates, in the uprating of past wages and in the gross-net wage coefficient on gross replacement rates. Both men and women who earned the average wage and retired in 2000 had a gross replacement rate of 45% after a full career of 40 and 35 years, respectively. Total accruals then diverged between men and women, while the adjustment to the uprating of past wages lowered the replacement rates further by 6% by 2003 and by 13% in 2012. Overall, for individuals retiring in 2012, the theoretical replacement rates decreased to 37.6% for men and 40.4% for women.

Figure 1.12. Theoretical gross replacement rates for people retiring in 2000-25

For men and women with a full career at average earnings



Note: The annual allowance is excluded from the calculation, but including it would have a very small impact. For women, the full career was 35 until 1999, 38 between 2000 and 2012 and 40 years afterwards. For men it was 40 years for the whole period.
Source: OECD calculations.

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In 2013, the improved uprating of past wages almost fully offset the decrease in accrual rates for men. By contrast, the replacement rate for women rose to 42% as it is associated with an increase in the period to accrue the full pension from 38 to 40 years. Men's replacement rates started to converge to women's levels in 2019 as a result of the reform, reaching 41% in 2025.

The average newly granted pension recently declined for men, from 45% of the national average wage in 2013 to 41% in 2019 (Figure 1.13, Panel A), while extending the full-career condition for women from 38 to 40 years in 2012 has helped maintaining their new pensions at around 44% of the average wage. More

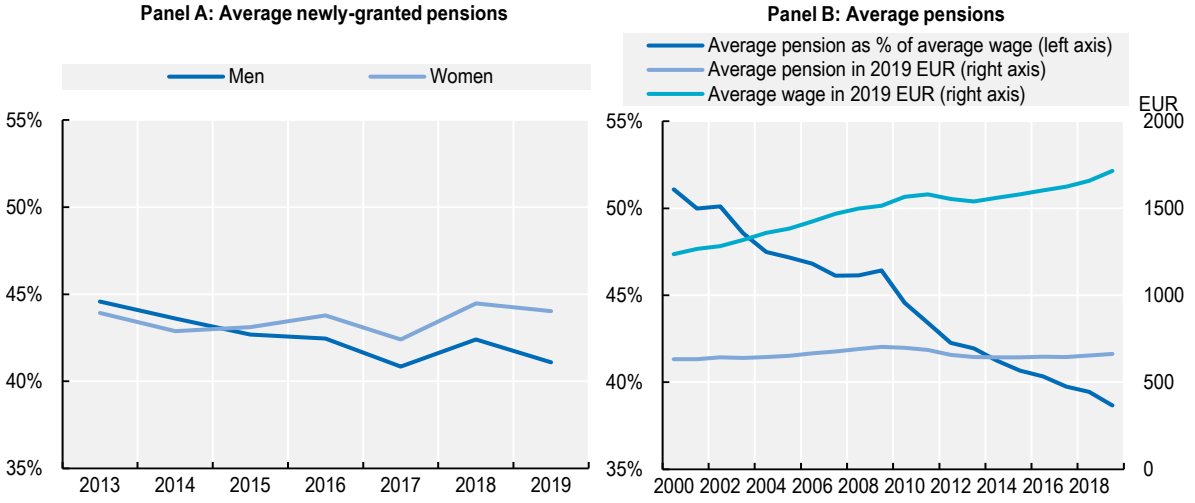
generally, the decrease in the average effective insurance period for men and its increase for women (see below) have been central in the evolution of pension differences across genders.

Between 1992 and 2012, benefits were indexed in relation to wage growth but with some complex albeit significant additional adjustment. This implied that the actual indexation was about 0.6 percentage points lower than wage growth per year on average (Majcen and Verbic, 2009[6]). The 2012 reform set pension indexation as a mix of 60% of wages and 40% of prices, which greatly improved transparency. Still, between 2012 and 2015 the benefits were not indexed at all as the fiscal situation was tight, but this was offset from 2020 by extraordinary pension indexations in 2019 and 2020.

Overall between 2000 and 2019, pensions thus did not keep pace with wages. The gross average wage increased by 39% in real terms against only 5% for gross average pension, with even a decline in real terms between 2009 and 2014. This led to a big fall in the average pension relative to the average wage from 51% to 39%, i.e. a drop of almost one-quarter (Figure 1.13, Panel B).

Figure 1.13. Pensions have been steadily declining compared to wages since 2000

Average newly granted gross pensions by gender 2013-19 as a percentage of the average gross wage for the total economy (Panel A) and average pension for 2000-19 (Panel B)



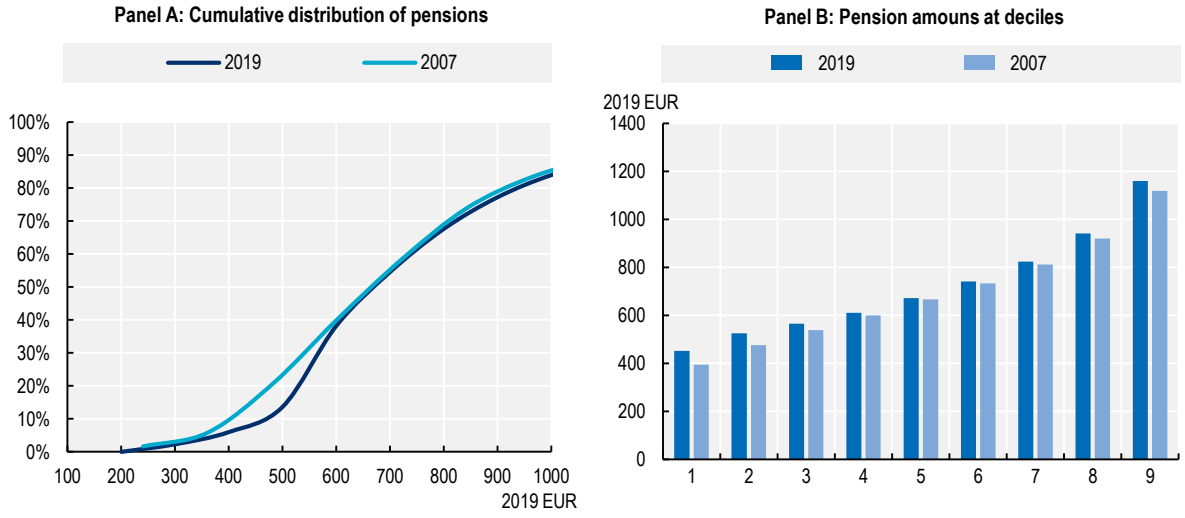
Note: Gross pensions and wages. The newly granted pension excludes partial and pro-rata pensions. Pensions paid to those working full time are not included in any number.
Source: OECD calculations based on the ZPIZ data and OECD data (https://stats.oecd.org/Index.aspx?DataSetCode=AWCOMP).

StatLink https://stat.link/vlhzeb

The distribution of pensions remained broadly stable in real terms for the upper half of pensions between 2007 and 2019 (Figure 1.14). However, the first deciles increased sharply partly due to the introduction of the guaranteed pension in 2017 (Chapter 3).

Figure 1.14. The lower end of pension distribution has changed since 2007

Cumulative distribution of pensions in 2007 and 2019 in constant prices



Note: Excluding pro-rata and partial pensions. The deciles in Panel B were calculated based on the linear interpolation of the ZPIZ data (presented in Panel A).
Source: OECD calculation based on ZPIZ data.

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Flexibility of retirement and combining work with pension have been eased

When working after fulfilling eligibility conditions to an old age pension, there is no earnings cap nor earnings limit beyond which pension benefits are reduced. However, only part of the pension can be claimed when combined with work. The 2020 reform provided some improvement in the flexibility to combine work and pensions. Yet, when working full time, only 40% of the old-age pension can be claimed for the first three years and 20% thereafter. This implies a mandatory deferral of 60% and then 80% of the benefit when working. The same rules apply to people who re-join employment after having retired.

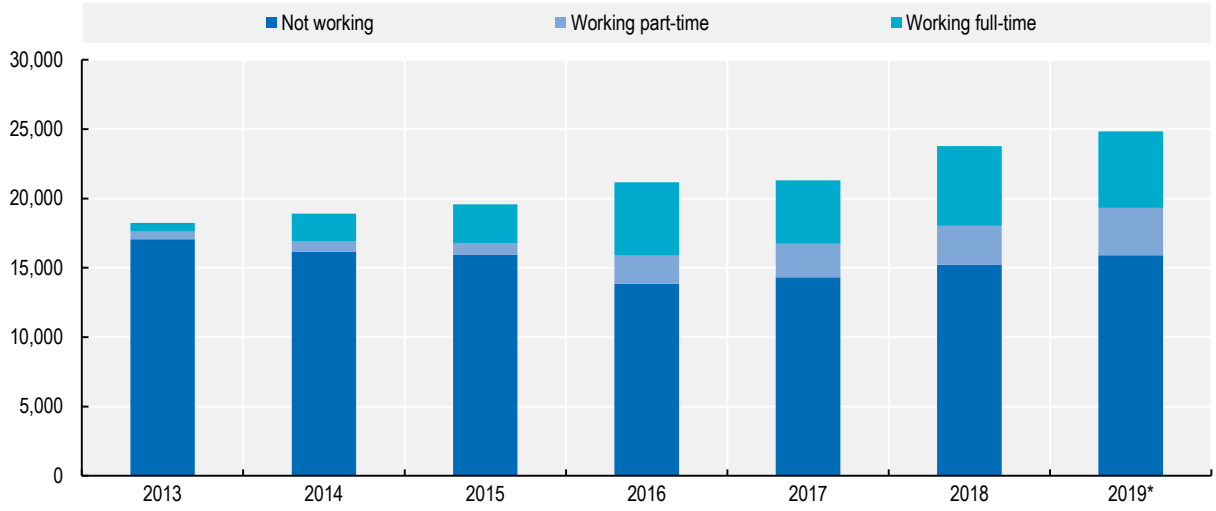
Between 2016 and 2020, the share of pension that could be combined with full-time work was only 20%, also applicable to those re-joining full-time employment. Between 2012 and 2016, the conditions were tighter and the 20% of pension was paid only until age 65 and only to those who have not reduced working hours after qualifying to pensions. The option was not available upon re-joining employment after having retired. Before 2012, it was possible to combine work and part of pensions only when working less than half time.

As of 2020, when working after meeting full eligibility conditions the annual accrual rate is increased from 1.36% to 3.00% for three years. Between 2013 and 2019 the additional accrual was 4.00%, but, as explained above, only 20% of pension could be claimed. Between 2000 and 2012, the accrual rates were set at 3.0%, 2.6%, 2.2% and 1.8% for the first through the fourth year of work beyond the eligibility conditions. Before 1999, the accrual rate beyond eligibility condition was in fact lower than the regular one, at 1% annually.

The share of new pensioners who combine work and pensions sharply increased from 7% to 36% between 2013 and 2018 and is likely to rise further as the part of the pension available to full-time workers increased from 20% to 40% in 2020 (Figure 1.15).[9] Figure 1.15 shows that the number of newly granted benefits increased steadily from 18 241 to 23 791 between 2013 and 2018 while the number of non-working new pensioners declined from 17 071 to 15 906. This suggests that extended options of flexible retirement may have contributed to prolonging working lives.

Figure 1.15. Number of people combining work and pensions increased substantially since 2013

Number of newly granted pensions by categories of new pensioners: not working, working part-time or working full-time



Note: People combining full-time work and pensions are not considered old-age pensioners but a separate "dual-status" category exists for them. When a person ceases being in dual status and claims only pension, she or he will be counted as a new pensioner again.
*The number of new pensioners in dual status in 2019 is estimated based on the data until September.
Source: OECD calculation based on ZPIZ data.

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Combining work and pensions in Slovenia is roughly actuarially neutral, as the inflated accrual rate of 3% actuarially compensates for the mandatory deferral of 60% of pensions when working. Such mandatory deferrals are complex and rather uncommon in OECD countries and combining work and pensions after the official retirement age is possible in all OECD countries – at least when pension eligibility conditions are met – although disincentives exist in several of them. By contrast to most defined benefit schemes in OECD countries, Slovenia does not provide any bonus for deferring pensions when not working. A more detailed analysis of combining work and pensions in Slovenia compared to the OECD countries is provided in Annex 1.A.

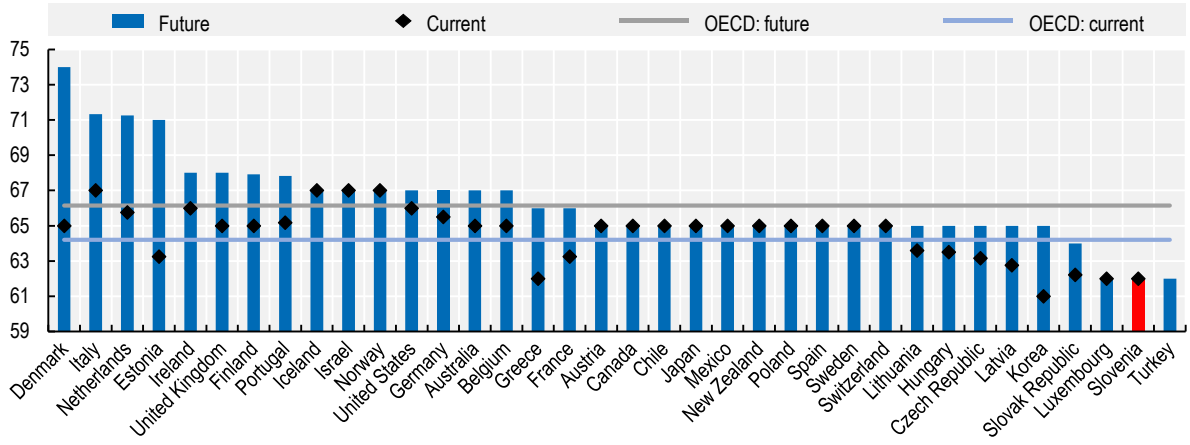
1.4. Pension eligibility conditions remain loose compared with other countries

1.4.1. The normal retirement age will continue to lag well behind the OECD average

The OECD normal retirement age is defined as the age when you can start receiving a full pension without penalties after an uninterrupted career from age 22. The normal retirement age typically combines both the age and insurance period criteria. In 2018, the normal retirement age across OECD countries was equal to 64.2 years for men and 63.5 years for women on average among OECD countries (Figure 1.16). Only Greece, Luxembourg, Slovenia and Turkey had a normal retirement age below 63 years. Iceland, Norway, Italy and, for men only, Israel had the highest normal age of 67.

Figure 1.16. Normal retirement age is low and not foreseen to increase in Slovenia

For men, current and future refer to retiring in 2018 and entering the labour market in 2018, respectively



Note: In Turkey, the current normal retirement age is 48 and 51 for women and men, respectively.
Source: Figure 4.6 in OECD (2019[2]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

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In 2018, women had different normal retirement ages than men in one-third of OECD countries. The largest gender difference was 5 years in Austria, Israel, and Poland. However, for the generation entering the labour market now, gender gaps are being phased out in all OECD countries except Hungary, Israel, Poland and Switzerland, and in Turkey for those starting the career in 2028. In Slovenia, the tightening of eligibility conditions since 1999 has not affected the normal retirement age for men entering the labour market at age 22, which has remained at 62 years, but has raised it for women from 57 to 62 years as the full contribution period increased from 35 to 40 years. The gender gap was eliminated in Slovenia in 2019.

The normal retirement age will increase in 20 OECD countries (Figure 1.16). For the generation entering the labour market in 2018, the average normal retirement age will raise to 66.1 years for men and 65.7 years for women based on current legislation, hence an increase of about 2 years. The future normal retirement age is below 65 years only in Luxembourg and Slovenia – the only countries where the retirement age is currently low and not projected to increase – as well as the Slovak Republic and Turkey.

Even with rising retirement ages, the time spent in retirement as a share of adult life is expected to increase in the vast majority of OECD countries (OECD, 2019[8]). Between the generations ending and starting their career in 2018, the remaining life expectancy at age 65 is projected to increase on average from 18.1 to 22.5 years for men and from 21.3 to 25.2 for women. This means that based on current legislations less than half of life expectancy gains would be passed on to increases in the normal retirement age. The share of adult life spent in retirement is 35% today and 39% in the future in Slovenia, among the highest levels in the OECD, which represent an increase of more than 10% in that share.[10]

1.4.2. Short contribution period to retire at age 60 without penalty

Along with Slovenia, Belgium, France, Germany, Greece, Hungary, Italy, Luxembourg, Portugal and Spain provide options to retire without penalty before the statutory retirement age for those having contributed long enough in public earnings-related schemes (Table 1.2). In Germany and Portugal this option is only for those with very long careers of 45 and 48 years, respectively. Belgium and France require 42 and

41.5 years, respectively. In Greece, Luxembourg, Slovenia and Spain a worker can retire after a shorter contribution period of 40 years (or even 37 years in Spain), but in Greece this is possible only from age 62, and in Spain from age 65. Italy introduced Quota 100, a temporary scheme that allows retiring at age 62 with 38 years of contributions; it applied since 2019 and was supposed to expire in 2021 but it was prolonged for 2022 with a higher age condition of 64. Thus, Luxembourg and Slovenia stand out as countries where one can retire without a penalty at age 57 or 60 after a 40-year career. Hungary allows only women to retire after having contributed for 40 years without any age requirement.

Table 1.2. Contribution period required to retire before the statutory retirement age

Earnings-related public pension schemes, options to retire without penalty

Country	In 2020			Around 2060		
	Contribution period	Minimum retirement age	Statutory retirement age	Contribution period	Minimum retirement age	Statutory retirement age
Belgium	42	63	65	42	63	67
France	41.5	62	66.6	43	62	67
Germany	45	63.5	65.5	45	65	67
Greece	40	62	67	40	66	71
Hungary	(40)		64.5	(40)		65
Italy	38	62	67	47.5 (46.5)		71
Luxembourg	40	57	65	40	57	65
Portugal	48	60	66.5	48	62.6	70
Slovenia	**40**	**60**	**65**	**40**	**60**	**65**
Spain	37	65	65.8	38.5	65	67

Note: Numbers for women in brackets if different than for men. For Italy, the option to retire at age 62 with 38 years of contributions has been introduced temporarily and will not apply in the future.
Source: OECD (2019[2]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en, and SSA (2020[9]), Social Security Programs Throughout the World, https://www.ssa.gov/policy/docs/progdesc/ssptw/.

Based on current legislation, these eligibility conditions will be tightened in most countries, but not in Slovenia. In France and Spain, the reference contribution period will be lengthened by 1.5 and 2 years, respectively. In Germany, Italy (except for Quota-100) and Portugal, which already apply a long reference period to retire early without penalty, the retirement-age condition will be tightened. The combined conditions will remain loose in Luxembourg and Slovenia, and for women in Hungary.

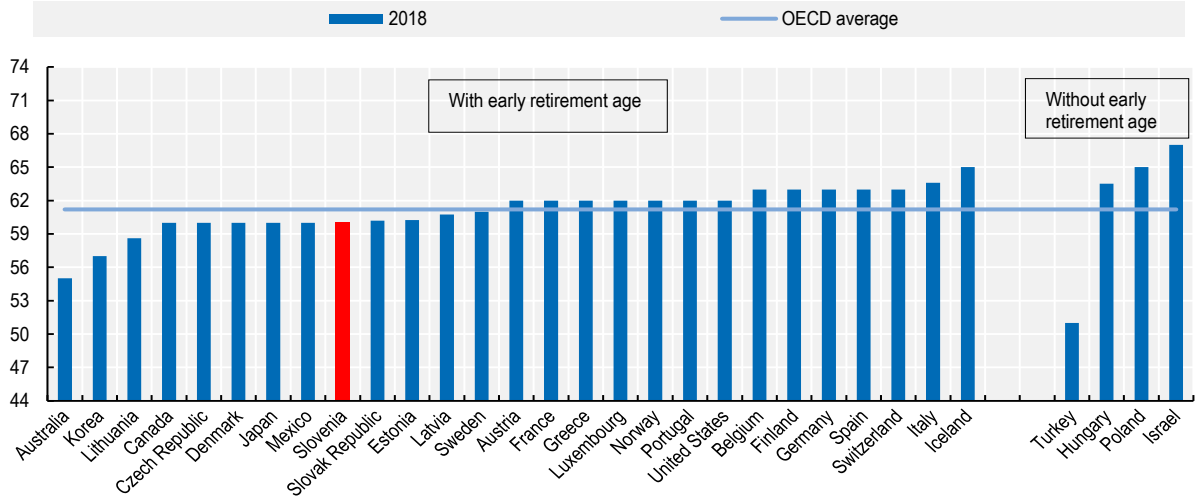
1.4.3. Low minimum retirement age

The large majority of countries had an early retirement age – the earliest age at which the receipt of a pension (potentially with penalties) is possible – for private-sector workers lower than the normal retirement age.[11] The early retirement age was 61.2 years in 2018 on average among the 31 OECD countries that have a specific minimum retirement age for their mandatory earnings-related scheme (Figure 1.17). Tightening eligibility conditions for early retirement either by increasing the minimum retirement ages or by making early retirement more penalising has been one major pension policy trend over the last decades. Early retirement ages have been rising by a little over one year between 2004 and 2018.

In Slovenia, it is possible to retire at age 60 after a 35-year long career, provided that the insurance years missing to reach 40 years are purchased; in that case, benefits are subject to the penalties described in the Overview section above. When starting the career at age 22, a worker without career interruptions needs to purchase two years of insurance to be able to retire at age 60. Slovenia is among few OECD countries where private-sector workers can access their pensions at age 60 or below (Figure 1.17).[12]

Figure 1.17. Early retirement age is low in Slovenia

Early retirement age for earnings-related scheme when entering labour market at 22 and having uninterrupted career



Note: For men and women except for Israel, Lithuania and Poland. Early retirement in Chile and the Netherlands is in principle possible from any age.
Source: OECD (2019[2]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

StatLink https://stat.link/xi98fw

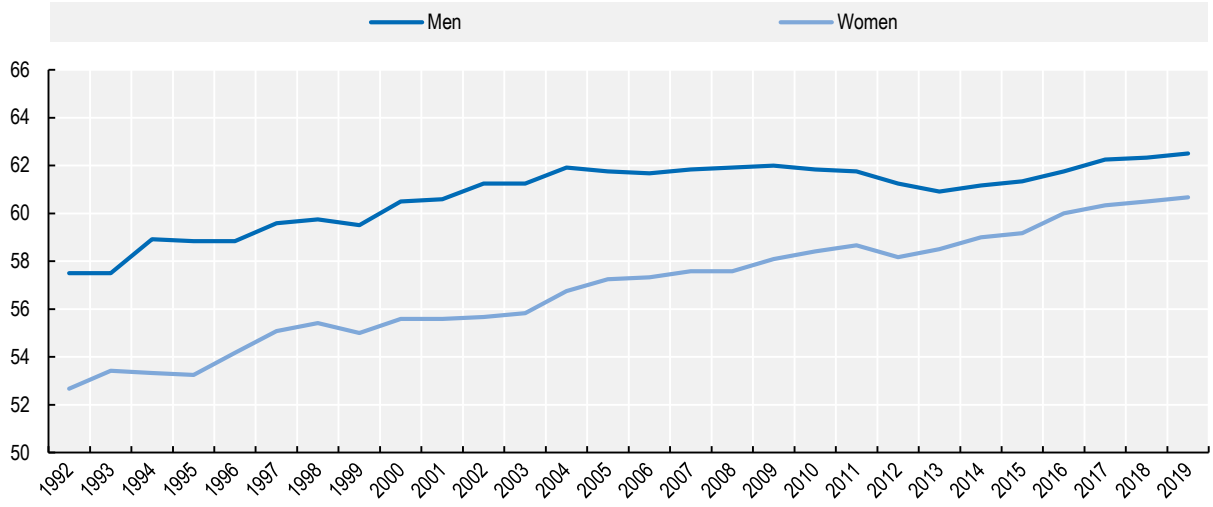
1.4.4. Sharp increase from a low level in the effective age of claiming pensions

The average age of claiming pensions for the first time sharply increased by five years, from 57.5 to 62.5 for men between 1992 and 2019 (Figure 1.18). For women, the rise was even larger from a very low age of 52.7 years to 60.7 years. Hence, the gender gap more than halved during that period although women still retire about two years before men on average. This relates to the tightening of eligibility conditions for women through the whole period, while they did not change for men between 1999 and 2012. Since 2013, the effective age of claiming pension has increased significantly due to improvements in labour market conditions after the global financial crisis and following the 2012 pension reform, which tightened eligibility conditions and eased the possibility to combine work with pensions.

Despite these upward trends, many people still retire very early. As explained in Section 1.2.1, retirement-age conditions can be lowered based on having children, military service or having started the career before the age of 18. Half of women and one fourth of men started claiming their pension before age 60 in 2019 (Figure 1.19). Incentives to work longer when eligible to pensions before age 60 are poor. The age-related penalties for early retirement, i.e. based on the purchased period, are capped at age 60. Moreover, the accrual rate increases from 1.36% to 3% for working beyond 40 years only after age 60: before age 60 there is no bonus on deferring pensions and the 1.36% accrual rate provides little incentive (Annex 1.A). Retiring after age 65 – which requires a much shorter insurance period of 15 years – is uncommon among women: only 1 in 20 do so against almost 1 in 3 among men.

Figure 1.18. Average effective age of claiming pensions has sharply increased although it has stagnated for men since 2004

Average age of recipients of old-age pensions granted for the first time in a given year



Note: Data before 2005 are adjusted for the 2005 change in methodology. The data do not include those combining pensions with full time work.
Source: OECD calculations based on ZPIZ data.

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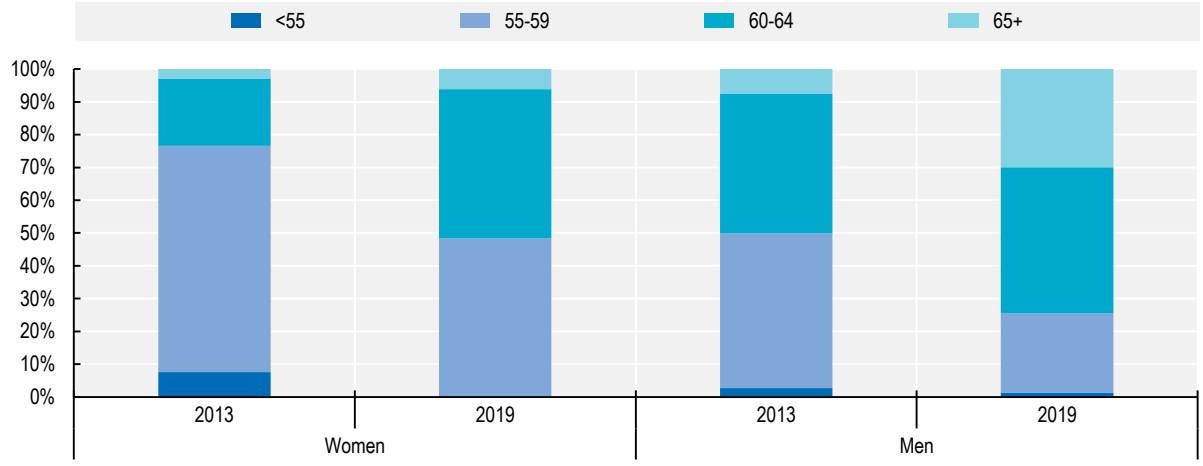
Figure 1.19. Half of women and one-quarter of men still retire below age of 60

Structure of new retirees by age and gender in 2013 and 2019



Note: The data do not include those combining pensions with full time work.
Source: OECD calculations based on ZPIZ data.

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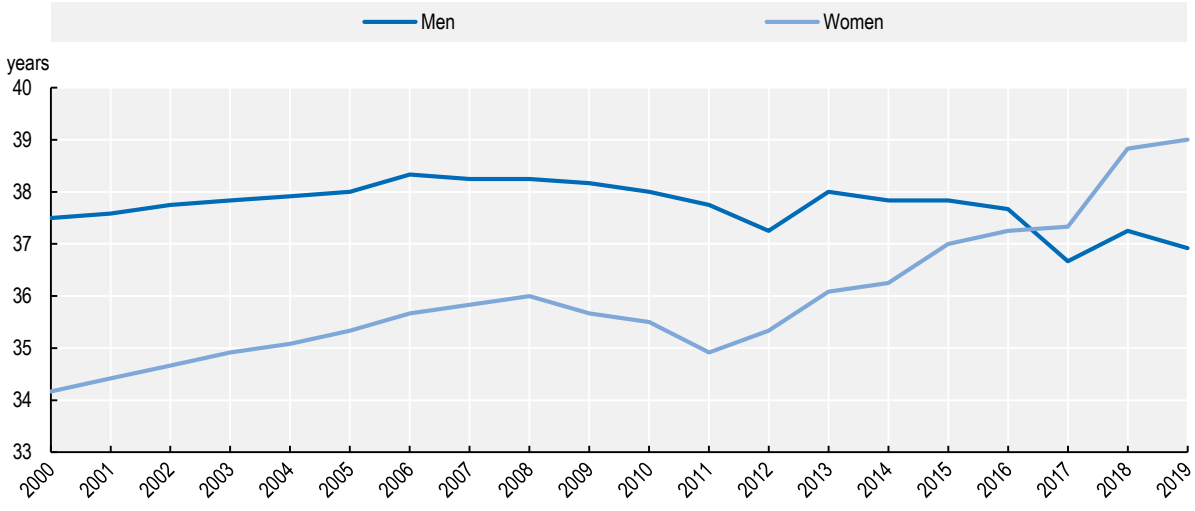
1.4.5. Lower average insurance period of new male retirees since 2006

The upward trend in the average insurance period of new retirees stopped around 2007 (Figure 1.20). With the global financial crisis, and perhaps due to the uncertainty around pension reforms, people then tended to retire with slightly shorter contribution periods. As a result, the average insurance period among new retirees declined from 38.3 to 37.3 years for men between 2006 and 2012, and from 36.0 to 34.9 years for women between 2008 and 2011.

After 2013, it fell further for men to 37 years in 2019, probably due to the increasing impact of less favourable employment records since the transformation in the early 1990s. For women, the upward trend resumed in 2012 and the average insurance period increased strongly to 39 years in 2019. By crediting periods of part-time work to one of the parents of children younger than four in the same way as full-time work, the 2012 reform has been a key determinant of this increase along with the impact of retiring later as shown in Figure 1.18. In 2019, among new retirees, about one-quarter of men and half of women retired at age 59 or earlier with an average qualifying period of around 40.5 years.

The increasing incidence of combining work and pensions might partially explain the recent decrease in the average insurance period among new male pensioners. The share of new pensioners combing work and pensions increased from 6% to 36% between 2013 and 2018. More than three-fifths of those combining work and pension work full time, which is called dual status, of whom 60% are men. When working full-time, only 40% of the pension is paid (20% before between 2013 and 2019), but the beneficiaries are not taken into account in the calculation of the published average insurance period of new pensioners; they are taken into account once pensioners claim the full benefit after having stopped working full-time. This might temporarily lower the average insurance period of new pensioners because the average insurance period of people in dual status was 39.8 years for both men and women in 2019, which is substantially more than among all new pensioners, at 37 and 39 years for men and women, respectively.

Figure 1.20. Insurance period has declined for men since 2006



Note: Data from 2005 are adjusted for the 2005 change in methodology. The data do not include those combining pensions with full time work.
Source: OECD computation based on ZPIZ data.

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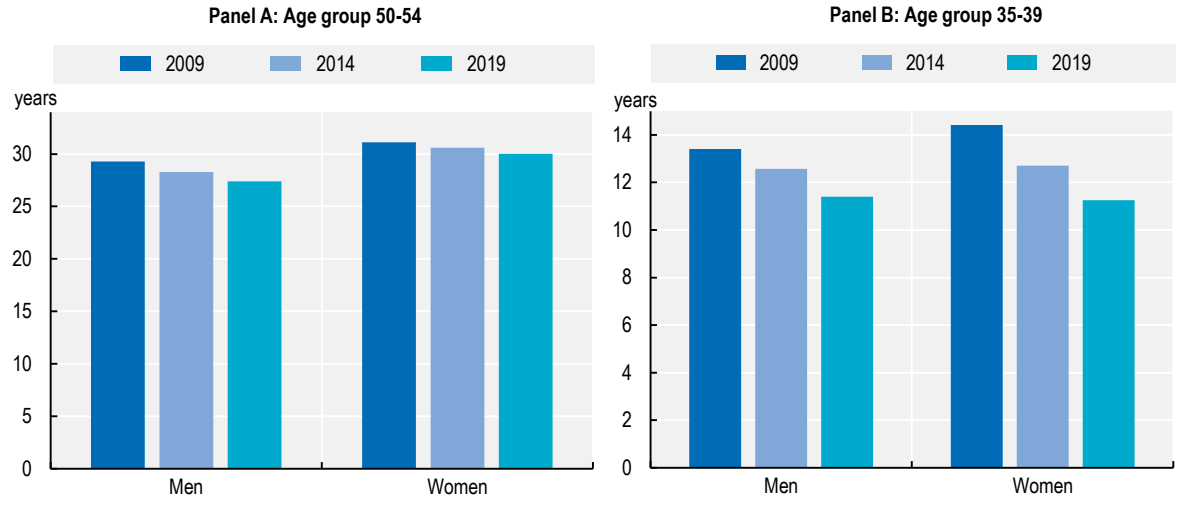
1.4.6. At the same ages, younger cohorts accumulated shorter insurance periods

Younger cohorts generally have shorter insurance periods at the same age (Figure 1.21). In 2009, men and women aged 50-54 had an average cumulative insurance period of 29.3 and 31.1 years, respectively, which decreased to 27.4 and 30 years in 2019 (Panel A). A similar pattern is visible also at younger ages (Panel B). Shorter insurance periods at given ages stem from younger cohorts having spent more time in education.[13] Additionally, younger cohorts have been more exposed to unemployment risks after 1992. Younger cohorts will have to retire later to offset the impact on pension replacement rates.

Figure 1.21. At the same ages, younger cohorts accumulated shorter insurance periods

Cumulative insurance periods for men and women at ages 50-54 and 35-39 in 2009, 2014 and 2019



Source: OECD calculations based on the ZPIZ data.

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1.4.7. Favourable unemployment protection for older workers might help early retirement

Many people are unemployed immediately before claiming pensions in Slovenia. Almost one in five new retirees were insured based on their unemployment status one month before claiming pensions in 2019 Figure 1.22.[14] The more favourable unemployment protection of older workers contributes to this pattern. First, unemployment benefits are paid for 19 months when older than 53 years with at least 25 years of insurance, increasing to 25 months when older than 58 with 28 years of insurance. This compares with 12 months maximum for younger individuals. Second, when less than one year is missing to reach the pension eligibility conditions, pension contributions are subsidised by the state budget to bridge the gap and pension entitlements accrue accordingly. This contributes to explaining why in 2019 among the 55+ there were only 100 unemployed classified according to the ILO definition (i.e. actively searching for a job) out of 301 total registered unemployed against only 134 of registered unemployed aged 25-49.[15]

Moreover, Slovenia provides additional employment protection for older workers. A worker cannot be dismissed for economic reasons from age 58 until qualifying for an old-age pension, or during the five years just before fulfilling the qualifying period. This additional protection ceases when workers become eligible to old-age pensions or to unemployment benefits, and in that latter case until meeting the conditions for an old-age pension.[16] In December 2020, the requirement to provide a justified reason when dismissing

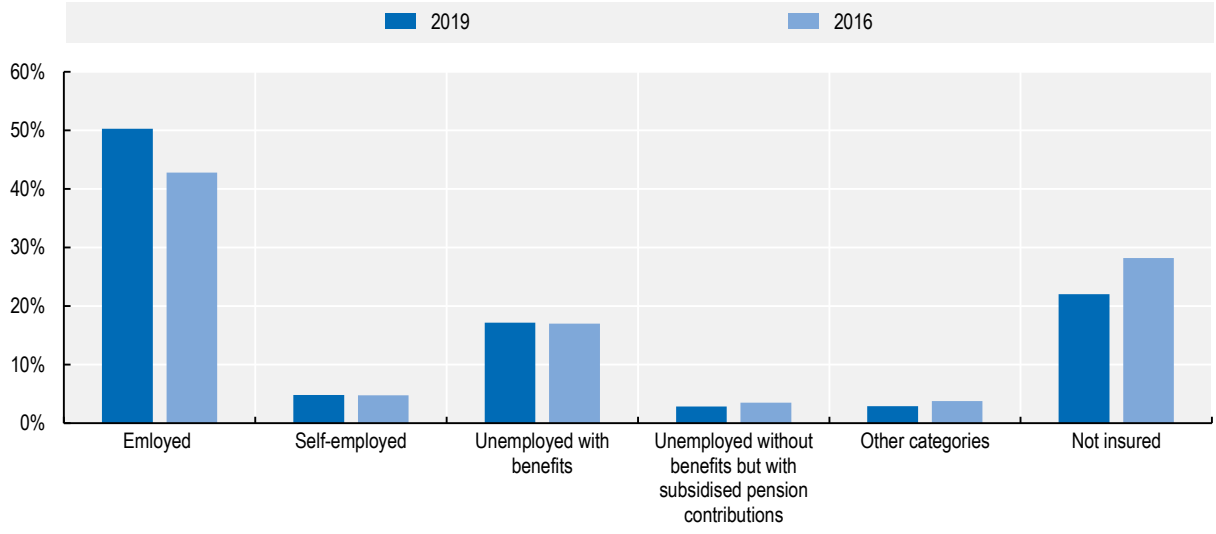
an employee who has met eligibility conditions to the old-age pension was removed, which effectively introduces a mandatory retirement age. However, the implementation of this amendment is uncertain as it has been appealed in the Constitutional Court on the ground of discrimination.[17]

Annex 1.B provides a summary of mandatory retirement and pensions in OECD countries, with implications for Slovenia. The analytical part leads to three main findings:

- More than half of OECD countries do not allow for mandatory retirement in the private sector. Nine OECD countries ban mandatory retirement even for civil servants.
- Mandatory retirement practices have been reduced in a number of countries. With the exception of Slovenia since December 2020, no European country allows mandatory retirement before the statutory retirement age, except for specific occupations with health and safety concerns. Only a few European countries have some form of mandatory retirement in the private sector before the age of 68 years.
- Mandatory retirement is sometimes advocated if seniority is an important component in wage setting or in the case of strict employment protection against individual dismissals. Slovenia scores below the OECD average in terms of both importance of seniority pay and strictness of employment protection.

Figure 1.22. Many people retire from unemployment or no-insurance status

Insurance status of the new retirees in a given year 30 days prior to retiring, in 2016 and 2019



Source: OECD calculations based on ZPIZ data.

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1.5. Main rules to calculate pension benefits

In Slovenia, pension benefits are calculated from a defined benefit formula in which: the average annual accrual rate depends on the insurance period; the reference wage is based on net wages from the best consecutive 24 years; and there is a strong redistribution through the high level of the minimum reference wage.

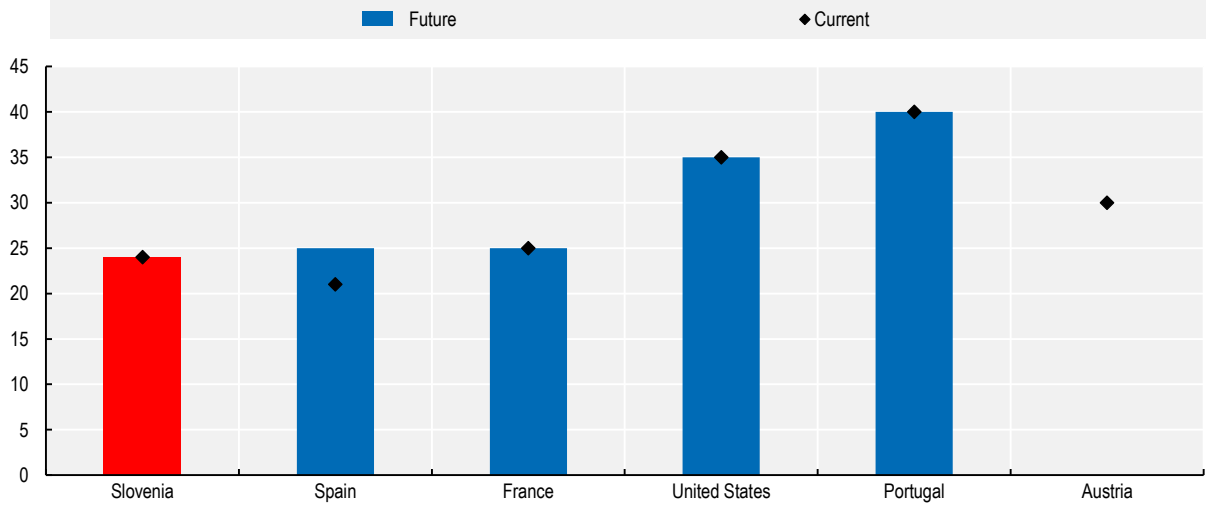
1.5.1. The reference wage is based on only 24 years of earnings

Pension benefits in Slovenia are calculated by multiplying total accrual rates by the reference wage (also called the pension rating base). To calculate the reference wage, past wages are valorised with the average wage growth. Then the most favourable 24 consecutive years are averaged to calculate the reference wage. Only years in which contributions were paid for at least six months are included in the calculations. If, in a given calendar year, contributions were paid for a shorter period, the year is not taken into account and is replaced with the next available year (or years). This applies only to the reference wage calculation while the total accrual rate accounts for all months of insurance.[18] As mentioned before, a floor at 76.5% of the net average wage applies to the reference wage, and a ceiling of 306% of the net average wage.

The large majority of OECD countries take into account wages throughout the whole career for calculating pension benefit. Recently, the Czech Republic, Greece and Norway joined this group (Boulhol, 2019[10]). Exceptions are Austria (which will use lifetime earnings for people born from 1955), France, Portugal, Slovenia, Spain and the United States (Figure 1.23). France, Slovenia and Spain are the only countries using 25 years or less, although France was planning to use lifetime earnings, but the reform was suspended due to the COVID-19 crisis.

Figure 1.23. Few countries take into account only part of the career for pension calculation

Number of years used to calculate the pension reference wage for private-sector workers



Note: In Austria, the contribution base will steadily increase and reach 40 years for the 1954 birth cohorts while for generations born from 1955 it will be the whole lifetime.
Source: OECD (2019[2]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

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Using part of the career generates inequities as people with the same lifetime earnings and the same total contributions might have very different pensions. While taking into account only the best years protects against some forms of career incidents, it also generates perverse, regressive effects by favouring workers experiencing large wage improvements who tend to be high-wage earners, as the low-wage periods (typically at the beginning of the career) are ignored (Aubert and Duc, 2011[11]). In addition, men and women with longer career breaks, due to e.g. childcare, rarely enjoy strong career progression (OECD, 2017[12]) and therefore they do not benefit from the shorter period to calculate the reference wage.

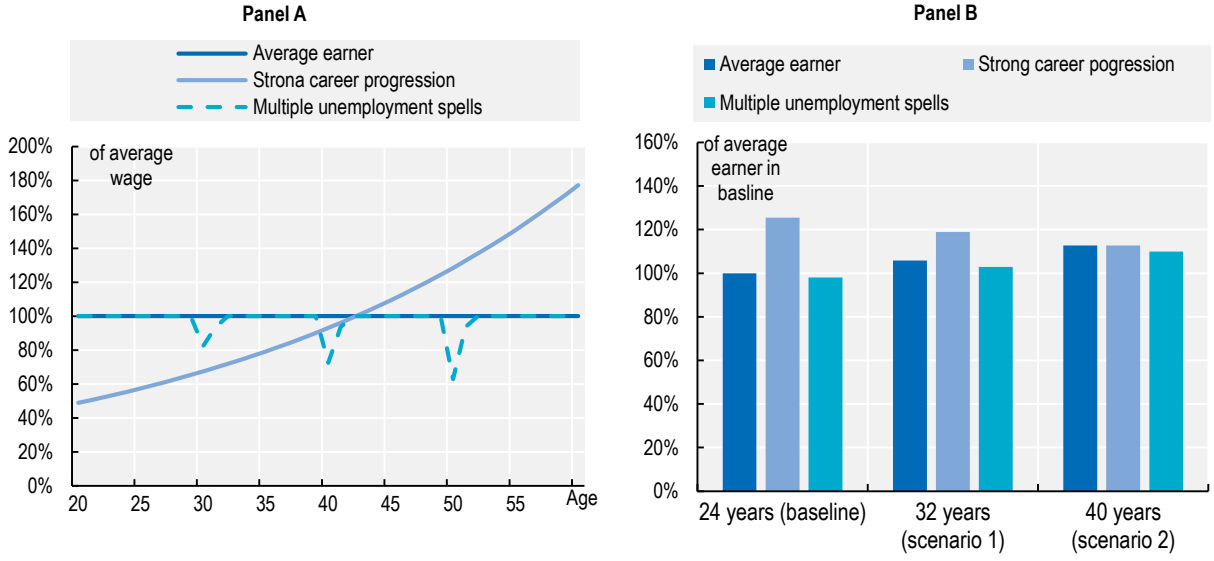
Figure 1.24, Panel A shows three career cases: one with stable earnings at the average wage throughout the career, one with a strong earnings progression: from 49% to 177% of average wage between ages 22 and 62, and one with average earnings when working but with the career affected by multiple unemployment periods covered by unemployment benefits. The wage parameters of the wage-progression case are calibrated such that the average wage over the whole career is equal to that of the stable-earnings case.

Under the current reference-wage calculation (baseline), the strong career progression leads to a 25% higher pension than the stable-earnings case although the lifetime earnings are the same (Figure 1.24, Panel B). Moreover, this reference wage calculation protects well against career breaks as the career-break case generates a pension that is only 2.0% lower compared to the uninterrupted career case.

The potential aggregate impact on pension expenditure of changing the reference period was analysed for Slovenia in 2010 (Čok, Sambt and Majcen, 2010[7]). The analysis based on individual earnings histories of people who retired in 2007-09 showed that increasing the reference period from 24 to 32 or 40 years while keeping other parameters constant would decrease average pensions by 5.4% or 11.2%, respectively.[19] However, to better identify the mechanism at work with short reference periods, it is best to consider changing the length of the reference period in a budget-neutral way, meaning in such a way that total pension expenditure and the average pension are unaffected. Lowering pension spending might be needed, but this is a different objective that can be pursued by a range of instruments. One simple way to lengthen the reference period in a budget-neutral way consists of raising accrual rates. The following analysis is based on such reform scenarios.

Figure 1.24. Short reference wage calculation favours careers with strong wage dynamics

Earnings-profiles (relative to average wage) by age (Panel A) and corresponding pensions depending on the length of the reference period (relative to the pension of average-wage earner with the current 24 years, Panel B) in budget-neutral reforms



Note: All earnings profiles assume the same total earnings (valorised with wage growth). The multiple unemployment spells case assumes three unemployment spells at ages 30, 40 and 50, at the length of unemployment benefits. Late unemployment spell assumes a 3-year long unemployment spell at the end of the career: 25 months are covered by unemployment benefits and for 11 months only pension contributions are subsidised.
Source: OECD calculations.

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Were the calculation of the reference wage prolonged to 32 years in a budget neutral way (scenario 1), the pension would increase by 5.7% in the stable-earnings case due to higher accrual rates (Figure 1.24, Panel B). The pension of the strong-career progression case would decrease by 5.0% while remaining substantially higher than that of the stable-career worker. In the case of multiple unemployment spells, the pension loss compared with the full-career case increases only very slightly to 2.7%.

Finally, were the calculation of the reference wage expanded to 40 years (scenario 2), i.e. to the full career of someone starting career at 22 and retiring at age 62, the pensions of the workers with uninterrupted careers but differing in the earnings profiles would equalise, being 12.6% higher than in the average earner pension under the current conditions (baseline). At the same time, the pension of the person with multiple unemployment spells is now 2.5% lower than the full-career case. This confirms that the current reference wage calculation strongly favours workers with strong career progression, who are likely to also have higher income, while extending the reference period does not penalise those with unemployment breaks.

Consistent with this, Čok, Sambt and Majcen (2010[7]) show that increasing the reference period would reduce pension inequalities. Indeed, such a reform while keeping the other parameters unchanged would not affect pensioners in the lowest quintile of pensions thanks to the effect of the minimum reference wage. The impact of increasing the period from 24 to 34 years would lower pension by about 6% for all higher quantiles. Hence, if such a reform is conducted in a budget neutral way, it could reduce old-age inequality without affecting average pension levels.

1.5.2. Gross pensions unusually accrue based on net wages

All OECD countries, except for Hungary and Slovenia, accrue pension entitlements based on gross wages. In Slovenia, the reference wage is expressed in approximately net terms because gross wages that enter in the calculation of the reference wage are multiplied by a coefficient, which is calculated from the tax and social security rate at average earnings and thereby fluctuates slightly every year. This coefficient (64.63% in 2019) means that at the average wage the reference wage is exactly equal to the net wage. Such a design makes *gross* pensions dependent on tax and social security rates.

Most pensioners do not pay income taxes. Pensions are taxed based on the progressive tax rates, which increase from 16% for low income (below 40% of annual average wage in 2019) to 50% (for income exceeding 350% of annual average wage). However, some tax allowances lower the taxable income. The general tax allowance amounts to EUR 3 500, i.e. 17% of annual average wage, and is granted to all taxpayers. This allowance is increased for people earning less than 63% of annual average wage, which results in no personal taxes being paid for income lower than 44% of annual average wage. On top, pensioners are granted an extra tax allowance of 13.5% of their pension, which additionally reduces the tax base. All this means that a single person receiving only pension would start paying the personal income tax when benefits exceed 120% of average pension or 46% of average wage. As a result, the average net pension was only 1% lower than the average gross pension in 2019.

This combination of pension accruals based on net wages and generous tax allowances for pensioners makes net pensions unduly complex. Any increase of personal income tax rates mechanically reduces gross replacement rates. It lowers net wages, and therefore gross pensions. Additionally, higher tax rates will reduce high net pensions further, having a double effect on pensions. On top, any increase of employees' social security contribution rate will automatically reduce gross pension benefits. Both these effects might lead to unintended consequences of benefit deterioration following changes in tax or contribution rates. They also make the benefit calculation harder to understand for workers.

1.5.3. Strong redistribution through the minimum reference wage

The minimum reference wage is set at 76.5% of the net average wage, providing a floor that benefits low earners. In 2021, the minimum reference wage was EUR 913 per month, compared with a reference wage

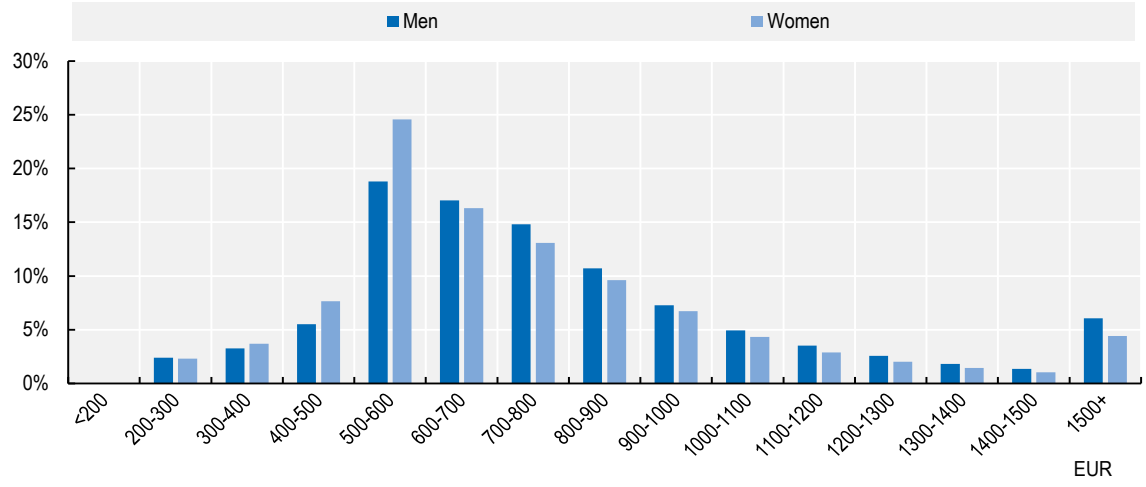
based on the minimum wage of EUR 662. The minimum reference wage multiplied by total accruals leads to minimum pension benefits, which thus depend on the length of the insurance period. The redistributive effect of the minimum reference wage is slightly offset by the minimum base for contributions, which is set at 60% of the gross average wage, implying that the effective contribution rate is higher for workers close to the minimum wage, which was equal to 55% of the average wage in 2020. In addition, the maximum reference wage is set at EUR 3 651 per month, or 306% of net average wage; contributions continue to be paid on wages above that ceiling, but they do not bring additional pension entitlements.

The minimum reference wage plays an important and increasing role in Slovenia. The share of new pensions calculated with the minimum reference wage stood at 38% for women and 30% for men in 2019 compared to 32% and 17% in 2013, respectively. In 2021, the minimum pension after a 40-year career stood at EUR 580 (= 913*63.5%) for women and EUR 543 (= 913*59.5%) for men, which is topped up to EUR 620 through the guaranteed pension (Chapter 3).

Pensions are concentrated around levels corresponding to the minimum pension amount after a full career, and even more so for women than for men (Figure 1.25). The median pension was between EUR 600 and 700 in 2019. One in five men and one in four women received pension amounts between EUR 500 and 600. Only 5% of pensioners had pensions higher than EUR 1 500 and less than 1% had more than EUR 2000, which means that the maximum reference wage is effectively binding for only few workers: a 40-year career with net earnings equal to the maximum reference wage would result in a pension equal to EUR 2 213 (= 3 485 * 63.5%).

Figure 1.25. Pension amounts are concentrated around EUR 600

Distribution of pensions by amount and gender in 2019



Note: Old-age pensions, without partial and pro-rata pensions.
Source: OECD calculations based on ZPIZ data.

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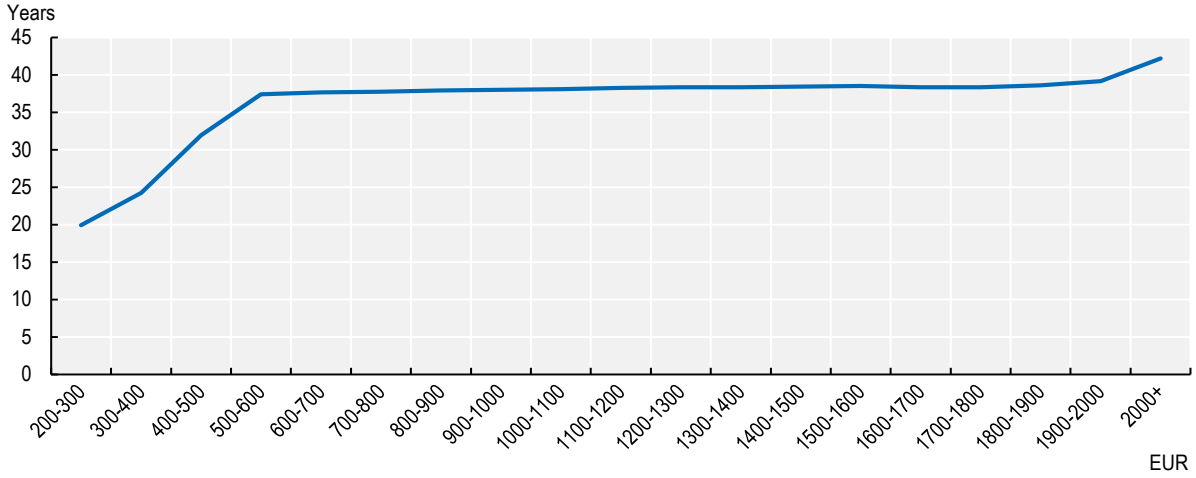
For those having pensions lower than EUR 300 the average contribution period is about 20 years while among those with a pension between EUR 500 and 600 the average contribution period is 37.4 years (Figure 1.26). For those with higher pensions the average contribution period is only slightly higher as for the recipients of pensions of between EUR 1 500 and 1 600 the average contribution period is 38.5 years. Thus, whatever the pension bracket, many retirees have a total insurance period of less than 40 years for

a few reasons. First, women were entitled to the full pension with careers shorter than 40 years until 2017 whereas the option of early retirement after a 20-year career was closed for men in 2016 only and for women in 2020. Second, 38 years of pensionable service without purchase grant eligibility to the old-age pension from age 61 in case of having children, military service or having started the career before the age of 18. Third, those who have started working late or had long career breaks can retire with a much shorter insurance period of 15 years from age 65.

Figure 1.26. Prolonging insurance periods is crucial to increase low pensions

Average insurance period by pension amount brackets in 2019



Source: OECD calculations based on the ZPIZ data.

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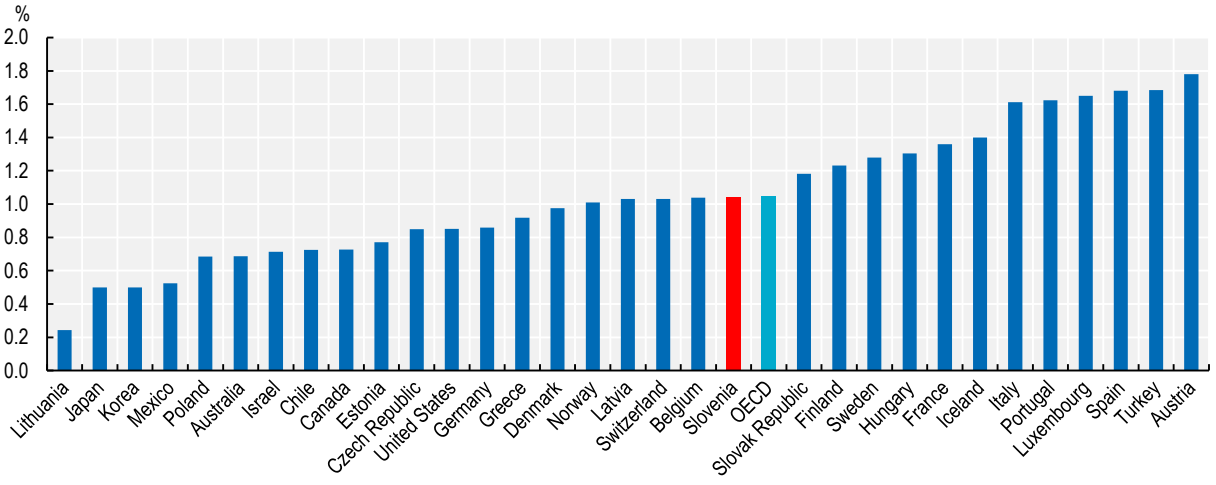
1.5.4. Effective accrual rate close to the OECD average

The effective accrual rate measures the rate at which benefit entitlements are effectively built for each year of contribution. For defined benefit (DB) schemes, it equals the nominal accrual rate adjusted to account for how pensionable earnings are defined (thresholds, valorisation of past earnings, sustainability factors). In defined contribution schemes (funded or notional) schemes the effective accrual rate depends on contribution rates, rates of returns and annuity factors.

Given the nominal accrual rates described above, the average annual nominal accrual rate for a 40-year career stands at 1.026% in Slovenia for women and 0.945% for men retiring now converging to 1.026% for both men and women entering the labour market now.[20] When the annual allowance is included it gives an effective accrual rate of 1.045%, which is very close to the OECD average of 1.046% (Figure 1.27). Based on current legislation, the highest future effective annual accrual rates are in Austria (1.78%)[21] while Italy, Luxembourg, Portugal, Spain and Turkey also have an average accrual rate that is larger than 1.6%.

Figure 1.27. Effective accrual rate is close to the OECD average

Future effective annual accrual rates in OECD countries for average-wage earners



Note: Ireland, New Zealand, the Netherlands and the United Kingdom are not accounted for due to the strong role of basic pensions.
Source: Table 4.3 in OECD (2019[2]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

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1.5.5. Indexation of pensions in payment

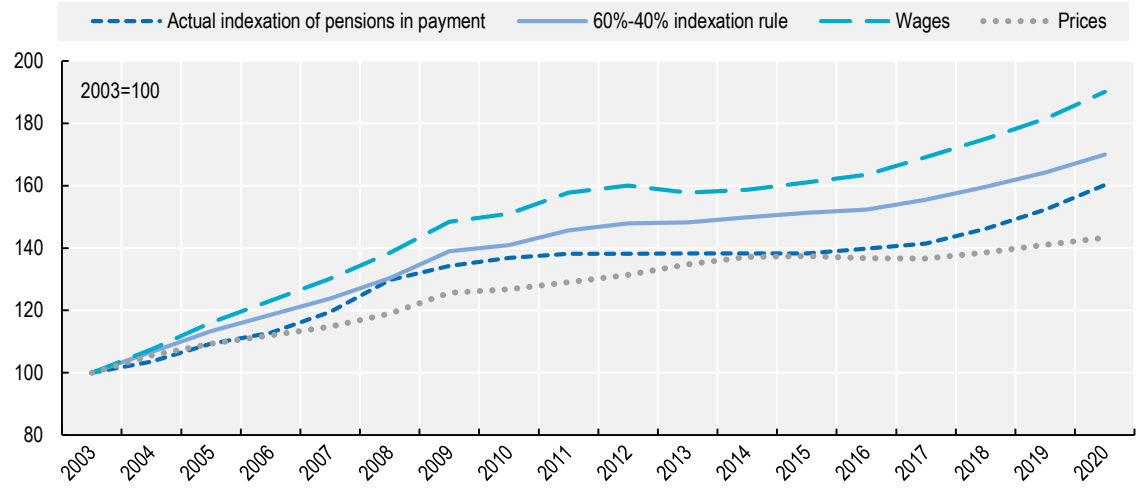
Most OECD countries index pensions in payment to prices. Eight countries index benefits with a mix of price inflation and wage growth, four countries combine inflation and either GDP or wage bill growth. Norway and Sweden index pensions based on wage growth minus a fixed rate of 0.75% and 1.6%, respectively.[22]

Slovenia belongs to countries that index pensions to a mix of wages and prices, with weights of 60% and 40%, respectively.[23] This indexation rule was introduced in 2012 while before indexation was linked to the changes in the average wage and in the average pension in a complicated way. Figure 1.28 shows that the actual indexation was close to the 60%-40% mix between 2003 and 2008 on average. Frozen indexation in 2012-15 resulted in the actual pension indexation being around 3 percentage points lower than implied by the 60%-40% rule in this period, but this was offset by the extraordinary indexation in 2019 and 2020. On average over 2003-20, nominal wages increased by 3.9% per year and consumer prices by 2.1% while the average annual pension indexation was 2.8%.

The real value of pensions should be protected to maintain standards of living, especially as retirees have very limited options to accommodate to lower income. This implies that pensions should be indexed at least to inflation. The indexation rule is the result of a political choice. For a level of total pension spending consistent with financial sustainability, there is a trade-off between lower pensions when retiring and more generous indexation, with the higher level of indexation benefiting the pensioners in the first part of their retirement period and the groups having lower life expectancies.

Figure 1.28. Pension indexation lagged behind the rule after the global financial crisis

Cumulative indices: actual indexation of pensions in payment, theoretical indexation following the 60%-40% rule, changes in average wages and in prices



Source: OECD calculations based on ZPIZ data on pension indexation, OECD Data on wages and prices (https://stats.oecd.org/Index.aspx?DataSetCode=AV_AN_WAGE; https://stats.oecd.org/Index.aspx?DataSetCode=PRICES_CPI).

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1.6. Future pension replacement rates of dependent employees

This section provides an assessment, based on the OECD pension model, of future replacement rates in international comparison, for dependent employees by earnings levels and for various career patterns, including the impact of career breaks due to unemployment and childcare.

1.6.1. Slightly higher net replacement rates than OECD average at the average wage…

As a best case – full career from age 22 until the normal retirement age – illustrating what pension systems produce in a comparable way, the future net replacement rate from mandatory schemes for people entering the labour market now averages 59% in OECD countries at the average-wage level (Figure 1.29). In Slovenia, it is slightly higher at 63%.[24] There is a substantial cross-country variation, from less than 30% for example in Lithuania to 90% or more in Austria, Italy, Luxembourg, Portugal and Turkey. This compares to 60% and 64% for men and women retiring in 2021.

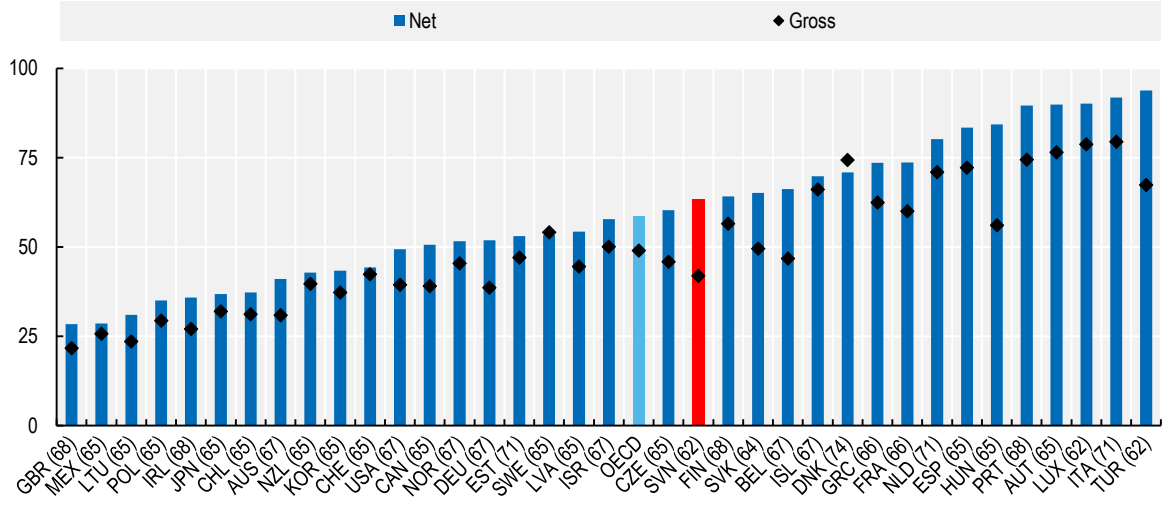
However, accounting for differences in life expectancy, retirement ages and indexation rules, the net pension wealth will be much larger in Slovenia than in the OECD on average even though replacement rates at retirement are similar. The net pension wealth measures the total discounted value of the lifetime flow of all retirement incomes in mandatory pension schemes at retirement age in number of years of net wages. It is a summary measure of total pensions that are expected to be paid throughout the retirement period. For average earners, net pension wealth for men is 10.6 years and for women 11.7 years of net average wages in the OECD on average. It is substantially higher in Slovenia at 13.6 and 15.2 years, respectively. This indicator varies from less than 6 years for both men and women in e.g. Lithuania to 21.4 years for men and 23.5 years for women in Luxembourg. For low earners, net pension wealth stands at 12.4 and 13.8 years for men and women on average among OECD countries while it is very high in

Slovenia, about 8-to-9 years higher at 20.2 and 22.9 years for men and women, respectively, second only to Luxembourg.

For average earners, the net replacement rate is 10 percentage points higher than the gross replacement rate on average in the OECD due to the effect of progressive taxation and contributions paid by employees as well as favourable tax treatment of pensioners in some countries. The difference is over 30 percentage points in Hungary and Turkey and 15-20 percentage points in Belgium, Portugal and the Slovak Republic, and 21 percentage points in Slovenia. In Hungary, the Slovak Republic and Turkey, pension income is liable for neither taxes nor social security contributions, whilst in Belgium, Portugal and Slovenia pensioners are granted higher tax allowances than workers.

Figure 1.29. Future net replacement rate in Slovenia is close to the OECD average

Net and gross pension replacement rates from mandatory schemes: average earners after full careers



Note: The base case assumes a worker who enters labour market at age 22 in 2018, earns an average wage throughout career and retirees at the normal retirement age. Mandatory and quasi-mandatory retirement schemes are included. The net replacement rate is defined as the individual net pension entitlement divided by net pre-retirement earnings, taking account of personal income taxes and social security contributions paid by workers and pensioners. The calculation applies to the pension rules for men. Normal retirement ages are in the brackets.
Source: OECD calculations, OECD (2019[2]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

StatLink https://stat.link/gs69uc

1.6.2. … while low earners with full careers benefit from high replacement rates

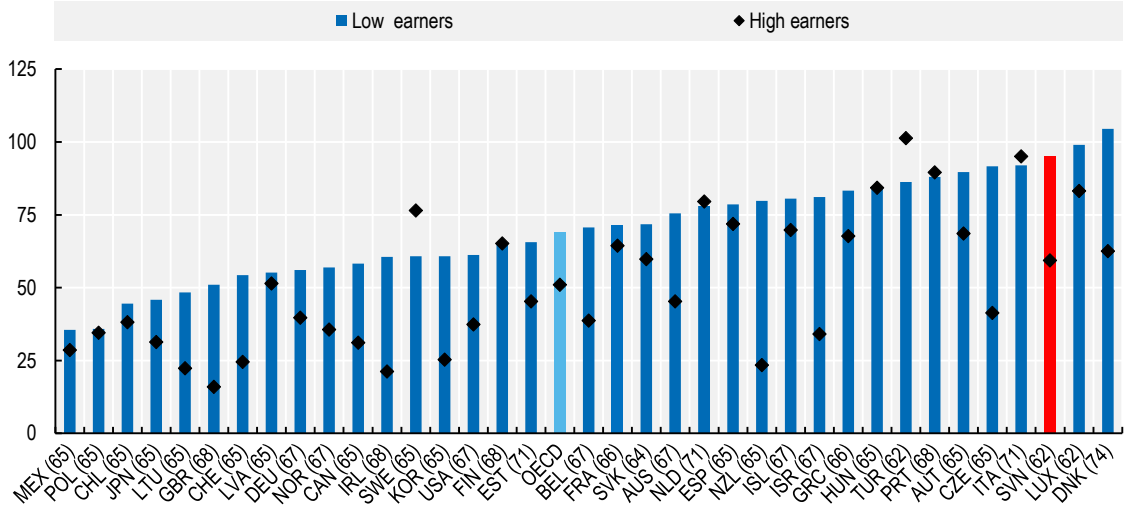
In most OECD countries, low earners benefit from progressive pension calculation or qualify for minimum pensions or targeted benefits. As a result, low earners often have higher replacement rates than average earners. Low-income workers at half the average wage would receive net replacement rates averaging 69% among OECD countries, compared with 59% for average-wage workers (Figure 1.30).

In Slovenia, the future net replacement rate for low earners is equal to 95%, much higher than the OECD average, and 25 percentage points above that for average earners. The minimum reference wage is the main driver of this pattern while progressive taxation of labour earnings also plays a role to some extent. This high replacement rate is similar to levels in Austria, the Czech Republic and Hungary. Denmark is at the top of the range with 105%. At the other extreme, Chile, Japan, Lithuania, Mexico and Poland offer net replacement rates below 50% to low-income earners, implying a very low pension even after a full career. As for high earners at twice the average wage, the net replacement rate is 51% on average in

OECD countries, below the 59% figure for average earners. Replacement rates for these high earners are higher than 80% in Hungary, Italy, Luxembourg, Portugal, and Turkey, while at the other end of the spectrum, Ireland, Lithuania, New Zealand, Switzerland and the United Kingdom offer a replacement rate of less than 25% from mandatory schemes. In Slovenia, the high earners can expect a net replacement rate of 59%, which is slightly lower than for average earners, at 63%.

Figure 1.30. Future net replacement rate is high for low earners in Slovenia

Net pension replacement rates: low and high earners



Note: Low and high earners receive earnings at 50% and 200% of average earnings, respectively. These cases assume a worker who enters the labour market at age 22 in 2018 and retirees, after an uninterrupted career, at the normal retirement age. For a person earning 55% of the gross average wage (which was equal to the minimum wage in 2020) throughout career, the theoretical net replacement rate is 88% in Slovenia.
Source: OECD calculations, OECD (2019[2]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

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1.6.3. Prolonged unemployment spells require retiring later to avoid penalties

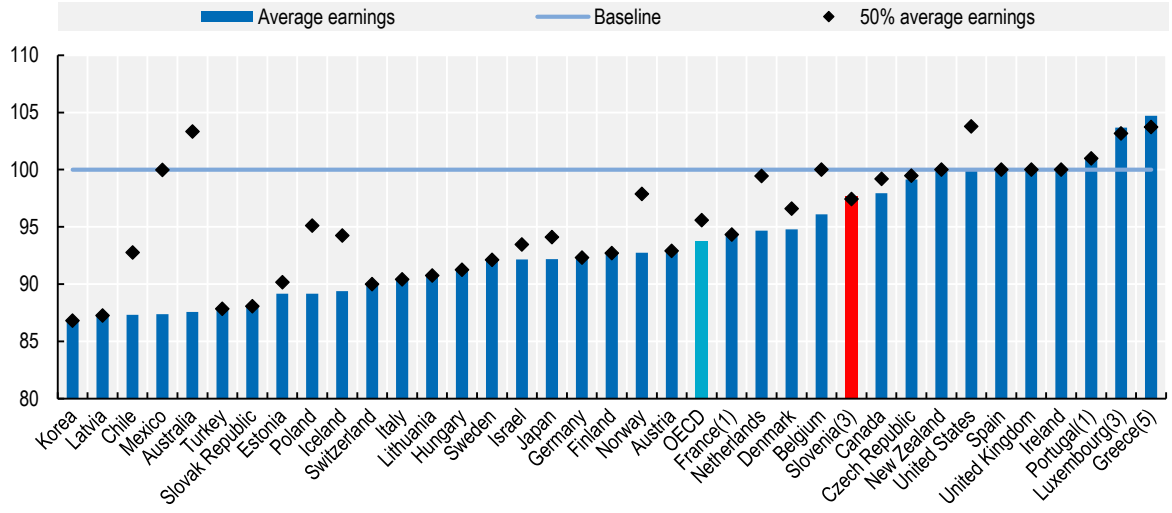
The full-career case is instructive for capturing the impact of key pension parameters, but falls short of being representative. Many individuals experience some periods of unemployment or enter relatively late in the labour market for example due to tertiary education. In terms of pension entitlements, most OECD countries aim to protect against at least some gaps in the employment record.

Average-wage workers with five years of unemployment will have a pension equal to 94% of that of a full-career worker on average across OECD countries, with substantial cross-country variation (Figure 1.31). In some countries, workers in this case will have to retire later than the normal retirement age to avoid pension penalties. This includes Greece, Luxembourg and Portugal, where workers in this situation have higher benefits than full-career workers. At the bottom of the range, Australia, Chile, Estonia, Korea, Mexico, the Slovak Republic and Turkey have limited pension protection against unemployment risks and the future benefit is equal to about 87% of that of a full-career worker.

In Slovenia, a five-year unemployment break in the middle of the career implies retiring at age 65 rather than at age 62 as is the case for full-career workers, and with lower pension. Pension entitlements accrue only in the first year of the unemployment spell based on unemployment benefits, which are equal to 80% of previous earnings in the first three months and 60% in the following nine months. Hence, the five-year

break creates a four-year hole in pension accruals. When retiring without penalty is possible at age 65, the insurance period will still be one year shorter compared to the full-career case. As a result, despite retiring three years later, the five-year career break lowers pension benefits by 2.3% compared to the full-career case. In Slovenia, accruals lost during the career break similarly affect pensions of workers with average and low wages whereas many OECD countries provide better cushioning to low earners. However, low earners already benefit greatly from the effects of the minimum reference wage as explained before.

Figure 1.31. Gross pension entitlements of low and average earners with a five-year unemployment break versus workers with a full career



Note: Figure in brackets refers to increase in retirement age due to the career break. Individuals enter the labour market at age 22 in 2018. The unemployment break starts at age 35.
Source: Figure 5.13 in OECD (2019[2]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

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1.6.4. Pension credits cover part of childcare periods

Many individuals, often women, interrupt their career to care for children. Pension credits for childcare typically cover career breaks until children reach a certain age. They are generally less generous for longer breaks and for older children. Many OECD countries credit time spent caring for very young children (usually up to 3 or 4 years old) as insured periods and consider it as paid employment for pension purposes. In addition, Hungary, Italy, the Czech Republic and the Slovak Republic currently relax pension eligibility conditions based on having children; the last two countries in this list will eliminate these relaxations.[25]

Figure 1.32 shows the case of average-wage female workers taking a five-year career break to care for two children. In that case, the future pension is equal to 96% of the full-career case on average across OECD countries, under the strong assumption that these women resume their career at the same wage level as those who continued to work (Figure 1.32). The pension level is not affected by such a career break in nine countries including the Czech Republic and Hungary. At the other extreme, average-wage women caring for children during five years will have a pension at least 10% lower in Australia, Chile, Iceland, Latvia and Mexico.

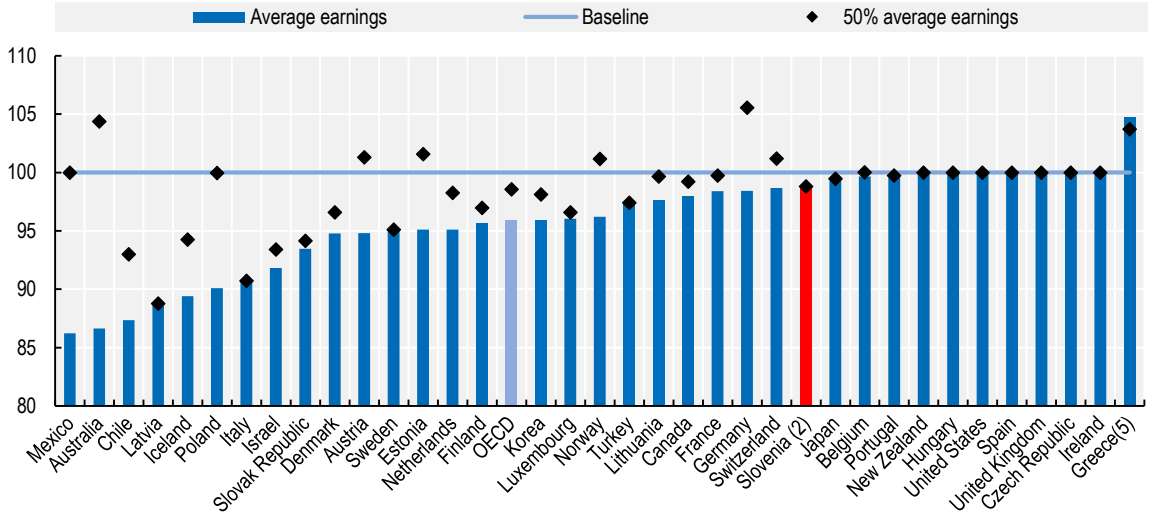
With the childcare break, Greece and Slovenia require that women retire later than the normal retirement age – five years in Greece, two years in Slovenia – to avoid benefit penalties. As a result, benefits are

projected to be 5% higher than for the full-career worker in Greece. In Slovenia, maternity and parental leaves accrue pension entitlements in the first year of a child's life at the level of 100% of previous earnings up to a ceiling.[26] Additionally, provided the woman fulfils the full-retirement condition when retiring, she then receives a pension bonus equivalent to one-year accrual for each child (of up to three). Thus, while career breaks for childcare may affect the reference wage, their impact on pensions goes mainly through any lost accruals for part of the breaks.[27]

In Slovenia, a woman who enters paid employment at age 22 and takes five years out of work to care for two children will have been insured for 37 years at age 62 (37 years = 40 years – break of 5 years + 2 years covered). The earliest age at which she can retire without penalty is 63 years and 8 months with 39 years of insurance as the retirement age at 65 can be lowered by 16 months for having cared for two children.[28] In that case, these two additional years will accrue pension entitlements if she works, but she will not receive the bonus for childcare. She will end up with a benefit being 1.2% lower than in the case of a woman born the same year retiring at age 62 with 40 years of insurance once pension indexation is taken into account. An alternative that is not shown in Figure 1.32 is for her to retire at age 65, when she will benefit from the pension bonus equivalent to 2 years of insurance. Her pension will then be 5.8% higher compared to the full career case and 7.1% higher than in the case of retiring at 64 after the childcare period.

Figure 1.32. Childcare periods might require retiring later to avoid penalties in Slovenia

Gross pension entitlements of low and average earners with a 5-year childcare break versus worker with an uninterrupted career



Note: Figure in brackets refers to increase in retirement age when required to access the pension without penalty. Individuals enter the labour market at age 22 in 2018. Two children are born when the woman is 30 and 32 and the career break starts when she is 30.
Source: OECD calculations.

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1.6.5. Pensions are higher for civil servants thanks to an additional funded scheme

Slovenia, along with ten other OECD countries including Austria, Denmark and Norway, has a top-up mandatory component for civil servants above and beyond the mandatory scheme that exist for private sector workers. Only Belgium, Germany, France and Korea have an entirely separate scheme for civil

servants. About two-thirds of OECD countries have no special scheme for civil servants, all employees being covered under the same mandatory schemes, at least for new labour market entrants, or they offer benefits similar to those for private-sector workers based on technically separate schemes, the difference lying mainly in the administration of the schemes.

In Slovenia, the top-up component for civil servants consists of a separate occupational defined contribution scheme. The employer (ultimately the state) pays additional contributions to the occupational scheme at the most common flat rate of EUR 30.53 a month in 2020,[29] valorised with the average-wage growth of civil servants, while employees do not pay any contributions. At the national average wage, EUR 30.53 adds 1.7 percentage points to the regular contribution rate of 24.35% to the universal scheme. Following standard assumptions in the OECD pension modelling for funded defined contribution schemes,[30] a civil servant retiring in 2060 after earning the average wage for a full career can expect to have a gross pension that is 11% higher than a private sector employee with the same earnings. While significant, this 11% difference is relatively small compared with other countries having a top-up or totally different schemes, especially relative to Canada, Germany, the United Kingdom and the United States. A separate analysis of supplementary pension schemes provides more information about this scheme.

1.7. Pensions for self-employed workers in Slovenia

1.7.1. Same total contribution rates as for employees in Slovenia

The pension coverage of the self-employed varies considerably across OECD countries although most require the self-employed to participate in earnings-related pension schemes. In 18 countries, self-employed workers are mandatorily covered by earnings-related schemes, but the pension coverage is limited as they are allowed to contribute less than employees through reduced contribution rates, a high degree of discretion in setting their income base often resulting in only minimum contributions being paid, or minimum income thresholds below which they are exempt from contribution obligations.

In half of the countries including Slovenia, mandatory contribution rates are aligned between dependent workers and the self-employed: the self-employed pay a contribution rate that corresponds to the total contribution rate of employees, i.e. the sum of employee and employer contributions, which is equal to 24.35% in Slovenia. Beyond Slovenia, this includes Canada, the Czech Republic, Estonia, Finland, Greece, Hungary, Korea, Latvia, Lithuania, Luxembourg, Poland, the Slovak Republic, Turkey and the United States. Among them, the self-employed contribute based on income in only ten OECD countries, including Slovenia. However, even there, insufficient compliance with pension rules may undermine pension coverage (OECD, 2019[2]). In the other countries with earmarked pension contributions, contribution rates are lower for the self-employed.

1.7.2. Less contributions paid and less entitlements accruing due to base effects

Even when nominal contribution rates are the same for dependent employees and self-employed workers, pension contributions can differ substantially because the contribution base, i.e. the earnings reference to calculate contributions, is not identical. For employees, pension contributions are usually paid on gross wages, which are equal to total labour costs minus the employer part of social security contributions. For the self-employed, there is no genuine equivalent of gross wages.

Most countries use some income-related measure as the contribution base for the self-employed. Depending on the country, this measure is income either before or after deducting social security contributions. A number of countries apply the contribution rate to a fraction of gross income, e.g. 50% in the Czech Republic, 67% in the Slovak Republic, 75% in Slovenia and 90% in Lithuania.

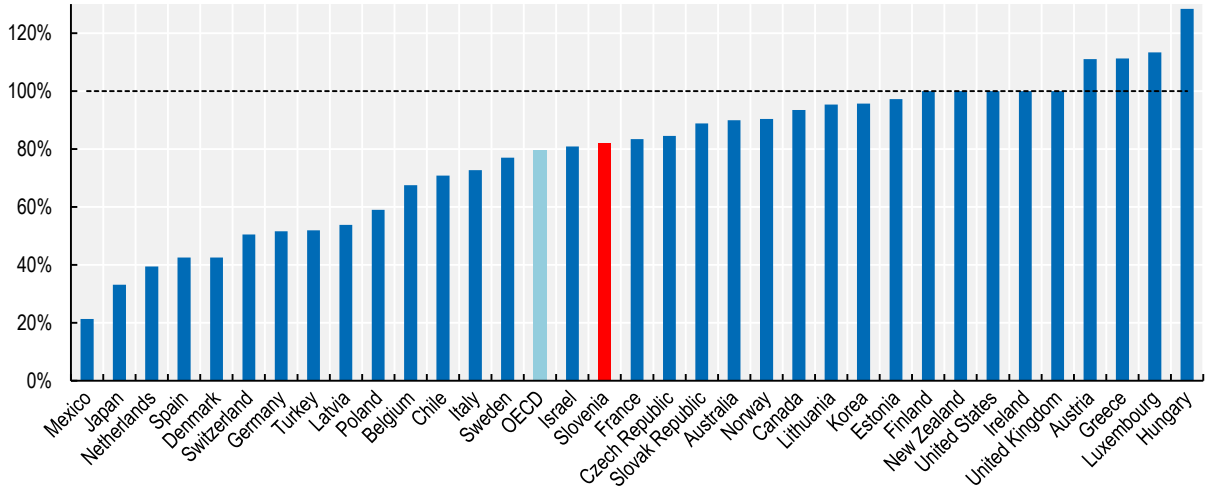
In Slovenia, the calculation of the contribution base of the self-employed results in less pension contributions and less pension entitlements compared to employees with similar earnings net of social security contributions. The contribution base for a self-employed person is equal to previous year's profit before taxes increased with social security contributions and multiplied by 75%. For dependent workers, the total contribution rate of 38.2% is split between 22.1% paid by employees and 16.1% by employers.

For an income of 100 after paying social contributions and before tax, the contribution base for employees is equal to the gross wage, i.e. to 100 / (100% – 22.1%) = 128.37 with pension contributions of 31.26 (11.36 paid by employeyers and 19.90 by employees). For the self-employed with the same income of 100 after paying social contribution and before tax (assuming the same profits as the previous year), the contribution base is equal to 100 / (1 – 75%*38.2%) * 75% = 105.12, with pension contributions paid of 25.60. Hence, the self-employed pay about 18% less contributions and accrue less pension entitlements when having the same declared income before tax as employees.[31] To fully align the contribution bases with employees, the 75% coefficient used to calculate contribution base of the self-employed workers would need to increase to 86%.

Self-employed workers with a taxable income equal to the net average wage before tax can expect to receive in the future – after contributing what is mandatory during a full career – an old-age pension equal to 79% of the theoretical gross pension of the average-wage worker in the OECD on average (Figure 1.33). In Slovenia, taking also into account past references for profits, the reduced contribution base results in lower pensions from mandatory earnings-related schemes, at 86%, of that of employees with the same taxable earnings. Much lower theoretical relative pensions for the self-employed – between 40% and 60% of employees' pensions – are estimated in Poland, Spain and Turkey where only flat-rate contributions to earnings-related schemes are mandatory for the self-employed, and in Latvia, where mandatory contributions above the minimum wage are reduced substantially.

Figure 1.33. Theoretical pensions of the self-employed are lower than those of employees

Theoretical pensions of a self-employed worker relative to an employee having both a taxable income (net income or net wage before taxes) equal to the average net wage before taxes, for individuals with a full career from age 22 in 2018 and contributing only the amount that is (quasi) mandatory to pensions



Source: Figure 2.13 in OECD (2019[2]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

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1.7.3. Very high minimum contribution base

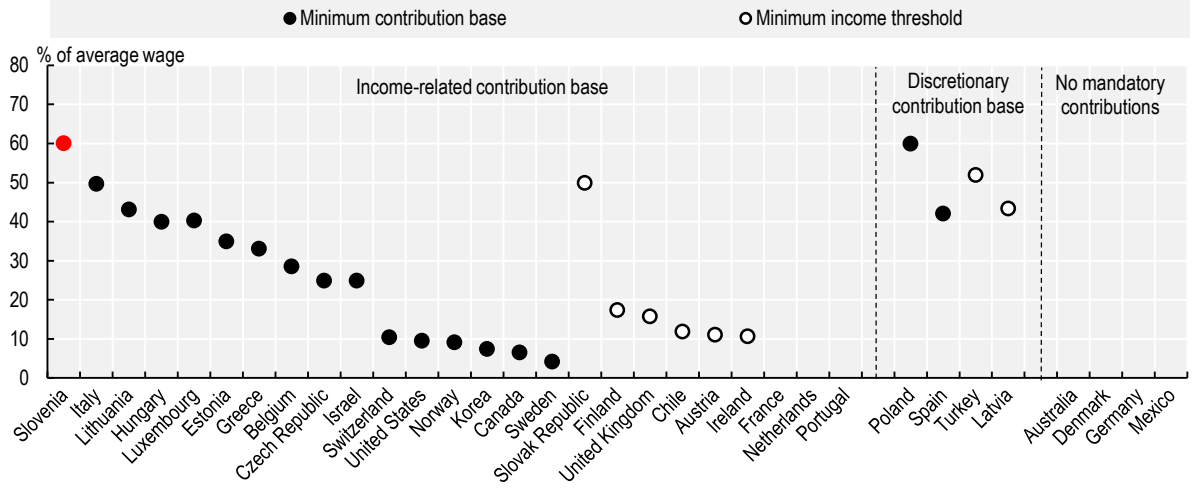
Most countries set minimum income thresholds and/or minimum contribution bases. Minimum income thresholds are minimum levels of income below which the self-employed are exempt from regular mandatory pension or social security contributions; in that case, they do not accrue regular pension entitlements either. These thresholds exist in eight OECD countries, but not in Slovenia, ranging from 11% of the average wage in Ireland to around 50% in the Slovak Republic and Turkey.

Minimum contribution bases are minimum amounts to which pension or social security contributions for the self-employed apply, even if true income is lower. They prevent the self-employed from contributing very low amounts, but they also imply that the effective contribution rate might be high for individuals earning less than the threshold.

In Slovenia, the contribution base cannot be lower than 60% of the average wage, which is the highest level across OECD countries (Figure 1.34). Only Poland has the same value, but it allows the self-employed to lower their contributions for a limited period if their revenue is low. Hungary, Italy, Latvia, Lithuania, Luxembourg, the Slovak Republic, Spain and Turkey set the minimum contribution base around 40%-50% of average wage, while other countries set it lower. France, the Netherlands and Portugal set neither minimum contribution base nor minimum income threshold.

Figure 1.34. Contribution base for mandatory pensions for the self-employed in OECD countries

2019 or latest



Source: Figure 2.11 in OECD (2019[2]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

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The gross (taxable) profit for the self-employed is determined by deducting costs from revenues for a given calendar year. There are two ways to account for costs in Slovenia. The first is to use actual costs. Alternatively, the self-employed can choose to use a flat-rate cost regime that sets profits at 20% of revenues. This option is available to the sole self-employed having revenues below EUR 50 000, or below EUR 100 000 if employing any workers. Similar flat-rate cost deductions to calculate the contribution rate exist in the Czech Republic and Portugal.

Pension contributions are mandatory for the self-employed unless they are also insured as employees. In December 2019, among those who paid contributions based on self-employment income, 47 037 self-

employed were registered under the actual cost regime and 26 714 under the flat-rate regime. Additionally, there were 9 504 and 21 773 self-employed registered under the actual and flat-rate regimes, respectively, who did not contribute towards pensions from their self-employed income as they were insured also as employees. The self-employed choosing the flat-rate regime operate in sectors where costs are rather low: legal/accounting jobs, arts, IT and communication, and manufacturing (OECD, 2018[13]). The actual cost regime is chosen by the self-employed who operate in the sectors with higher costs: construction, wholesale and retail trade, manufacturing, legal/accounting jobs, transportation, and accommodation and food. The number of self-employed in the flat-rate regime more than tripled since 2014.

Given the high minimum contribution base and the possibility to opt for the flat-rate cost regime, almost 70% of the self-employed paid pension contributions from the minimum base in 2016 (Stropnik, Majcen and Rupel, 2017[14]). In Poland, the Slovak Republic and Spain, 70% or more of the self-employed also pay only compulsory minimum pension contributions (Spasova et al., 2017[15]).

The 2018 OECD Tax Policy Review of Slovenia suggested that the minimum contributions base should be abolished or equal to the minimum wage of full-time employees, which was equal to 50% of average wage,[32] to be better aligned with the rules applying to full-time employees and to prevent creating cash-flow problems for the self-employed with variable income (OECD, 2018[13]). This OECD Review also suggested that the 20% revenues used for profits in the flat-rate regime could be increased substantially to better reflect the actual costs of the self-employed.

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Annex 1.A. Combining work and pensions in OECD countries: Implications for Slovenia

Introduction

Flexible retirement is an important topic for policy makers. The current choice between being employed and being retired is too binary in most countries. Providing flexibility in drawing pensions might be beneficial for people's well-being and the society as a whole. However, this objective needs to be reconciled with inherent constraints imposed by pension systems in particular to prevent individuals from finding themselves with too few resources at old ages. Hence, total flexibility might be inconsistent with the very idea of a pension system that provides for old-age security; a compromise therefore needs to be found, in particular, on meeting a set of eligibility conditions. This annex summarises policies related to combining work and pensions in OECD countries, describes the Slovenian policy setting in this area and suggests options for improvements.

Few OECD countries restrict combining work and pensions at normal retirement age

Combining work and pensions is possible in most OECD countries but the conditions for doing so vary. All countries allow pensioners who have fully retired to engage in paid work but earnings from this employment can affect pension payments in different ways. This depends on the design of a pension system and its individual components as well as rules governing claiming pensions once earnings from work reach a certain level. Limited obstacles to combining work and pension receipt make pension systems more flexible. However, introducing greater flexibility should not be costly for the pension system, which implies that there should be some form of actuarial adjustment of pension benefits when combined with work.

Eligibility to combine work and pensions generally requires fulfilling the conditions to get a full pension, i.e. without penalty. However, 11 countries allow combining work and early pension receipt from their PAYGO scheme: Austria, Belgium, Canada, the Czech Republic, Finland, France, Germany, Greece, Japan, Norway and the United States.[33] If people make pension contributions while working and receiving an early-retirement benefit, pensions are either recalculated each year to reflect these new contributions, or once the pension is eventually claimed.

Combining work and pensions after the official retirement age – and when pension eligibility conditions are met – is possible in all OECD countries. However, disincentives to do so exist in several of them. Australia, Denmark, Greece, Israel, Japan, Korea and Spain limit the amount that people can earn while receiving pensions, beyond which pension benefits are reduced (Annex Box 1.A.1). These earnings limits imply that labour income taxation is higher beyond the limit, which significantly reduces the incentives for retirees to work while receiving their earned pension entitlements. Moreover, in France, working retirees on a full pension do not earn any additional pension entitlements even though they have to pay pension contributions; in this case, there is thus a pure tax on continuing to work. A few countries, including Finland, France, Italy and Poland, require that the initial work contract is terminated to be able to claim a full pension and therefore to combine work and full pensions. Outside the OECD, Croatia allows combining pension with part-time work (less than half time). Removing such obstacles is important to make combining work and pensions more attractive.

Annex Box 1.A.1. Earnings limits to combining work and pensions in OECD countries

Seven OECD countries apply limits to post-retirement earnings, above which pension benefits are reduced. Danish pensioners can earn up to two-thirds of average earnings before their earnings-related benefit is reduced, and on top of this the means-tested supplement is reduced for earnings above 15% of the average wage. In Greece, the monthly pension benefit of an individual aged over the retirement age who continues to work is reduced by 30% if earnings are above the social security threshold. In Israel, there is a withdrawal rate of 60% for each shekel of earned income above 57% of the average wage up to age 70, after which there is no earnings limit. Likewise in Japan, for ages 65-69, when the total income exceeds JPY 460 000 (108% of average earnings), pension benefits start to be reduced. In Korea pensioners aged 61 or over will only receive 50% of the pension if they have earnings above the average of those insured. In Spain, the pensions of individuals who continue to work after age 67 are reduced by 50%. In Australia, there is no restriction to combining work and pension receipt of the defined contribution Superannuation guarantee component. However, when eligible to the means-tested Age Pension, the only public pension benefit, then a reduction is likely. Although a small amount of earnings are exempted from the income test in the calculation of the Age Pension earnings exceeding 14% of average result in a pension reduction, if there is no income from other sources.

Source: OECD (2017[16]), *Pensions at a Glance 2017: OECD and G20 Indicators*, https://dx.doi.org/10.1787/pension_glance-2017-en and (2021[1]), *Pensions at a Glance 2021: OECD and G20 Indicators*, https://doi.org/10.1787/ca401ebd-en.

Combining work and pensions in Slovenia

Slovenia also has some unique features in the design of the rules allowing to combine work and pension. Combining the receipt of an old-age pension with full-time work is called dual status in Slovenia.[34] After fulfilling eligibility conditions to an old-age pension, there is no earnings cap to be able to combine with claiming a pension nor any earnings limit beyond which pension benefits are reduced. However, since 2020, when working full time only 40% of the old-age pension can be claimed for the first three years and 20% thereafter, which is called partial payment of pensions. This implies a mandatory deferral of 60% or 80% of the benefit when working. The same rules apply to people who re-join employment after having retired, but claiming early pension cannot be combined with full-time employment. Before 2020 and since 2016, the share of pension eligible with full-time work was 20%. Between 2012 and 2016, the conditions were tighter and 20% of pension was paid only until age 65 to those who had not reduced working hours after qualifying for a pension. Re-joining full-time employment after having retired resulted in pensions being fully suspended. Before 2012, it was possible to combine work and pensions only when working less than half time.

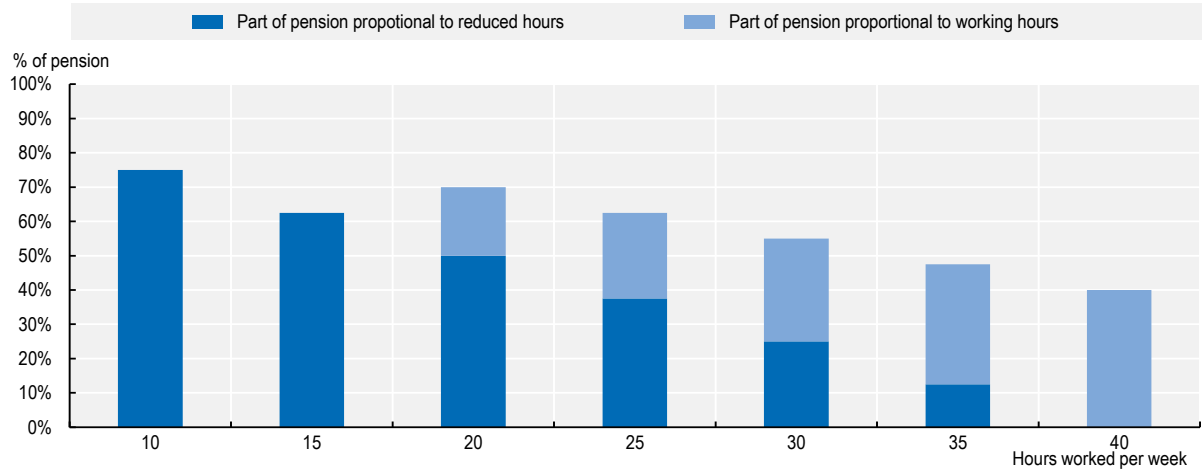
Phased retirement – combining part-time work and partial pensions – is possible in Slovenia when meeting the eligibility conditions to pensions. Before 2020, working part-time allowed claiming a pension benefit that was proportional to the reduction of working hours compared to full time, which was and still is 40 hours a week in Slovenia. For example, working 75% of full time (i.e. 30 hours a week) resulted in receiving a benefit equal to 25% of the acquired pension. Since 2020, this share is topped up by 40% of the pension prorated by the share of the time spent working, for the first three years, and only if working at least half-time and meeting the eligibility conditions to a full pension. Thus, someone working 30 hours receives a share of the acquired pension equal to 25% + 40% * 75% = 55% (Annex Figure 1.A.1). Drawing a pension neither relaxes the obligation to pay contributions nor limits entitlements accruing while working.[35]

When a person fully retires after having combined work and pension, the pension is recalculated to account for both additional accruals and possible changes in the reference wage (pension base).[36] The reference

wage is based on the best 24 consecutive years and, thus, it might increase if a person received high wages in additional years of work. Additionally, the reference wage is likely to increase because past wages are valorised with average wage growth. This tends to increase deferred pensions as pensions in payment in Slovenia are indexed to 60% of wage growth and 40% of price inflation: combining work and pensions implies that past entitlements follow wage growth while pensions in payments are indexed less favourably in normal times.

Annex Figure 1.A.1. Pensions are reduced when combined with full- and part-time work

Pension amount as a share of pension entitlement when combining work and pensions for the first three years



Source: OECD calculations.

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Policies raising obstacles to combining work and pension are in retreat

What are the reasons for the above obstacles to combine work and pensions found in OECD countries, in particular in the form of earnings limits? Facilitating combining work and pensions aims at improving individuals' choices at older ages, and might raise retirement income. This complements other goals that are often seen as the main objectives of the pensions system, such as preventing old-age poverty and limiting income drops at retirement. Some consider that eligibility conditions to pension must involve quitting the labour market definitively, thereby negating the rights of individuals to draw already accrued pension entitlements if they continue to work.

To support these views, it is often, more or less implicitly, argued that working at older ages limits working opportunities for individuals of younger ages, the so-called lump of labour fallacy, akin to the idea of a fixed amount of jobs in the economy. Although this idea might apply well for a single company, it is contradicted by solid empirical evidence[37] at the economy level, and has therefore been regularly criticised and rejected by many researchers and institutions, including the OECD. There might be temporary situations, however, for example during economic recessions, when the economy operates below its potential, generating short episodes through which the overall number of jobs is constrained. This argument is in some cases expressed more strongly, based on ethical grounds: pensioners should be retirees and not take other people's jobs.

The ethical argument sometimes extends to the idea that pensions primarily aim at avoiding income drops at retirement and that full-time workers, regardless of age, do not need pensions to make a living.

According to this view, it is not fair that the society faces the financial cost of providing pension benefits to these workers. However, the key point is that there is no extra cost stemming from the decision of these people to keep working while drawing the pension rights they built up. Pensions would have been paid similarly if they retired totally.

Actually, some countries, such as France with its 1982 legislation, had raised obstacles to combine work and pensions; at the time promoting early retirement was popular in the OECD in order to deal with the increase in structural unemployment. Since then, however, there has been a wide consensus that such policies restricting employment at older ages run counter to efforts to cope with population ageing. This extends to measures raising obstacles to combine work and pension, and countries have tended to remove or substantially reduce these obstacles. Promoting longer working lives is a critical objective in many countries, and in Slovenia in particular, to deal with higher life expectancy.

Working longer generates positive aggregate effects, e.g. through higher output and tax revenues. As a result, on top of benefiting the individuals who combine work and pensions, it is also beneficial for the economy and society as a whole; hence this leads to a Pareto improvement as some people gain while nobody loses. In short, the main historical motivation of policies such as imposing earnings limits to combining work and pensions has lost steam; these policies still limit public spending by reducing pension payments compared with accrued entitlements that would have been paid without working after the retirement age.

The OECD has recommended to remove obstacles to combine work and pensions from the normal retirement age. The main message is that the rules to draw pensions should not be linked to the work status. Contributors have acquired pension entitlements which they should be able to draw once they meet eligibility conditions, irrespective of whether they work or not, and if they work, irrespective of their earnings, hours worked and employment contract. Likewise, older workers should be able to work irrespective of whether they receive their pension benefits.

A complex design: partial payment of pensions, higher accrual rates and actuarial neutrality

Paying only 40% of pension when people have met the age and insurance-length eligibility conditions provides substantial savings to the pension scheme in Slovenia. This is because the 60% difference that is foregone does not benefit from any bonus while it is deferred (see below). Paying 100% instead of 40% of pension in dual status for one year would raise both total discounted spending and the present value of total pension benefits, i.e. pension wealth, at age 60 by 2.8% (Annex Box 1.A.2).[38]

However, for the first three years after fulfilling the eligibility conditions to an old-age pension, but not to an early-retirement pension, the pension scheme provides a higher accrual rate of 3% instead of 1.36% prior to meeting the eligibility conditions to pension.[39] Relative to maintaining 1.36%, this higher accrual rate increases pension benefits (and therefore pension wealth) by 2.5% for one additional year of work.

Annex Box 1.A.2. Combining work with partial payment of pensions is almost actuarially neutral but expanding the access to full pension requires some parametric adjustments

The Table A.1 shows pension levels from age 60 and the pension wealth (net present value of future pension flows) in real terms for various scenarios, all assuming a full career from age 20. Panel A focuses on today's rules** while Panel B provides estimates based on actuarial neutrality. For example, row 1 displays the case of a person retiring at age 60 under current rules.

There are strong disincentives to deferring pension in Slovenia once eligibility conditions are met. In the studied case, at age 60 deferring benefits by one year is not compensated through a bonus scheme (row 2): benefits are only slightly higher compared to the case of no deferral (row 1) due to more favourable valorisation of past wages compared to benefit indexation. Hence, 4% of pension wealth is lost. By comparison, row 6 shows the actuarially adjusted benefits in the case of deferring: actuarial neutrality (Annex Box 1.A.3) is achieved through applying a yearly bonus of 4.4% per year of deferral, leading (by definition of actuarial neutrality) to the same pension wealth as in row 1.

When the pension is deferred by one year while working, benefits increase by a further 4.7% from age 61 due to the higher accrual rates of 3% (row 3 versus row 2). Working this additional year almost does not increase pension wealth compared with row 1, while in the actuarially neutral case pension wealth increases by 2% (row 7 versus row 6).

Combining the higher accrual rate with claiming part (40%) of pension (row 4) leads to almost the same pension wealth as in the actuarially neutral case (row 8). Thus, the current rules for combining work and pensions lead to almost actuarial neutrality, but in a complex way. Were the part of pension used for combining with work increased from 40% to 100% without other parametric adjustments (row 5), the pension wealth would increase by almost 3%, generating costs for public finances. Row 9 shows the benefit profile in that case (claiming 100% of pension while working) under actuarial neutrality, leading to the same pension wealth as in rows 7 and 8. Yet, the benefits from age 61 in row 9 are 3% lower than in row 5 due to the accrual rate of 1.36% instead of 3%.

Table A.3. Expanding partial payment of pensions without parametric adjustments would be costly

Pension benefits and pension wealth in real terms for selected cases of combining work and pensions: today's rules versus actuarial neutrality

	Age				Pension wealth at age 60	
	60	61	…	80	base: pension at age 60 in case 1=100	base: pension wealth in case 1=100%
Panel A. Following today's pension rules						
1. Claiming pension at age 60	100.0	100.8	…	116.1	2136	100.0%
2. Deferring 100% of pension by 1 year without working	0.0	101.3	…	116.7	2046	95.8%
3. Deferring 100% of pension by 1 year while working	0.0	106.0	…	122.2	2143	100.3%
4. Claiming 40% of pension for 1 year while working	40.0	106.0	…	122.1	2183	102.2%
5. Claiming 100% of pension for 1 year while working*	100.0	106.0	…	122.2	2243	105.0%
Panel B. Theoretical case assuming that benefits are adjusted actuarially						
6. Deferring 100% of pension by 1 year without working	0.0	105.7	…	121.8	2136	100.0%
7. Deferring 100% of pension by 1 year while working	0.0	107.9	…	124.3	2180	102.1%
8. Claiming 40% of pension for 1 year while working	40.0	105.9	…	122.0	2180	102.1%
9. Claiming 100% of pension for 1 year while working	100.0	102.9	…	118.6	2180	102.1%

Note: Based on the 40 year insurance period at age 60. Calculations assume an annual real wage growth of 1.25% and an annual real discount rate of 2%. The actuarial neutral bonus is calculated at 4.4% and the regular accrual rate for cases 7-9 is 1.36%.
*Claiming full pension while working full time is not possible today. Following today's law the 3% accrual rate when combining work and pensions is assumed in row 5.
** The current pension law states that the accrual rates of men will converge to those of women by 2025. These future gender-neutral rules are assumed in this box.
Source: OECD calculations.

Taking into account the payment of 40% of pensions discounted over the remaining expected life expectancy on top of the higher accrual of 3% increases the pension wealth close to actuarial neutrality (Annex Box 1.A.3). That is, the net present value of past entitlements when accounting for both the partial payment of pension and the 3% rate is similar to receiving 100% of the pension benefit at age 60, but without benefiting from the higher accrual (Annex Box 1.A.2). This means that these options are neutral for public finance over time.[40]

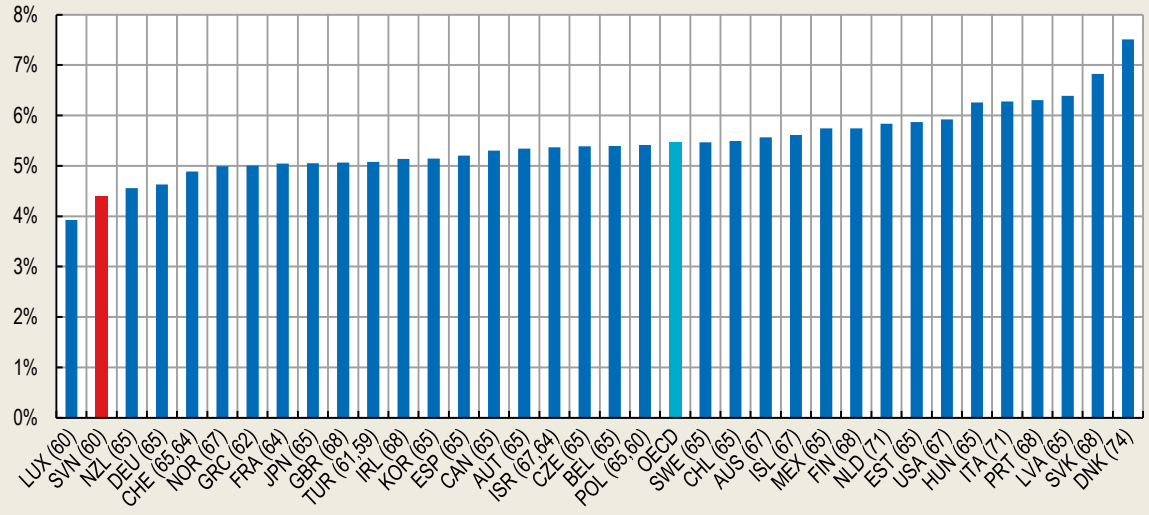
Annex Box 1.A.3. Actuarially neutral bonus for deferring the pension

The actuarially neutral bonus depends on the retirement age, mortality rates, the discount rate and the indexation of pension in payments, but not on the other parameters used to compute pension benefits. It is therefore unrelated to what pension systems actually deliver. On average across countries, actuarial neutrality implies a bonus of about 5.5% on past entitlements for each year of deferral (Figure A.2).

Slovenia belongs to countries in which the bonus implied by actuarial neutrality is among the lowest due to the low normal retirement age at 60 as it results in a long period for which people claim pension on average. Conversely, in Denmark the long-term retirement age is projected to be 74 years as the increases in pension age are designed to result in an average of only 14.5 years in retirement, meaning that a much larger penalty or bonus, of about 7.5%, ensures actuarial neutrality at that age.

Hence, actuarially, the bonus for working longer should increase with age. By contrast, in Slovenia, both the accrual rate and the part of pension being paid out significantly decline after 3 years of combining work with claiming pension.

Annex Figure 1.A.2. Actuarially neutral annual bonus on past entitlements at the normal retirement age



Note: Normal retirement ages are in parenthesis on the x-axis.
Source: Figure 2.11 in OECD (2017[16]), *Pensions at a Glance 2017: OECD and G20 Indicators*, https://dx.doi.org/10.1787/pension_glance-2017-en, and updated OECD calculations for Slovenia.

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In most countries with defined benefit schemes, deferring the receipt of a pension leads to higher benefits on accumulated entitlements through a bonus scheme. The bonus is actuarially neutral if the additional pension actuarially offsets the foregone pension payments while deferring. On average in the OECD, the actuarially-neutral bonus would be around 5% (Annex Box 1.A.3). It applies to past entitlements whether or not individuals continue to work. In principle, it should also apply to individuals who combine work and pensions on the part of the pension that is not withdrawn while working.

In Slovenia, there is no such bonus scheme, and if people defer their pension they just temporarily lose the benefits without any offsetting effect through higher pensions later on. This limits flexibility in drawing pensions, as people have no interest in not taking 100% of their pensions whether they continue to work or not. To overcome the absence of the bonus for deferring pension receipt, Slovenia opts for a higher accrual rate for additional years, which leads to close to actuarial neutrality when combined with the cap of 40% on pensions. Paying only a part of pension and offering higher accruals for additional years of work is a very complex way to achieve this (Annex Box 1.A.2).

Policy options

The above analysis leads to the following conclusions. There is no obvious reason why there should be any restriction to combine work and full pensions when combining is not costly for public finances, i.e. when total flexibility to combine work with a full pension does not deteriorate pension finances in the long run. In the past, some countries raised such obstacles based on arguments related to the “lump of labour” fallacy or outdated views, especially given health improvements at older ages, which associated pension receipts with the inability to contribute to society through working. Most OECD countries have considerably relaxed the conditions allowing to combine work and pensions while preserving acquired pension rights.

Likewise, terminating the employment contract is generally not used any more as an eligibility condition to receive a full pension. Only a few countries, including Finland, France, Italy and Poland impose such a constraint nowadays. The conditions allowing combining work and pensions should depend neither on the type of employment contracts nor on the employment history. In particular, they should not require terminating the employment contract nor provide restrictions when re-entering employment after having retired.

In order to assess whether combining work and pensions is not costly for the public purse, it is crucial to estimate how far from actuarial neutrality the possibility to combine is. In defined benefit schemes, actuarial neutrality is usually achieved by granting well-calibrated bonuses on deferred pension benefits, i.e. benefits that are not withdrawn after meeting full eligibility conditions. Slovenia is among the few countries which do not grant any compensation for deferring pensions; thus, individuals lose if they do not take their pensions as soon as they are eligible. However, when combining work and pensions, Slovenia manages to achieve actuarial neutrality through a complex mechanism including a much larger accrual rate for extra years of work and access to a partial payment of pension (40% in case of full-time work).

Allowing to take 100% of pensions when eligibility conditions are met while working would remove some obstacles to flexible retirement, but it would be very costly for public finances based on current parameters (Annex Box 1.A.2). Such a reform would therefore have to be accompanied by parametric adjustments.

The first option would be to limit the accrual rate for extra years to the regular 1.36% that applies to prior years, thereby limiting the 3% higher accrual to those who withdraw 40% of their pension only. While this will render drawing full pensions while working financially acceptable, this solution would add to the already complex structure.

The second option would be to introduce a standard bonus scheme and replace the 3% higher accrual rate by the regular accrual rate. For example, once eligibility conditions are met, deferring pensions on accumulated entitlements would lead to a higher pension of about 4%-4.5% per year of deferral (about 1%

per quarter).[41] While this bonus would apply to deferred pensions, it should not apply to pensions combined with work.[42] Individuals could then decide to either defer claiming the pension and benefit from the bonus or receive the pension without any bonus, while accruing additional pension entitlements from working but at the same rate as before drawing pensions.

The third option is similar to the second one, but with an element to nudge behaviours about working longer. For individuals who continue to work after having met the full-pension conditions, they would not pay employees' pension contributions and employers' pension contributions would be paid as additional income without generating any additional pension entitlements, whether working these extra years are combined with pensions or not. Thus, individuals would have the same choice as under the second option, but no additional pension entitlement would accrue, employees would not pay pension contributions and employers' pension contributions would be paid as additional wages.

Whatever the option selected, it is important to ensure a high level of transparency in the communication of accrued entitlements. People should be in a position to easily assess the consequences of their decisions. Whether pensioners benefit from such a framework to combine work and pensions depends on their capacity to make well-informed choices, based on their individual situation and preferences, to avoid jeopardising their final retirement incomes.

Combining work and pensions was discussed in the 2016 White Paper. The authors proposed that retirees should have the right to receive: a full pension while working full time after age 65; and, a reduced pension before age 65 with the pension being reduced proportionally to earnings. The eligibility condition to pension at age 65 with 15 years of insurance was portrayed as the basic criteria while the requirement of age 60 with 40 years of insurance period (without purchase) as an exemption. Yet, it is difficult to justify why the age of 65 should be used as a criteria to be able to combine work and full pensions, which can be eligible without working much earlier than at age 65.

However, as explained above, introducing the possibility to fully combine when standard conditions are met should not be made without adjusting accrual rates. Moreover, it is true that current old-age eligibility conditions (60 years of age, 40 years of insurance without purchase) are loose in international comparison. The risk is always to have people retiring too early at an age when the pension system can deliver low pensions only. Given people's generally short-sighted behaviour when it comes to retirement planning, there is a trade-off between greater autonomy left to individuals and income adequacy throughout retirement. Policies that de facto restrict flexible retirement at an early age might therefore be needed. Hence, the minimum retirement age should be set high enough to make sure that individuals accumulate sufficient pension entitlements.

Reforming those conditions is necessary, but in many ways combining work and pensions refers to a different instrument targeting a specific objective. In particular, expanding the possibilities to combine work and pensions has little relation with some objectives typically pursued within pension systems such as smoothing income at retirement or preventing old-age poverty in a financially sustainable way. One important question that would deserve further analysis is whether a greater facility to combine work and pensions might exacerbate issues caused by loose eligibility conditions enabling people to retire too early with possibly too low pensions. Moreover, the OECD does not support earnings-limit on combining work and pensions. In short, the first best policy recommendation is probably to better align retirement-age and contribution-period conditions with international practices and remove obstacles to combining work and pensions.

Annex 1.B. Mandatory retirement in OECD countries: Implications for Slovenia

Introduction

Mandatory retirement rules give employers the option to terminate contracts of older workers at a certain age (OECD, 2017[16]). Laws, collective labour agreements or employment contracts can stipulate the termination of the employment relationship upon the employee reaching a certain age. Countries may facilitate the use of mandatory retirement by including age limits in employment protection legislation or by easing restrictions on layoffs from a certain age. The Slovenian Parliament lifted employment protection of workers eligible to an old-age pension in December 2020, which effectively introduced mandatory retirement.

Mandatory retirement ages might affect the financial sustainability of pension systems by reducing the number of contributors and increasing the number of beneficiaries. In order to improve financial sustainability and give older people more choices, the OECD recommends tackling barriers to employment of older workers. One of the recommendations to achieve this goal, adopted by the Council of the OECD on Ageing and Employment Policies, is that countries seek to discourage mandatory retirement in close consultation and collaboration with employers' and workers' representatives. The OECD does acknowledge that 'in a limited number of instances' mandatory retirement practices may be necessary (OECD, 2018[17]).

Strictly speaking, mandatory retirement is a matter of labour market regulation and employment protection. Yet, the practice is inextricably linked with the pension system. In countries where mandatory retirement is still allowed, the mandatory retirement age is at or beyond the moment when an employee becomes eligible for an old-age pension. In these countries, income security via the pension system is considered the minimum requirement to reduce employment protection.

This annex sheds light on the conditions sometimes put forward to justify mandatory retirement, first legally and then economically. Subsequently the mandatory retirement framework is compared across OECD countries. Then, the extent to which the Slovenian labour market might offer a suitable context for mandatory retirement is discussed. The last section provides a short conclusion. While the introduction of mandatory retirement in Slovenia is uncertain as it has been appealed in the Constitutional Court on the ground of discrimination, the annex takes the mandatory retirement regulation passed by the Slovenian Parliament as the current Slovenian policy.

European Union framework on mandatory retirement

In its 2012 White Paper on Adequate, Safe and Sustainable Pensions, the European Commission stipulated the need to revise 'unwarranted' mandatory retirement ages in order to facilitate working longer (European Commission, 2012[18]). In line with AGE Platform Europe's demand to ban mandatory retirement practices altogether (AGE Platform Europe, 2009[19]), the European Parliament went one step further in recommending 'that the Member States, in consultation with relevant partners, put a ban on mandatory retirement when reaching the statutory retirement age' so as to enable people to continue working if they wish to do so (European Parliament, 2013[20]).[43]

The statements of the European Commission and the European Parliament entail a commitment to reduce mandatory retirement practices, but bear no legal power. Within the European Union, the Employment Equality Directive (Directive 2000/78/EC) forms the foundation for legislation to combat age discrimination in the labour market. It lays down a framework for what constitutes age discrimination in general, but does not deal with the question of mandatory retirement ages *per se*.[44] Article 6 stipulates that deviations from the principle of non-discrimination based on age are possible 'if they are objectively and reasonably justified by a legitimate aim, including legitimate employment policy, labour market and vocational training objectives, and if the means of achieving that aim are appropriate and necessary'. In Article 2 (5), the Directive explicitly mentions health and safety concerns as a possible justification for age limits.

The extent to which mandatory retirement ages serve a legitimate aim has been the topic of some legal debate. In most cases, the Court of Justice of the European Union (CJEU) has left it to national courts to decide whether a specific case of mandatory retirement qualifies as age discrimination. Yet in three instances it struck down mandatory retirement provisions. In two cases, it struck down national legislation: a German provision allowing the termination of fixed-term contracts of people over age 52, and a Hungarian law lowering the mandatory retirement age of judges, prosecutors and notaries from 70 to 62. In a third case, the CJEU ruled that a collective labour agreement setting the mandatory retirement age for Lufthansa pilots at 60 years conflicted with the Directive as there was wide international agreement that it was not unsafe for pilots to fly until age 65 (Oliveira, 2016[21]).

The CJEU's rulings offer a framework setting the boundaries within which the practice of mandatory retirement could be considered lawful (Oliveira, 2016[21]; Dewhurst, 2016[22]). First, the justification should be based on concrete evidence, not mere generalisations or assumptions. Second, any justification for a mandatory retirement age should be occupation- or sector-specific. Safety concerns could be a valid argument for mandatory retirement if there is international agreement that practicing a specific occupation above a certain age could endanger health and safety.[45] Third, the availability of a pension is an important condition for mandatory retirement. Mandatory retirement is not allowed before people are eligible to start drawing a full pension. The CJEU does not generally require that pension benefits received upon reaching the mandatory retirement age be high enough to allow for a "reasonable" standard of living for people who can supplement their pension with income from work. However, the CJEU requires it if this concerns workers for whom finding new employment is very difficult, for instance employees with highly specific skills that are not easily transferable. Fourth, the CJEU is generally more reluctant to intervene if the mandatory retirement age was established by a collective labour agreement rather than being unilaterally imposed by the employer, thereby respecting the autonomy of social partners to bargain on work conditions (Dewhurst, 2016[22]).

Economic motivations for mandatory retirement

According to Oliveira (2016[21]), the CJEU's rulings are underpinned by the idea that mandatory retirement leads to redistribution of employment opportunities between generations and, as such, is a potential form of solidarity between generations. Even though there might be a trade-off between the employment of older and younger workers in some very specific, well-protected sectors, in the economy as a whole job opportunities for younger people are not reduced when keeping older workers in employment longer (OECD, 2013[23]) – the idea that there is a trade-off is the so-called lump of labour fallacy.

On top of the lump of labour argument frequently used to justify mandatory retirement ages, two other motivations are connected to the productivity-wage nexus and its development as workers age. A first argument concerns the workers' wages outgrowing their productivity when seniority is a substantial component in wage setting (Lazear, 1979[24]). When older workers cost more than they produce, mandatory retirement is a tool to reduce wage costs without affecting output (OECD, 2019[25]). There is some evidence that the low mandatory retirement age in France before 2003 was especially used against high-wage earners (Rabaté, 2019[26]). Increasing or abolishing the mandatory retirement age in such a context might reduce efficiency.

A comparison of the impact of increasing the mandatory retirement age in Japan and Korea offers a good illustration of the link between mandatory retirement and seniority-based wages. Seniority plays an important role in wage setting in both countries where it has been a common practice for companies to terminate employment contracts when the employee reached a certain age. In Korea, wage subsidies were granted to older workers in companies that voluntarily increased their mandatory retirement age to 56 (2008 reform), 58 (in 2013) and 60 (in 2016 or 2017 depending on firm size). Over this period, the average age of mandatory retirement increased from 57.1 to 60.2 years. Furthermore, a law enacted in 2013 prohibited mandatory retirement below the age of 60 as of 2017, and encouraged social dialogue on wage-setting mechanisms. The Tripartite Commission[46] set up for this dialogue reached an agreement on a wider labour market reform in 2015, including the so-called 'wage peak system' in which older workers accept a wage cut – partially compensated by government subsidies – in exchange for employment security (OECD, 2018[27]). In Japan, a 2004 reform obliged companies to either re-hire workers who want to continue working after mandatory retirement at age 60, or to increase the mandatory retirement age to 65, or to abolish it altogether. Unlike in Korea, however, this policy was not embedded in a wider labour market reform also tackling wage setting. By 2017, four in five companies still maintained mandatory retirement at age 60, as it allowed them to extend the employment of older workers on less generous employment conditions including lower wages (OECD, 2018[28]).

The second economic argument for mandatory retirement is connected to employment protection legislation. In countries or sectors with high levels of employment protection, it is difficult or expensive for employers to dismiss workers based on their weak productivity. In such a situation, mandatory retirement makes it possible to terminate employment contracts of less productive workers without facing (the risk of) high costs (OECD, 2019[25]; OECD, 2017[29]).

In sum, the existence of mandatory retirement and its specific design in a given country are likely to be at least partly driven by employment and wage regulations. At best, mandatory retirement could be seen as a second-best instrument to deal with difficulties triggered by policies in other areas. The key question is whether the first-best solution would consist in addressing these issues at the source by reforming the measures that directly generate them, e.g. employment and wage regulations, and avoiding mandatory retirement as much as possible. One particular sector where alternative solutions might be more difficult to implement is the public sector. Civil servants tend to have better employment protection, and, as productivity generally is more difficult to assess in the public sector, a transition from seniority- to performance-based wage setting could prove more challenging.

Mandatory retirement ages in OECD countries

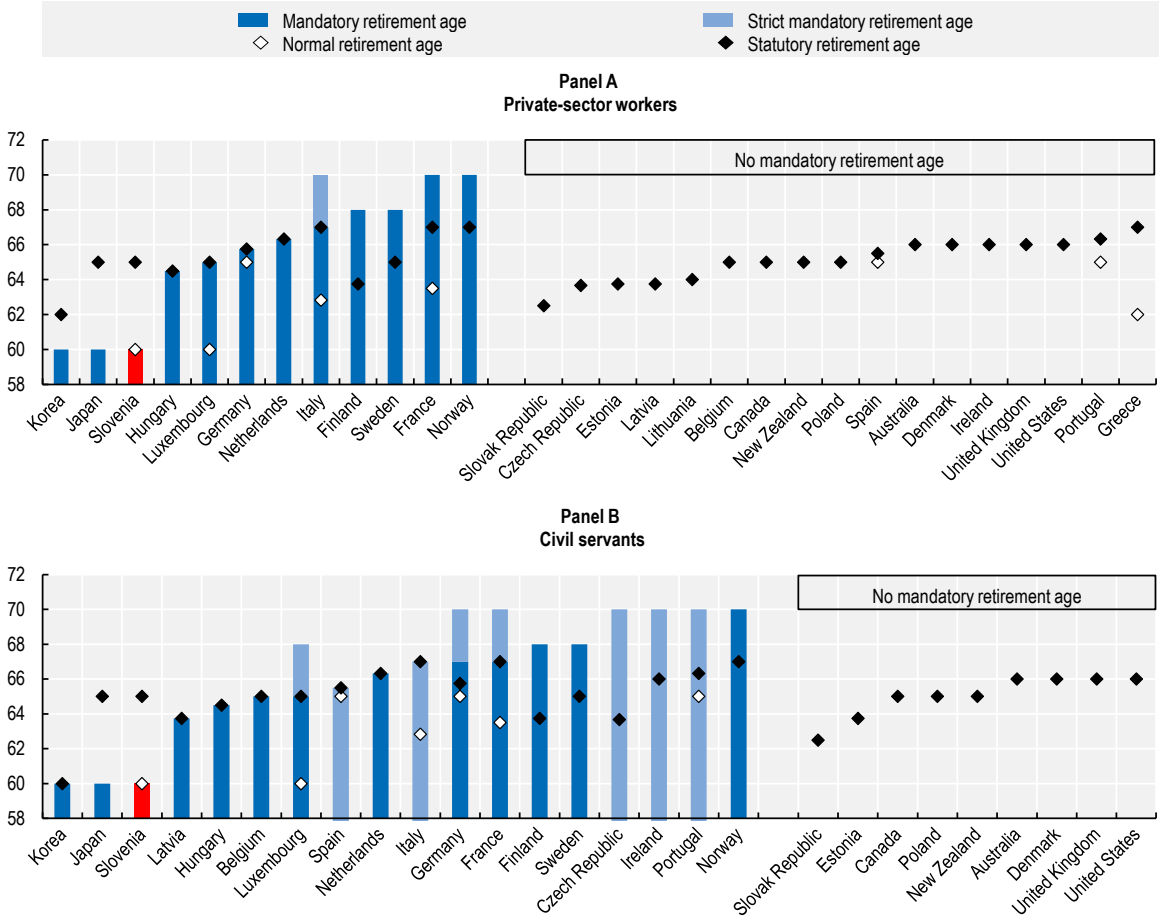
In several OECD countries, employment contracts cannot be terminated as employees reach a certain age. Within Europe, this is the case in Denmark, Estonia, Poland, the Slovak Republic and the United Kingdom. This also applied to Slovenia before mandatory retirement was introduced in December 2020. Outside Europe, this is also the case in Australia, Canada, the United States and New Zealand. These are all countries with significantly lower employment protection against individual dismissals than the OECD average (Annex Figure 1.B.4 below), with the exception of Poland – which is one of the few OECD countries where the termination of the employment contract is required in order to combine work and pension (see Annex 1.A) –, and the Slovak Republic. More OECD countries including Belgium, the Czech Republic and Latvia do not allow for mandatory retirement in the private sector (Annex Figure 1.B.1).

The United States increased the mandatory retirement age from 65 to 70 in 1978 before abolishing it in 1986, except for some occupational groups where there could be valid health and safety concerns (e.g. military personnel, aviation, judiciary, firefighters). Given limited employment protection, the elimination of mandatory retirement had little impact on companies' willingness to hire older workers (OECD, 2018[30]).[47] In Denmark, the mandatory retirement age was abolished in the public sector in 2008 and in the private sector in 2016, although some exceptions for specific occupational groups such as

military personnel, police, priests and judges remain (OECD, 2015[31]). Before these recent reforms in Denmark, collective labour agreements and work contracts could contain the obligation to retire at age 70 at a time when the state pension age was 67, lowered to 65 in 2004 (OECD, 2019[2]). In Estonia, the Supreme Court ruled in 2007 that mandatory retirement was unconstitutional.

Among OECD countries, mandatory retirement takes different forms, with varying levels of strictness of employment termination. First, mandatory retirement can apply in the strict sense: the legal obligation to terminate the employment relationship at a certain age. This could be the case for specific occupations where there are health and safety concerns. Even in countries where mandatory retirement is abolished, such as in the United States and Denmark, mandatory retirement ages for safety reasons still apply to for instance military personnel and emergency services (Annex Figure 1.B.1). Furthermore, this is also the case in civil service in many countries (Panel B). In the Czech Republic, Germany, Ireland and Portugal, civil servants cannot work beyond age 70. In Luxembourg, civil servants have to retire at age 68 at the latest, and in Italy they cannot work beyond the statutory pension age of 67. Moreover, Italy is the only country where mandatory retirement applies in the strict sense for private-sector workers, once they are 70.

Annex Figure 1.B.1. Mandatory retirement ages in OECD countries



Note: The normal retirement age, which is here the age for receiving a full pension without penalty for a worker with a full career from age 20, is shown when different from the statutory retirement age. In the few countries where the retirement ages still differ between men and women, men's retirement ages are shown.
Source: OECD calculations.

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Second, as a common form of mandatory retirement, employers are allowed to terminate the employment relationship when employees reach a certain age, but they are not required to do so. In Germany, Luxembourg and the Netherlands, the law allows automatic termination of employment contracts upon reaching the statutory retirement age (Annex Figure 1.B.1, see also Annex Table 1.B.1 with mandatory retirement ages for private-sector workers at the end of Annex 1.B). Labour protection is removed at the statutory retirement age in Hungary (currently 64 years and 4 months) and Italy (currently 67 years), making it possible for employers to unilaterally terminate the employment contract without severance pay. The form of mandatory retirement introduced in Slovenia in 2020 allows employers to dismiss a worker qualifying for an old-age pension without justification and with 60 days' notice. Hence, mandatory retirement is already allowed as of age 60 for workers with 40 years of pensionable service without purchase. As statutory retirement ages increase in Germany, Hungary, Italy and the Netherlands, mandatory retirement ages follow this development. In France, Norway and Sweden, labour protection is removed three years after employees reach the statutory retirement age, in Finland four years and three months after the statutory retirement age.[48]

The following examples provide more details about this second form of mandatory retirement. In the Dutch public and private sector, employers are legally allowed to terminate the employment contract of employees who reach the public legal retirement age, currently at 66 years and 4 months. Mandatory retirement clauses in contracts and collective labour agreements are commonplace, with all public-sector and more than 90% of private-sector open-ended contracts effectively terminating upon reaching the legal retirement age, after which a new contract can be made with limited protection (OECD, 2014[32]). In the German private sector, mandatory retirement ages are agreed to in collective labour agreements and are typically tied to the statutory retirement age (currently at 65 years and 9 months), but cannot be set below the statutory retirement age unless for health and safety concerns.[49] In civil service, employment ends at age 67 in most German states, but extensions are possible until age 70 if they do not conflict with the interests of the civil service (Hack, 2017[33]).

In Sweden, the minimum retirement age in the public earnings-related scheme has been increasing from 61 years in 2019 to 63 years in 2023, with a further increase up to 64 years in 2026. A 2001 law established 'the right to remain in employment' until age 67 while before most collective labour agreements included mandatory retirement at age 65. The right was extended to 68 years in January 2020 and is set to increase further to 69 in 2023. Even so, there is no upper limit to delaying retirement if the employer agrees on prolonging employment (OECD, 2019[2]). In the French private sector, only economic redundancies and personal reasons can be valid grounds for a dismissal. However, layoffs do not require any specific motivation after employees reach a certain age. Previously, this was the case once employees were entitled to a full-rate pension and reached age 60. This age limit was increased to 65 in 2003 and further to 70 in 2010 (Rabaté, 2019[26]). By comparison, the full-rate pension is eligible at age 67 (from 2022), or from age 62 with 42 years of insurance period.

Third, mandatory retirement regulations could prohibit employers to dismiss workers while allowing them to change employment conditions unilaterally upon reaching the mandatory retirement age. This is for instance the case in the wage peak system in Korea allowing older workers to continue employment at a lower wage level, or the requirement in Japan to offer a new, typically less generous, employment contract to workers whose employment contracts are automatically terminated when they turn 60 (see above).

In sum, the introduction of mandatory retirement in Slovenia goes against the international trend towards reducing the role of mandatory retirement. As highlighted above, within Europe, Estonia, Poland and the Slovak Republic do not have a mandatory retirement age and were joined by Denmark and the United Kingdom over the last decade. France has substantially increased the mandatory retirement age from age 60 at the turn of the century to age 70 ten years later. Also Finland and Sweden increased their mandatory retirement ages. Elsewhere, mandatory retirement ages have followed the development of the statutory retirement age. Several countries now set the mandatory retirement age well above the statutory retirement age so as to allow people to work longer. In several countries such as Denmark, France and

the United Kingdom, allowing people to delay retirement preceded increases in the statutory retirement age. Among the 29 countries for which information was collected, only Germany, Hungary, Italy, Luxembourg and the Netherlands have some form of mandatory retirement in the private sector before the age of 68 years, but not before the statutory retirement age.[50] Japan, Korea and Slovenia are the exceptions allowing for mandatory retirement from age 60.

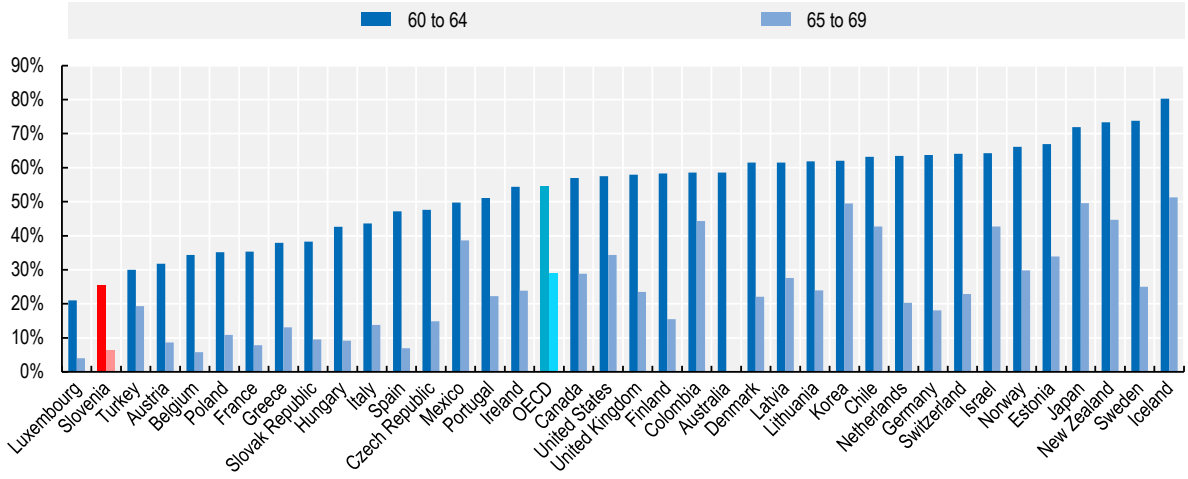
Mandatory retirement and labour market context in Slovenia

This section assesses to what extent the labour market conditions in Slovenia would give support to some motivations for mandatory retirement that have been put forward as described above. More precisely, the importance of seniority in wage setting and the strictness of employment protection are assessed relative to other OECD countries.

Even before introducing mandatory retirement, Slovenia already had the second lowest labour force participation rate among people older than 60 years in the OECD, with only one-quarter of people aged 60-64 in the labour market, dropping to 6.2% among the 65-69 (Annex Figure 1.B.1). In the OECD, on average 54.4% of the 60-64 participate in the labour market, and 28.8% of the 65-69. Among the 60-64, participation rates are also below one-third in only Austria, Luxembourg and Turkey. In five countries, over two-thirds of this age group are still in the labour market: Estonia, Iceland, Japan, New Zealand and Sweden.

Annex Figure 1.B.2. Slovenia has a very low labour force participation rate above age 60

Labour force participation rate in the age group 60-64 and the age group 65-69



Source: OECD calculations.

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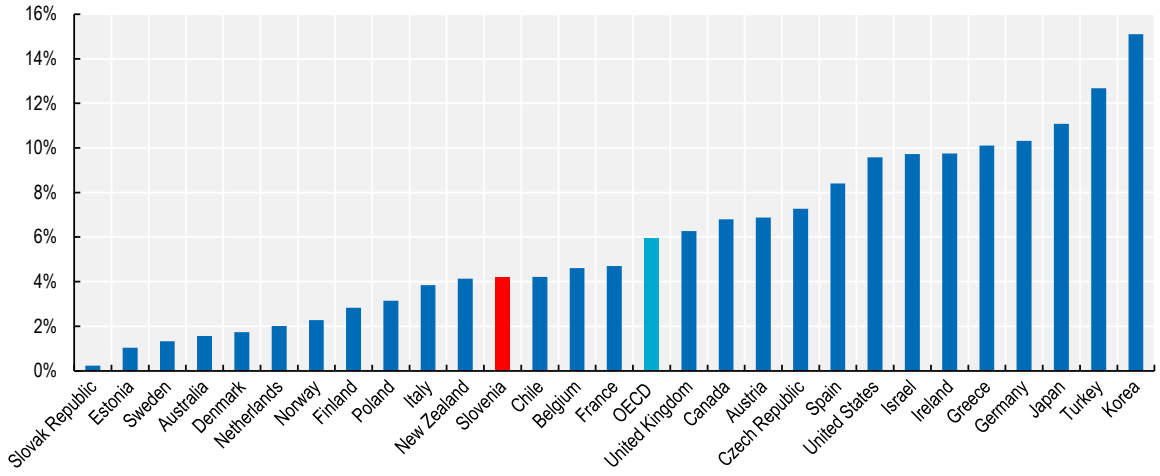
Mandatory retirement ages can sometimes be argued for if seniority is an important component in wage setting, as it would result in older workers costing more relative to their productivity levels. In Slovenia, sectoral collective labour agreements in the private sector typically set seniority at a 0.5% increase in wage per year worked; in the public sector this is 0.33% (OECD, 2016[34]). Annex Figure 1.B.3 shows the average predicted wage growth of workers, both public and private, in their fifties when they go from 10 to 20 years of tenure across the OECD. Wage growth driven by seniority is lower in Slovenia (4.2% in total) than in the OECD as a whole (5.9%).

According to these estimates, seniority plays a small role (less than 2%) in six countries, including Estonia and the Slovak Republic, while it is very important (more than 10%) in five countries (Germany, Greece and Turkey in addition to Japan and Korea). When comparing with countries that abolished mandatory retirement, seniority is more important in Slovenia than it is in Australia (1.6%), Denmark (1.7%) and Poland (3.1%), while levels are comparable in New Zealand (4.1%) and well below those in the United Kingdom (6.3%), Canada (6.8%) and the United States (9.6%). Overall, it would be difficult to build a case for mandatory retirement in Slovenia based on the importance of seniority in wage setting.

Annex Figure 1.B.3. Importance of seniority in wage setting is below average in Slovenia

Predicted wage growth moving from 10 to 20 years of job tenure for individuals aged 50-60, 2011/12 or 2014/15



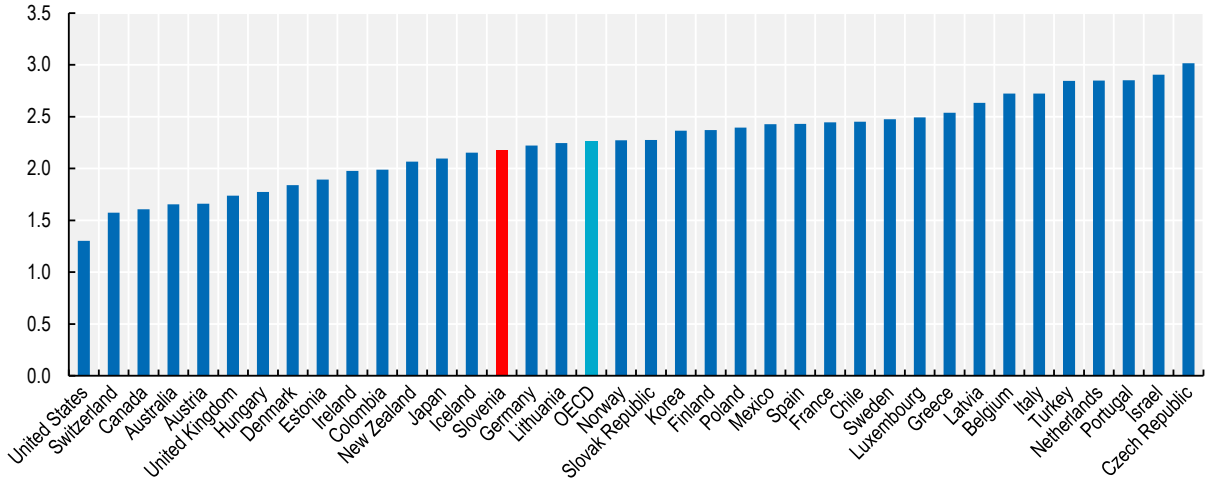
Source: Figure 4.4. in OECD (2019[25]), *Working Better with Age*, https://doi.org/10.1787/c4d4f66a-en.

StatLink https://stat.link/x25c0r

As for the strictness of employment protection for dismissals of workers with a regular contract, Slovenia is just below the OECD average (Annex Figure 1.B.4), with stricter employment protection than most countries that abolished mandatory retirement, except for Poland. This indicator for Slovenia is comparable to that in Germany, and is lower than in Sweden and France, where mandatory retirement is only possible well beyond statutory retirement ages. The Netherlands, where mandatory retirement is possible in the private sector upon reaching the public retirement age, is among the countries with the strictest levels of employment protection. While Slovenia has supplementary employment protection for older workers, this supplementary protection is withdrawn when the worker becomes eligible to receiving an old-age pension: a worker cannot be dismissed for economic reasons from age 58 until qualifying for an old-age pension, or during the last five years before fulfilling the qualifying period (OECD, 2018[35]). Moreover, the protection does not apply if the worker is eligible to unemployment benefits until meeting the conditions for an old-age pension.

Annex Figure 1.B.4. Employment protection against individual dismissals in Slovenia is around the OECD average

Composite indicator of strictness of employment protection for individual dismissals with a regular contract, 2019



Source: OECD Employment Protection Legislation Database, http://oe.cd/epl.

StatLink https://stat.link/rvw6h0

Conclusion

There has been a push by EU institutions to restrict mandatory retirement as much as possible, as part of efforts to combat age discrimination, although with weak legal power. The rulings by the Court of Justice of the European Union (CJEU) have tried to circumscribe the conditions under which the practice of mandatory retirement might be considered lawful. According to the CJEU, a mandatory retirement age should be argued for with concrete occupation- or sector-specific evidence, for example related to health and safety concerns when working at an old age, and is only possible if the employees concerned have access to a full pension.

Mandatory retirement practices have been reduced in a number of countries. More than half of OECD countries do not allow for mandatory retirement in the private sector. Only in one in four countries does some form of mandatory retirement exist in the private sector before the age of 68 years. Although mandatory retirement is more common in the public sector, nine countries ban mandatory retirement even for civil servants. This also means, however, that it remains possible to lay off employees once they reach a certain age in many EU countries. Within its 2015 Recommendation that calls for governments to give people better choices and incentives to continue working at an older age and to respond to the challenges of rapid population ageing, the OECD recommends that countries seek to discourage mandatory retirement in close consultation and collaboration with employers' and workers' representatives.

Some economic arguments are sometimes put forward to justify mandatory retirement practices. These include the need to offset the impact of seniority in wage-setting mechanisms and the strictness of employment protection against individual dismissals. Some even refer to the need to free jobs for young generations ("lump of labour" fallacy). None of these arguments is convincing to back a mandatory retirement age in Slovenia more than in other OECD countries.[51]

The question of mandatory retirement should also be assessed within the current context of the Slovenian labour market. Slovenia has the second lowest labour force participation in the OECD among people older than 60. In line with early exits from the labour market in international comparison, eligibility to a full pension in Slovenia is based on loose conditions, from age 60 with 40 years of insurance. The introduction of mandatory retirement will counteract efforts to make people work longer, while pension spending is projected to increase substantially in Slovenia given fast population ageing. It is difficult to provide solid arguments for mandatory retirement in Slovenia based on international evidence, and in particular to allow mandatory retirement below 68 years, at least in the private sector, and certainly not before the statutory retirement age.

Key findings

- More than half of OECD countries do not allow for mandatory retirement in the private sector. Nine OECD countries ban mandatory retirement even for civil servants.
- Mandatory retirement practices have been reduced in a number of countries. With the exception of Slovenia since December 2020, no European country allows mandatory retirement before the statutory retirement age, except for specific occupations with health and safety concerns. Only a few European countries have some form of mandatory retirement in the private sector before the age of 68 years.
- Mandatory retirement is sometimes advocated if seniority is an important component in wage setting or in the case of strict employment protection against individual dismissals. Slovenia scores below the OECD average in terms of both importance of seniority pay and strictness of employment protection.
- Slovenia currently has the second lowest labour market participation rate among people in their 60s in the OECD while pension spending is projected to reach high levels given fast population ageing.
- The introduction of mandatory retirement in Slovenia would, if duly implemented, curb efforts to entice people to work longer. It is difficult to provide solid justification based on international evidence for setting a mandatory retirement age below 68 years, at least in the private sector.

Annex Table 1.B.1. Mandatory retirement ages in the private sector in OECD countries

	Statutory retirement age	Normal retirement age *(when different)*	Mandatory retirement age	Strict mandatory retirement age
No mandatory retirement in the private sector				
Slovak Republic	62.5			
Czech Republic	63.67			
Estonia	63.75			
Latvia	63.75			
Lithuania	64			
Poland	65			
Canada	65			
New Zealand	65			
Belgium	65			
Spain	65.5	65		
Australia	66			
Denmark	66			
United Kingdom	66			
United States	66			
Ireland	66			
Portugal	66.33	65		
Greece	67	62		
Mandatory retirement after the statutory retirement age				
Finland	63.75		68	
Sweden	65		68	
France	67	63.5	70	
Norway	67		70	
Mandatory retirement at the statutory retirement age				
Hungary	64.5		64.5	
Luxembourg	65	60	65	
Germany	65.75	65	65.75	
Netherlands	66.33		66.33	
Italy	67	62.83	67	70
Mandatory retirement before the statutory retirement age				
Korea	62		60	
Japan	65		60	
Slovenia	65	60	60	

Note: The normal retirement age, which is here the age for receiving a full pension without penalty for a worker with a full career from age 20, is shown when different from the statutory retirement age. In the few countries, where the retirement ages still differ between men and women, men's retirement ages are shown.

Notes

[1] Also in Poland and the Slovak Republic the Eurostat projections show slightly stronger demographic shift than the UN projections, while both projections show similar results for the Czech Republic and Hungary.

[2] Purchasing contribution periods is costly. The contribution base is set to the last known individual gross wage uprated with the average pension growth and it cannot be lower than the average wage. The contribution rate is equal to the total of employees' and employers' contributions. As a result, purchasing a year of insurance costs at least three monthly average wages. Thus, purchasing insurance periods might be beneficial in quite specific circumstances, e.g. when immediate access to pensions is instrumental for an individual. Among the insured (workers) in 2019, 305 persons, less than 0.1% of workforce, has purchased insurance periods. In 2019, 335 people retired when meeting the eligibility conditions only with the purchased period, which is less than 2% of new pensioners. Based on current knowledge, Luxembourg is the only other OECD country providing such an option.

[3] This coefficient varied slightly recently: 64.98% in 2018, 65.28% in 2017, 64.66% in 2010; 63.80% in 2006, 62.90% in 1998.

[4] Minors can claim survivor pensions until their schooling is completed, up to the age of 26 while parents (of the deceased) need to be at least 60 and need to have been maintained by the deceased. For a single recipient, survivor pensions are granted at 70% of the deceased's pension, which increases up to 100% if four or more family members are entitled to benefits.

[5] The total contribution rate has remained stable at 24.35% since 1996.

[6] CEECs underwent substantial economic transformation in the 1990s, defined benefit schemes were transformed into notional defined contribution (NDC) schemes in Latvia and Poland, and into point systems in Estonia, Lithuania and the Slovak Republic. Additionally, Estonia, Hungary, Latvia and Poland directed part of the mandatory PAYGO contributions to funded schemes. However, these reforms have later been reversed in all these countries but Latvia.

[7] This second option had required reaching ages of 55 and 60 for women and men in 1992, which increased to 58 and 63 by 1997, respectively. The 1999 reform gradually increased this age condition to 61 for women by 2008.

[8] Additionally, the 1992 law foresaw an option of early retirement with 30 years of insurance at age 50 for women and 35 years of insurance at 55 men with a 1% reduction of pension for each year of insurance mission to the full conditions. These age conditions increased to 53 and 58 for women and men by 1997. This option was removed by the 1999 law. Still, retiring early remained possible as the insurance-period requirement could have been relaxed through purchasing 5 years insurance under certain conditions.

[9] The rules for combining work and pensions are discussed in Annex 1.A.

[10] The only countries in which the share of time spent in retirement is expected to decrease based on current legislation, between cohorts retiring on average today and those entering the labour market today, are Denmark, Estonia, Finland, Italy, Korea, the Netherlands and Turkey. In all other countries that share

would increase by 3.1 percentage points on average, representing about 10% of the share spent in retirement.

[11] It is assumed here that workers enter the labour market at age 22 and have uninterrupted career.

[12] Additionally, a separate scheme for arduous occupations allows for a bridge retirement from an age that could be as low as 54, depending on occupations, until reaching eligibility conditions to public pensions. This is a funded hybrid scheme with an employer contribution rate of 8% (there is no employee contributions); a floor and a ceiling apply to the benefits calculated following the defined contribution principles. If not used for financing early retirement, the funds on individual accounts are paid out later. The scheme covers around 50 000 workers or 5% of employment. It is discussed more extensively in Chapter 5.

[13] The share of population with tertiary education is more than twice higher among people aged 25-34 at 53.8% than among people aged 55-64 at 19.7%. (Source: OECD Education Database, https://stats.oecd.org/Index.aspx?DataSetCode=EAG_MIGR).

[14] In addition, one in five were not insured at all, which means that they were neither working, nor receiving unemployment benefits nor benefiting from subsidised pension contributions for long-term unemployed discussed below.

[15] Data available at: https://www.ess.gov.si/trg_dela/trg_dela_v_stevilkah/registrirana_brezposelnost.

[16] See Annex 1.B for more details.

[17] Mandatory retirement rules give employers the option to terminate contracts of older workers at a certain age (OECD, 2017[16]). Laws, collective labour agreements or employment contracts can stipulate the termination of the employment relationship upon the employee reaching a certain age. Countries may facilitate the use of mandatory retirement by including age limits in employment protection legislation or by easing restrictions on layoffs from a certain age.

[18] As discussed above, in the case of part-time work, the wage used in the reference wage calculations is topped up to the full-time equivalent while the insurance period, and thereby the accrual rate, is prorated based on the hours worked relative to full-time working hours of 40 hours per week.

[19] Čok, Sambt and Majcen (2010[7]) analyse the impact of prolonging calculation of the reference wage from 18 to 34. For the case of prolonging the calculation of the reference wage to 40 years, those results are extrapolated.

[20] In Slovenia, the total accrual after a 40-year career for women is 63.5% which gives before the application of the coefficient (see above in the main text) an average annual accrual of 1.59%. Taking into account the coefficient, this gives 1.026% (= 1.59 * 64.63%).

[21] In 2017, the Old-age Insurance Commission was created in Austria. The aims of the Commission are to assess the performance of pension system and to recommend adjustments needed to ensure financial sustainability (Ger. Finanzierbarkeit) of pensions, which might affect the effective accrual rate. Still, the government is not bound by the Commission's recommendations.

[22] This amounts to frontloading benefits with the 0.75% and 1.6% used as proxies for long-term real-wage gains (OECD, 2019[2]).

[23] Additionally, indexation cannot be lower than half the inflation rate.

[24] Theoretical replacement rate in Slovenia includes an additional benefit to all pensioners, called annual allowance that is paid once a year. Health contributions paid for pensioners from the pension budget at 5.96% rate are not part of gross or net pensions.

[25] In the Czech Republic, having one child allows a woman to retire one year earlier, and two years earlier for two children, three years earlier for three or four children, and four years earlier for five or more children. The reduction is gradually being phased out and will be eliminated for insured women born after 1971. In the Slovak Republic, the statutory retirement age for women having five children in about 2 years lower than for men, but the difference is scheduled to be eliminated by 2024. In Hungary, for women who have raised five or more children, the number of required years of work is reduced by one year for each child, with a maximum reduction of seven years. In Italy, working mothers have the possibility to anticipate retirement by four months for each child, up to a maximum of 12 months.

[26] In Slovenia, during the maternity leave of up to 105 days the pension is based on the 100% of previous earnings without a ceiling. The parental leave of up to 260 days is equal to 100% of previous earnings up to the ceiling of 2.5 times the average wage. Thus, in total, one year is covered. Additionally, for a parent taking care of a child under the age of 3 or of at least two children under the age of 6, part-time work is topped up, resulting in the pension accrual equivalent to full-time work.

[27] Mother is the default parent to benefit from the bonus but it can be changed upon parent's agreement.

[28] For rounding purposes in the projections, the figure is based on the age of 64 years.

[29] Higher contributions, up to EUR 59.97 a month in 2020, are paid for those who became civil service before 2003.

[30] The OECD pension model assumes a 3% annual real rate of return in funded schemes and 1.25% annual real-wage growth. Based on the total accumulated capital at retirement, i.e. age 62 in Slovenia, a price-indexed annuity is calculated based on the projected unisex cohort mortality rates.

[31] Additionally, the government subsidises 50% and 30% of self-employed workers' pension contribution in the first and the second year of operations. Moreover, while employees earning more than 306% of average wage pay pension contributions without accruing entitlements beyond the ceiling, there is a contribution ceiling for the self-employed at 350% of average wage. This maximum contribution base reduces incentives to underreport income while providing some favourable treatment.

[32] The monthly minimum wage increased by almost 9% in 2021 while the average wage is expected to increase substantially less.

[33] Limitations and eligibility criteria for combining work and receiving early pension vary widely across countries (OECD, 2017). In Austria, early retirees can only make up to 11% of average earnings before the early pension is fully withdrawn. In Belgium, by contrast, early retirees can earn up to 50% of average earnings before the pension is gradually reduced. In the Czech Republic, individuals can receive half of the pension whilst working, with the total accrual factor increasing by 1.5 percentage points for each six months of work. France has in place a gradual retirement programme, which applies both an earnings and hours condition: the number of hours worked can be between 40% and 80% of full-time work with the pension reduced proportionally, and the combined income from pension and work income cannot exceed the individual's last wage prior to early retirement. In Germany, for those with annual earnings above EUR 6 300 (13% of average wage), the full pension is reduced by 40% of the additional earnings. In Greece, early retirees can have a combined pension and employment income of 40% of average earnings; thereafter pensions are reduced by 60% against employment income. Likewise in Japan, for ages 60-64,

when the total income of monthly pension and standard remuneration exceed JPY 280 000 (two-thirds of average earnings), pension benefits start to be reduced.

[34] Dual status refers to claiming pension while working on a regular employment contract or as a self-employed or as a farmer. When working based on civil law or under special arrangements of temporary and occasional work for pensioners, receiving 100% of pension can be combined with work. In those cases, no pension contributions are paid and pension rights do not accrue.

[35] Unless working 25% or less of full-time working hours, in which case, the full pension is paid, no additional entitlements accrue and no contributions are paid. The half-time threshold leads to an additional strange outcome: someone working 15 hours a week receives lower total benefits than a person working 20 hours a week.

[36] In the case of combining pension with part-time work, a retiree may alternatively apply for adjusting pension to additional accrual without recalculating pension fully. Still, this option would be less beneficial than full recalculation in most cases.

[37] See for example: OECD (2013), OECD Employment Outlook 2013, OECD Publishing http://dx.doi.org/10.1787/empl_outlook-2013-en; Gruber, Jonathan and David A. Wise, eds. 2010. Social Security Programs and Retirement around the World: The Relationship to Youth Employment. Chicago, IL and London: The University of Chicago Press; Alicia Munnell & April Wu, 2013. "Do Older Workers Squeeze Out Younger Workers?," Discussion Papers 13-011, Stanford Institute for Economic Policy Research; Borsch-Supan, Axel and Murray, Alan, 2014. "Note on the Myth that Older Workers Delaying Retirement Creates Unemployment for the Young," MEA discussion paper series 201 424, Munich Center for the Economics of Aging (MEA) at the Max Planck Institute for Social Law and Social Policy.

[38] This number is based on the cohort mortality for the cohort born in 1960 in Slovenia, and standard assumptions of Pensions at a Glance: annual real wage growth of 1.25% and the real discount rate of 2%.

[39] Accrual rates are 1.36% for years after the first 15 years and 1.97% for first 15 years. The numbers account for the 2019 reform which has equalised the accrual rates between men and women through increasing those of men, to by fully effective by 2025.

[40] Individuals currently combining work and pensions for one year have only 40% of their pension for the first year, which is offset by slightly higher pensions for the remaining years.

[41] On top of the increase stemming from the valorisation of past wages and before accruing additional entitlements.

[42] When combined with work, pensions should just increase based on additional accruals without any bonus.

[43] AGE Platform Europe is an advocacy organisation for people aged 50+ within the European Union. It is a network of organisations representing people aged 50+ in Europe.

[44] It is worth noting that the Directive states that it 'shall be without prejudice to national provisions laying down retirement ages'. However, the Court of Justice of the European Union (CJEU) interpreted this as referring to setting eligibility ages for pension entitlements, which, as a matter of social policy, is a national responsibility. Mandatory retirement at the eligibility age, on the other hand, was deemed a matter of termination of employment contracts, and thus within the scope of the Directive (Oliveira, 2016[21]).

[45] The CJEU also includes some most arguable factors such as that elevated levels of occupational or sectoral (youth) unemployment could constitute a justification on the basis of intergenerational solidarity. Pursuing a more balanced age distribution within the sector or organisation might also be considered a valid argument.

[46] The Korean Tripartite Commission contains representatives of labour unions, employers and the Government.

[47] However, there is some evidence that the introduction of the 1986 legislation against age discrimination did reduce older jobseekers' chances to find a job (Lahey, 2010[37]).

[48] Moreover, in France, civil servants' employment terminates in principle at age 67 although in some cases an exception could be asked for up to three years. Hence, they can work until age 70 where mandatory retirement applies in the strict sense (OECD, 2014[38]).

[49] Since 2014, it has been possible to remain in employment after reaching the mandatory retirement age on temporary contracts if both employer and employee agree to extend the employment relationship.

[50] There are two instances where mandatory retirement was re-introduced, both in private and public sectors. Ireland has a mandatory retirement age of 70 for people who entered civil service since 2013, while there is no mandatory retirement age for people who entered civil service between 2004 and 2012. In the Netherlands, civil servants' contracts are automatically terminated upon reaching the public retirement age. Since 2008, civil servants could demand unlimited one-year contract extensions that could only be refused in case of 'physical or mental barriers to continued work performance' (Oude Mulders, 2019[36]), but this policy was abolished again in 2019.

[51] Moreover, even if some credit would be given to the lump of labour idea, Slovenia had relatively low levels of youth unemployment before the COVID-19 crisis.

2 Financial sustainability of public pensions

This chapter looks into the financial sustainability of the Slovenian public pension system. It analyses pension financing over the last 20 years, the impact of the COVID-19 pandemic on pensions and the sources of financing pensions. The chapter discusses pension projections and the driving forces behind the expected increase of pension expenditure. It provides new quantitative evidence on policy trade-offs between financial sustainability and adequacy when adjusting selected pension parameters.

2.1. Introduction

This chapter looks into the financial sustainability of the Slovenian public pension system, building on the overview of the scheme in Chapter 1. It starts by analysing pension financing over the last 20 years, the impact of the COVID-19 pandemic on pensions and the sources of financing pensions (Section 2.2). The next section discusses pension projections and the driving forces behind the expected increase of pension expenditure. The final section shows the impact of selected adjustments to pension parameters on both future pension expenditure and pension levels.

2.2. Pensions are financed by contributions and transfers from the state budget

2.2.1. Mixed trends in pension financing since 2000

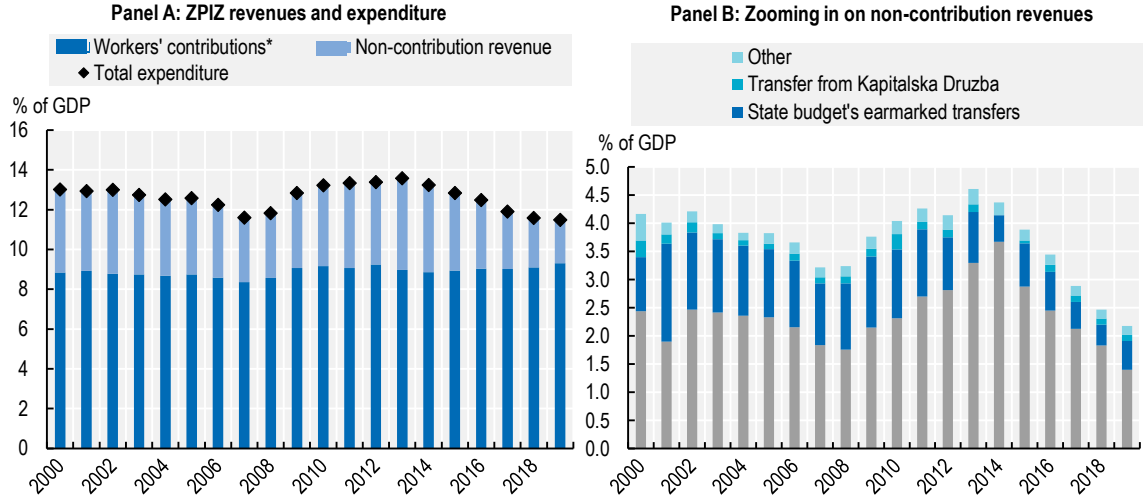
It is not possible to clearly single out revenues financing old-age and survivor pensions. Old-age and survivor pensions are financed together with disability pensions and some long-term care benefits. Spending items can be identified for each category and the expenditure on old-age, survivor and disability pensions represented about 10% of GDP in 2019, or 88% of total ZPIZ expenditure of 11.5% of GDP (Chapter 1).[1] While contributions are the main source of pension financing, total expenditure always equal total revenue because any financial gap is covered by a transfer from the state budget by law.

The share of ZPIZ spending in GDP over the last 20 years has been influenced by both the business cycles affecting GDP (denominator effect) and structural factors. Since 2000, ZPIZ expenditure has fluctuated from just below 12% of GDP when labour market was booming in 2007-08 and 2017-19 to more than 13% during bad economic conditions in 2000 and in 2010-14 (Figure 2.1, Panel A). Before the COVID-19 crisis, ZPIZ expenditure declined from a peak of 13.6% of GDP reached in 2013 to 11.5% in 2019.The freezing of pension indexation between 2012 and 2015, fast growth in GDP and wages, and the rise in the effective age of claiming pensions contributed to the decrease in the share of spending in GDP.

Overall, the decrease of spending, from 13.0% of GDP in 2000 to 11.5% of GDP in 2019, occurred despite fast population ageing. The demographic old-age to working-age ratio, i.e. the number of people aged 65 and more per 100 people aged 20-64, increased by 50% from 22 to 33 between 2000 and 2019. The demographic pressure was more than offset by the combination of several factors, mainly higher employment and lower pensions. Over this period, the number of pensioners relative to the number of people aged 65 or more declined by 14%. Total employment increased by 11% while the population aged 20-64 remained stable. Moreover, the ratio of the average pension to the average wage fell from 51% to 39%, hence a drop of 24%. Finally, GDP grew faster, by 6%, than the wage bill.

The share of contributions in ZPIZ revenues has been increasing (Panel A). Over 2000-19, total pension contributions increased from 8.8% to 9.4% of GDP, allowing for a lower share of non-contributory revenues, mainly transfers from the state budget, from 4.2% to 2.1% of GDP. Panel B provides a breakdown of non-contribution revenues. The contributions financed by the state budget to cover some earmarked entitlements, such as pension credits of unemployment and childcare, stood at 0.5% of GDP in 2019, less than half the 2010 level. Kapitalska Druzba, an enterprise managing state-owned assets, paid 0.1% of GDP to the ZPIZ budget in 2019, and its input exceeded 0.2% of GDP only in 2000 and 2010. Hence, transfers from the state budget to cover the deficit almost halved from 2.4% to 1.3% of GDP over the last two decades. However, as shown in the next section, this cannot be extrapolated to the future.

Figure 2.1. Expenditure and revenue of ZPIZ in 2000 through 2019



Note: *Workers' contributions includes employees', employers' and the self-employer workers' contributions.
Source: OECD calculations based on the ZPIZ data.

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2.2.2. Limited impact of the COVID-19 crisis on pensions in 2020

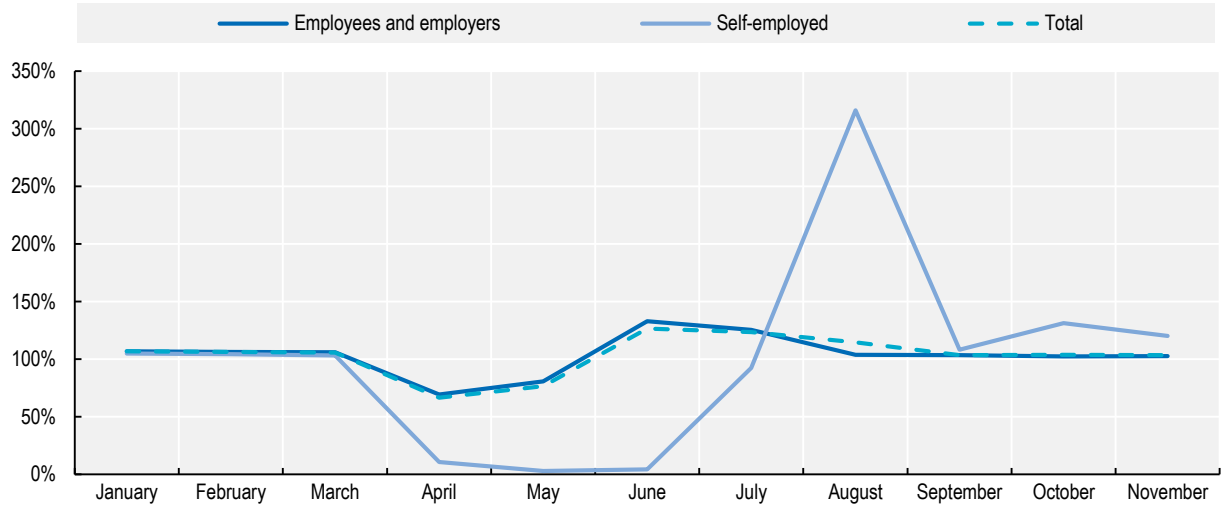
Public pension finances deteriorate during economic downturns. Indeed, low economic growth usually reduces revenues of public pension schemes much more than expenditures, but it is still too early to assess the overall impact of the COVID-19 crisis in Slovenia. In 2020, in response to the COVID-19 health crisis, Slovenia introduced job-retention schemes and options to subsidise or defer pension contributions which reduced pension revenues temporarily. In particular, the state budget subsidised wages and pension contributions for workers who were temporarily laid off or whose working time was reduced. Additionally, pension contribution of the self-employed who were not able to perform their activities or who considerably reduced their activity due to pandemic were subsidised. The access to unemployment benefits, which accrue pension entitlements, was eased temporarily.

In the first quarter of 2020, before the COVID-19 crisis, pension contributions were 6% higher than in the same period of 2019 (Figure 2.2). In April and May, contributions dropped to 70% and 81% of the 2019 level, respectively. However, in June, July and August, they strongly rebounded at 127%, 124% and 115% compared to the corresponding 2019 months, helped by state aid paid to employers. As a result, after 11 months, the total employee and employer contributions were 4% higher in nominal terms than over the same period in 2019, only slightly less than in the first quarter.

The contributions of the self-employed, which accounted for only 5% of total contributions in 2019, dropped almost to zero in April, May and June. They were strongly subsidised in August and remained slightly higher than the year before in the remaining months. As a result, contributions paid until November were exactly at the level of those from the corresponding months of 2019.

Figure 2.2. During the 2020 lockdown contributions collapsed and then recovered

Monthly pension contribution revenues in 2020 compared with the corresponding months in 2019, by type of contributions



Source: OECD calculations based on the ZPIZ data.

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Thanks to the taken measures, the relatively small impact on pension contributions overall in 2020 means that pension entitlements have not been much affected during the crisis. Moreover, although uncertainty is abnormally large, recent OECD projections show that the labour market should remain relatively strong in Slovenia: total employment between 2020 and 2022 would not be more than 2% lower than in 2019 while the unemployment rate would increase slightly to 5.6% 2021 (against 4.5% in 2019) before declining in 2022 (OECD, 2021[1]).

In April 2020 and January 2021, Slovenia paid a special solidarity grants to recipients of low pensions, along with recipients of some social assistance and social security benefits including unemployment benefits. The benefit amounted to EUR 300 (around 40% of average pension) for pensioners receiving pensions lower than EUR 500 in 2020 (EUR 510 in 2021), gradually phased out for pensions of EUR 700 in 2020 (EUR 714 in 2021).

The heath deterioration of those infected is at the core of the COVID-19 crisis, and the pandemic is causing enormous human suffering. As for pension finances, higher mortality rates due to COVID-19, especially among older people, will lower the average length of pension payments compared with what was expected before the crisis. The ultimate impact on the number of deaths and on shortening the life of the different cohorts remains, however, subject to a large uncertainty, and might differ a lot across countries.

In Slovenia, the mortality rate among people aged 65 or more was 16% higher in 2020 compared to 2019. A 16% higher mortality implies that the number of people aged 65 or more at the end of 2020 was about 0.7% lower, resulting in a similar impact on pension expenditure in 2020, i.e. savings of less than 0.1% of GDP. However, this is not the total impact as the mortality will remain elevated at least in 2021. Moreover, long-term health effects among the recovered may shorten their life expectancy as some patients show lingering symptoms and some organs such as heart, lungs or brain can be harmed by the virus (OECD, 2020[2]). On the other hand, the vaccination programme has been progressing in the whole European Union, which provides grounds for optimism that the mortality will soon return to the pre-crisis levels. The short-term pension savings due to high mortality might fade away quite quickly in most countries because

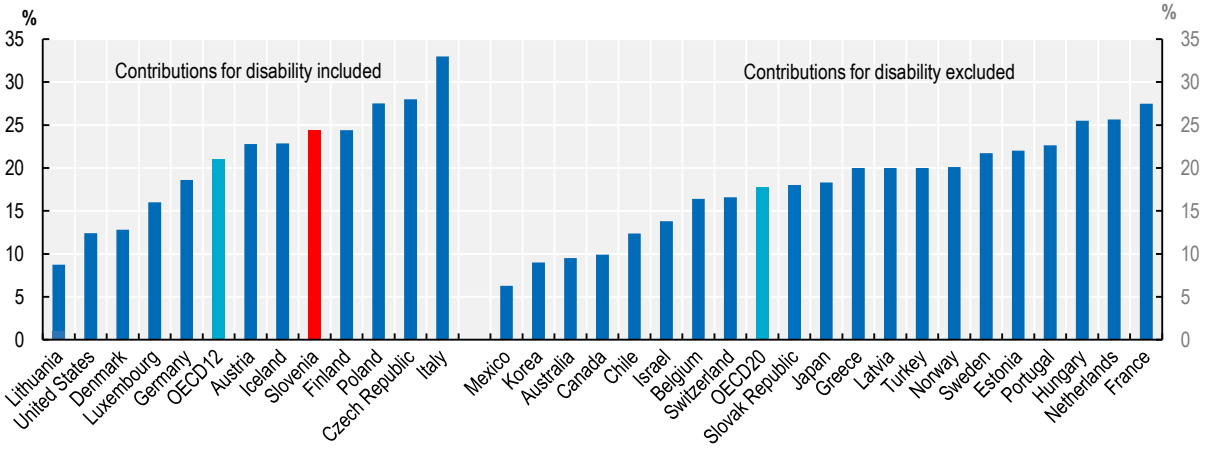
the excess deaths in 2020 have been skewed towards older people and those dying due to COVID-19 are likely to have had, before the COVID-19 crisis, a lower life expectancy than individuals of the same age or birth cohort (Cairns et al., 2020[3]).

2.2.3. The contribution rate is relatively high in international comparison…

Among the OECD, 32 countries have mandatory pension contributions (Figure 2.3).[2] Most countries in this group have a separate contribution rate for old-age and survivor pensions. However, in 12 countries including Slovenia, contributions also finance disability or invalidity benefits. At 24.35% in Slovenia, the effective contribution rate for average-wage earners is higher than the average of 21.0% within this latter group of countries in 2018. Italy has the highest total mandatory contribution rate at 33.0%, while the Czech Republic and Poland also have substantially higher rates than Slovenia. When pro-rating Slovenia's contributions based on spending across schemes, out of the 24.35% contribution rate, a contribution rate of about 21.2% would correspond to old-age and survivor pensions. In countries that finance old-age and survivor pensions separately, the contribution rate was equal to 17.8% on average, with France, Hungary and the Netherlands having rates higher than 25%.

Figure 2.3. Effective contribution rate for mandatory pensions is relatively high

Effective contribution rate for an average earner



Note: New Zealand is not included as there are no mandatory pension contributions. For Ireland, Spain and the United Kingdom it is difficult to separate the pension contributions from the other parts of social insurance such as unemployment.
Source: OECD (2019[4]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

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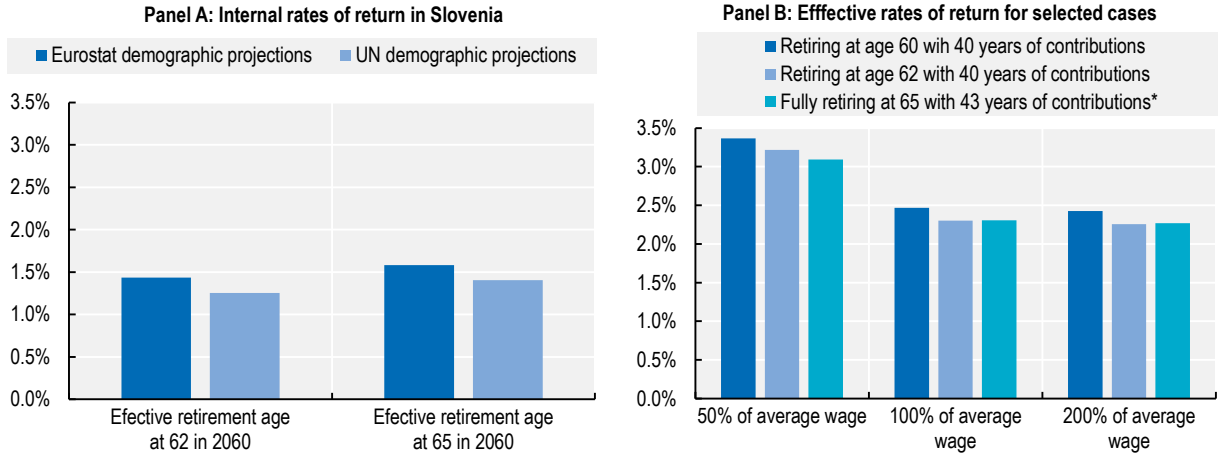
2.2.4. … but contributions will not be structurally sufficient to finance pension promises

One way to examine whether contributions are enough to finance pensions for given career cases is to compare the effective rates of returns they generate for individuals with the internal rate of return that the system can afford. When redistributive instruments are financed by external sources (i.e. not by pension contributions), a pay-as-you-go pension system can provide an internal rate of return equal to the growth rate of total contribution receipts, a good proxy of which being the growth rate of total wages assuming a constant contribution rate.

The growth rate of total wages is equal to the sum of the growth rates of the average wage and of total employment. The 2021 Ageing Report by the European Commission assumes an average annual real-wage growth of 1.9% in Slovenia until 2070. Ageing will affect employment and the population aged 20-64 is projected to shrink by 20% based on Eurostat demographic projections (Europop2019) and by 27% based on UN projections over the same period. As a result, the growth of employment driven by demographic changes, i.e. assuming constant employment rates, would be negative at 0.46% and 0.63% per year, respectively, on average. If the effective age of claiming pension were to increase gradually by 3 years, the annual decline in employment would be reduced to 0.31%-0.49%. Hence, based on an annual real-wage growth of 1.9%, the wage bill would increase by 1.25-1.44% with a stable retirement age and by 1.40-1.58% if the effective retirement age rises by 3 years. Hence, 1.6% is an optimistic real rate of return that the public pension system in Slovenia can deliver for people starting their career now (Figure 2.4, Panel A). By comparison, the Ageing Report projects GDP to grow on average by 1.6% a year in Slovenia by 2070, which is in line with the optimistic scenario for the total wage bill growth.

Figure 2.4. Internal vs effective real rates of return in Slovenia for the cohort born in 1996

Under the current pension rules



Note: All cases assume stable earnings thought career. It is assumed that the real annual wage growth is 1.9% and the mortality is based on the unisex mortality tables for the cohort born in 1996 which is expected to retire around 2060.
* The case for fully retiring at age 65 with 43 years of contributions assumes combining work and pensions for ages 63-65.
Source: OECD calculations.

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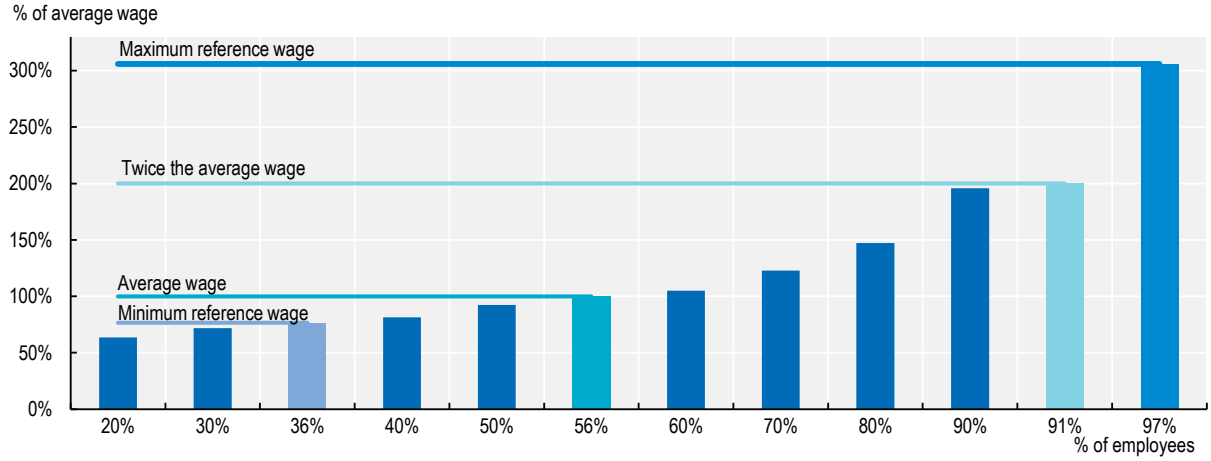
Effective rates of return differ by earning levels mainly due to the effects of the minimum and maximum reference wages, discussed in Chapter 1, which boost low pensions and cap high pensions.[3] Based on the 2019 distribution of wages, more than one-third of employees (36%, Figure 2.5) contributed from less than the minimum reference wage (at 76.5% of the average wage, Chapter 1). Slightly more than half of employees (56%) had wages lower than the average wage. On the top end of the distribution, only 3% of contributions were paid on wages higher than maximum reference wage (at 306% of the average wage). Although the wage distribution determines the distribution of contributions in a given year, it does not inform on the distribution of entitlements as those are based for new retirees on their best 24 years of earnings. However, among new pensioners in 2019, the key numbers above were similar: 34% got their pensions based on the minimum reference wage while slightly more than 1% were capped by the maximum reference wage.

Figure 2.5. Cumulative distribution of pension contribution bases of employees, 2019



Note: The percentiles were calculated based on the linear interpolation of ZPIZ data. The contribution base for part-time workers and those working for less than the whole year was topped up to the full-time equivalent. The wage data does not include remuneration paid for overtime.
Reading note: The bar showing the average wage at 56% means that 56% of employees pay contributions based on the average wage or less.
Source: OECD calculations based on ZPIZ data.

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The current pension rules promise annual real rates of return on paid contributions ranging from 3.4% for low earners with a full career until age 60 to 2.5% for average-wage and 2.4% for high-wage workers (Figure 2.4, Panel B).[4] For those retiring at age 62 with 40 years of contributions the effective annual rates of return are about 0.2 percentage points lower. For all these cases, pension promises are based on much higher returns than the internal rate of return of PAYG pensions in Slovenia, around 1.6% based on the optimistic demographic and employment scenario. This implies, that not only pensions of low earners will need to be subsidised, which reduces old-age inequality, but also those of average-wage and high-wage earners, even after a full career.

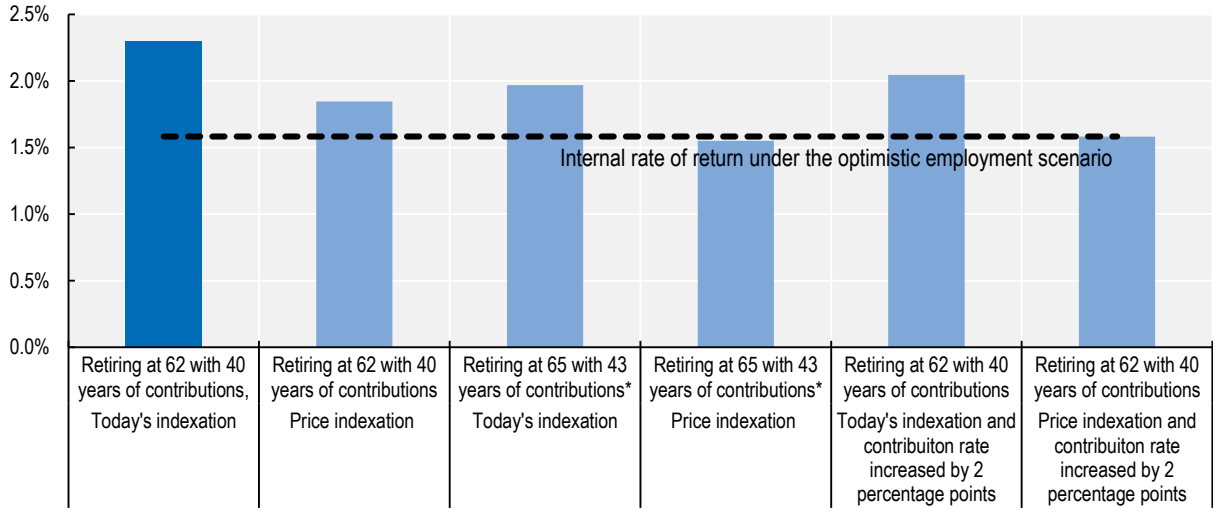
Under the current rules, workers older than 60 years who continue to work beyond 40 years of contributions (pensionable service without purchase) can claim 40% of their pensions while, for up to 3 years, accruing entitlements based on the 3% accrual rate, which is substantially higher than the 1.36% rate applying to previous years. Combining work and pensions based on these rules is basically neutral for pension finances over time (Annex A in Chapter 1), and retiring at age 65 after a 43-year career (while combining work and pensions from the age of 62 years) gives almost the same effective rate of return as retiring at age 62 after a 40-year career.

When limiting the analysis to an average-wage worker, increasing the retirement age and reducing pension indexation together would make pension promises more in line with what the pension system can produce in a financially sustainable way. By contrast, maintaining the possibility to retire at age 60 with a full pension cannot be reconciled with a sustainable rate of return. Reducing indexation to prices would reduce the real rate of return for an average-wage earner retiring at age 62 with 40 years of contributions from 2.3% with current indexation to 1.8%. When the retirement age is increased to 65 while sticking to current indexation, a 43-year career based on the standard 1.36% accrual rate would additionally reduce the rate of return to 1.5% (Figure 2.6).[5] This would still require transfers from the state budget to finance pension redistribution, in particular for low-wage earners. Combining both scenarios – age 65 with 43 years of contributions and price indexation – would bring the rate of return closely in line with what the PAYG scheme can deliver in Slovenia under optimistic employment assumptions. Finally, increasing the contribution rate by 2 percentage points would lower the rate of return by 0.3 percentage points, hence combined with price

indexation this would also generate an annual real rate of return of 1.6%. Although the absolute levels of rates of returns differ across earnings levels, the relative impact of the scenarios presented in Figure 2.6 is similar across earnings levels.

Figure 2.6. Real rates of return on paid contributions from pension promises under alternative policies

At the average earnings



Note: (*) Contrary to the previous chart, the case with 43 years career assumes here that last three years accrue at the regular rate of 1.36% without combining work and pensions.
Source: OECD calculations.

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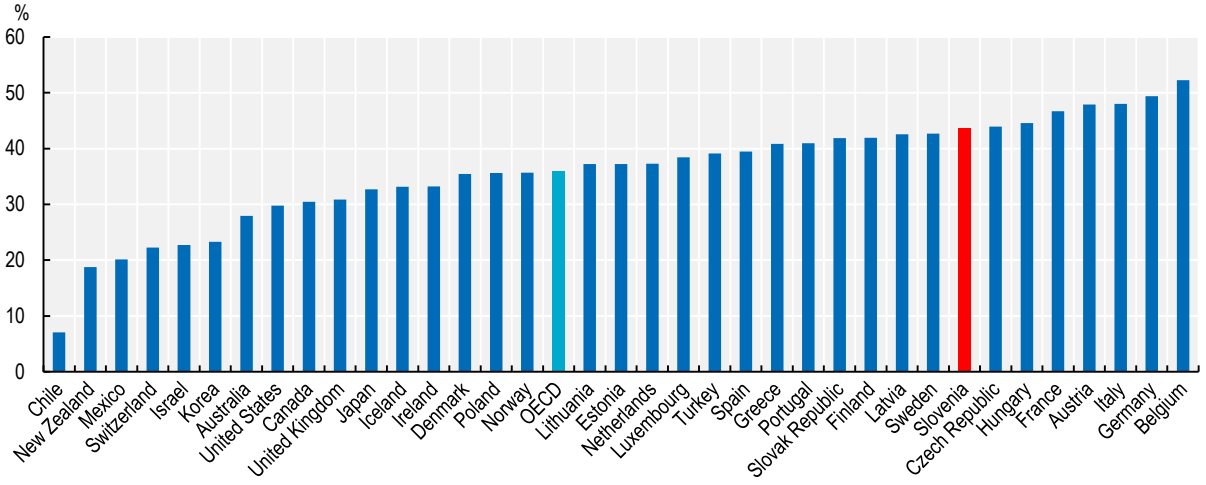
2.2.5. The tax wedge is high

Beyond pension contributions, health contributions and personal income taxes are levied on labour earnings, which creates a wedge between labour cost for employers and net take-home pay for employees. High tax wedges might be an important constraint for increasing pension contributions because they might lower income, discourage employment and deteriorate international competitiveness. The tax wedge for average earners varies in the OECD countries from below 10% in Chile to more than 50% in Belgium, while the average for all OECD countries stands at 36% (Figure 2.7). At 44%, the tax wedge in Slovenia is substantially above this average. Thus the space for increasing the contribution rate is rather limited.

Figure 2.7. Tax wedge for an average earner is high in Slovenia

2019



Note: Data on Australia, Japan and Mexico are from 2018.
Source: OECD Taxing Wages Dataset, https://stats-1.oecd.org/index.aspx?DatasetCode=AWCOMP.

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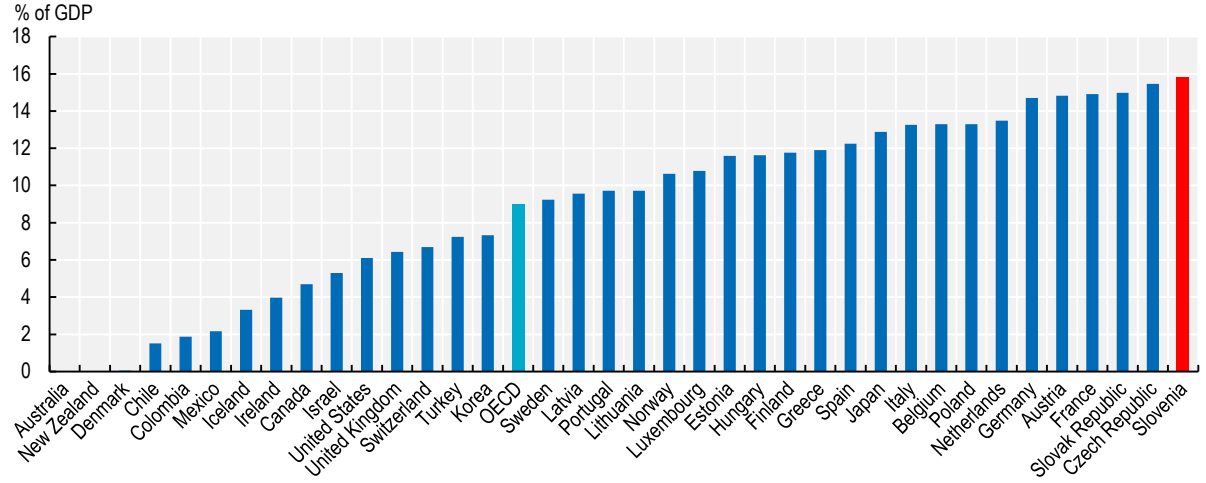
In Slovenia, the tax structure is heavily skewed towards social security contributions, such that revenues from contributions as a share of GDP are record high, at 15.8% compared with an OECD average of 9.0% (Figure 2.8). If additional revenues are needed to finance pensions, other sources than social security contributions that are less detrimental to employment and productivity should be considered. Total tax revenues in Slovenia amounted to 37.7% of GDP in 2019 against an OECD average at 33.8% while Austria, Belgium, Denmark, Finland, France, Italy and Sweden raise more than 40.0% (Figure 2.9).

Figure 2.8. Social security contribution revenues are record high in Slovenia

2019



Note: Data on Australia, Japan and Mexico are from 2018.
Source: OECD Revenue Tax Statistics (https://stats.oecd.org/Index.aspx?DataSetCode=REV).

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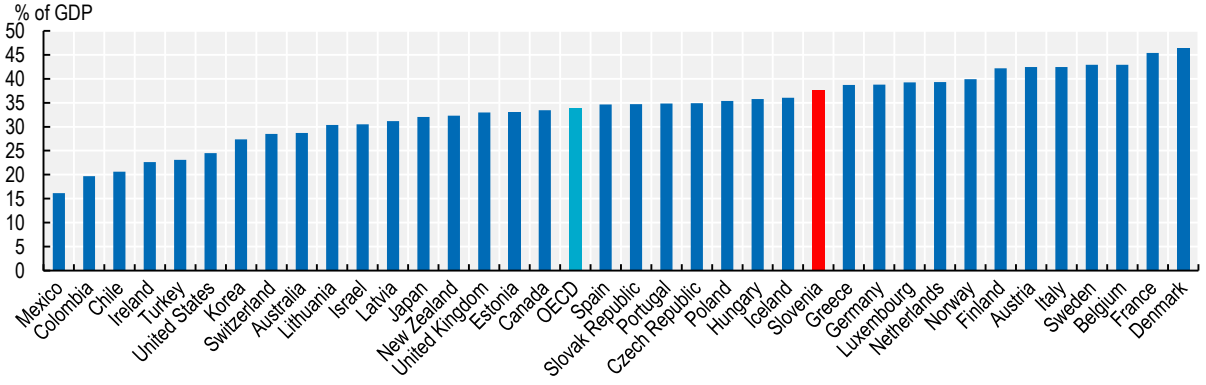
Figure 2.9. Total tax revenues in the OECD

2019



Note: Data on Australia, Japan and Mexico are from 2018.
Source: OECD Revenue Tax Statistics (https://stats.oecd.org/Index.aspx?DataSetCode=REV).

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2.3. Pension expenditures are projected to increase strongly after 2030

One crucial element of the Ageing Reports published every three years is the projection of public pension expenditure as a percentage of GDP for each EU country. Based on the current legislation, pension expenditure is projected to increase in Slovenia more than in most EU countries (European Commission, 2021[5]).

2.3.1. The 2019 reform to accentuate the already steep increase in future pension deficits

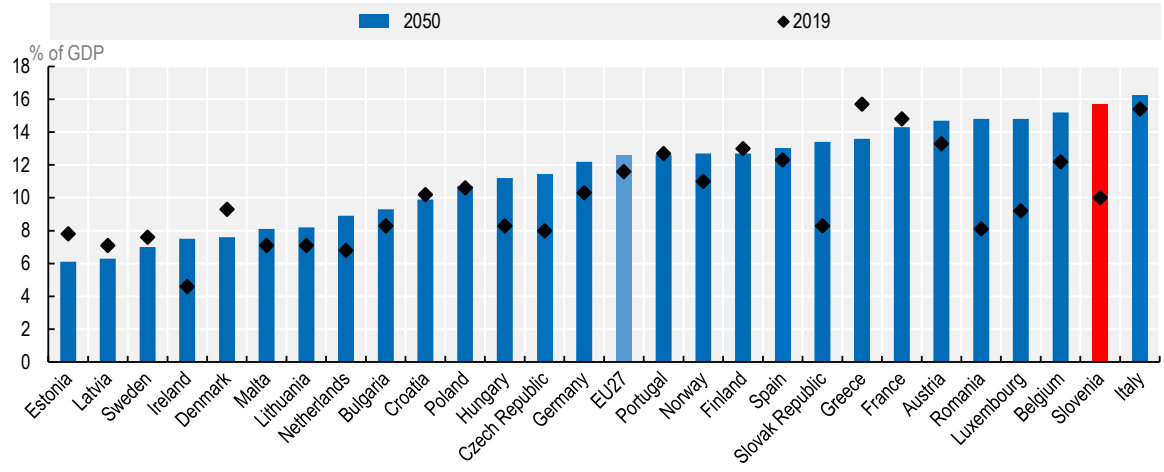
The 2021 Ageing Report (European Commission, 2021[5]) projects pension expenditure to increase sharply from 10.0% to 15.7% of GDP, i.e. by 5.7 percentage points, between 2019 and 2050 in Slovenia, which is the largest except for Romania in the EU. Only Italy is projected to have a higher expenditure ratio in 2050, at 16.2%, while in the EU it would increase from 11.6% to 12.6% on average (Figure 2.10).

Overall, between 2019 and 2070, the 2021 Ageing Report projects pension expenditure to increase from 10.0% to 16.0% of GDP, while the 2018 projections showed a substantially smaller increase, from 11% of GDP to 14.9% between 2020 and 2070 (Figure 2.11). After a modest increase in the 2020s of less than 1 percentage point, the pension expenditure ratio is projected to accelerate from 2030, increasing by 2.8 percentage points in the 2030s and by 2.1 percentage point in the 2040s. After having reached 15.7% in 2050, pension spending is projected to increase only slightly to 16.0% of GDP in 2070.

Two recent factors have raised future expenditure, even further than previously estimated. First, the changes introduced in 2019 are expected to increase pension spending gradually, and by 1.5% of GDP from 2055 (MDDSZ, 2019[6]). The largest element relates to the increase in the total accrual rate after 40 years of contributions for men from 57.5% to 63.5% and the cancellation of the previously legislated reduction of women's total accrual rate from 63.5% to 60.25% from 2023, which together would inflate long-term pension spending by 1.3% of GDP. In addition, the bonus for childcare of 1.36% of additional accruals per child (Chapter 1), also introduced in 2019, would increase long-term spending by 0.3 percentage points.[6]

Figure 2.10. Pension expenditure will increase sharply in Slovenia

Pension expenditure as a percentage of GDP



Note: The EU average is for 27 EU countries.
Source: European Commission (2021[5]), *The 2021 Ageing Report,* http://dx.doi.org/10.2765/84455.

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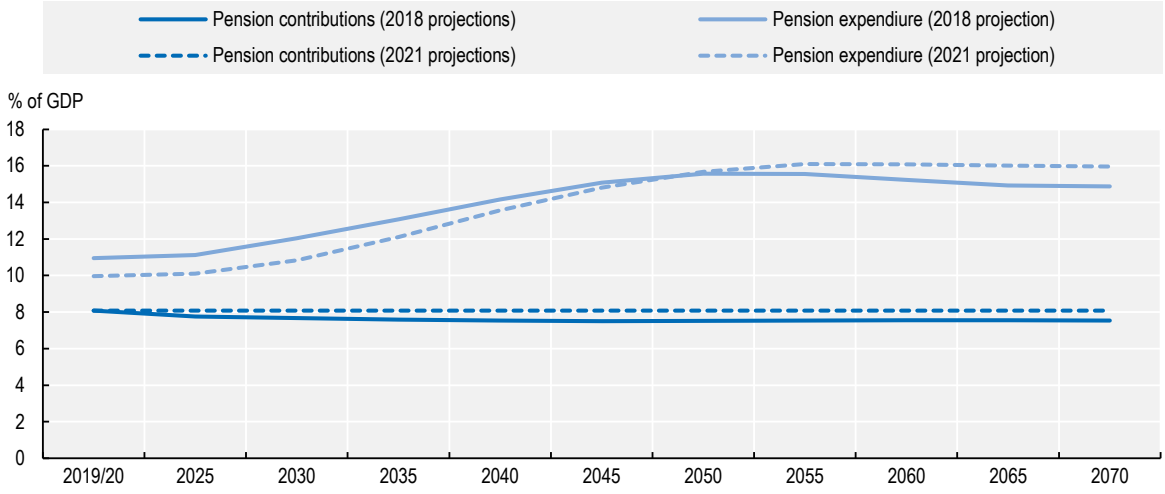
Second, the increased possibility to combine work and pensions, following the changes introduced in 2012 – which were not fully accounted for in the 2018 projections – and modified in 2019, would raise both spending and contributions by about 0.4% of GDP over time.[7] Consistent with this, Annex A of Chapter 1 showed that the increased flexibility to combine work and pensions – the 2019 reform increased the part of the pension that can be claimed together with full-time work from 20% to 40% whereas the accrual rate when doing so was lowered from 4% to 3% – is close to actuarial neutrality.

Figure 2.11. State budget financing would need to quadruple to cover pension expenditure by 2050



Note: Projections of the 2018 and 2021 Ageing Reports are shown for 2020 and 2019, respectively, due to data limitations Projected total ZPIZ contributions are multiplied by the 2019 share of pension expenditure in total ZPIZ expenditure (10%/11.5%=0.88).
Source: OECD calculations based on European Commission (2018[7]), *The 2018 Ageing Report*, http://dx.doi.org/10.2765/615631, and (2021[5]), *The 2021 Ageing Report,* http://dx.doi.org/10.2765/84455.

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Pension financing from the state budget would become so large that it is projected to exceed contribution revenues by 2050. The share of pension contributions in GDP is projected to remain stable at around 8% of GDP between 2020 and 2050 (Figure 2.11), about 0.5% of GDP higher than the 2018 projections. Therefore, an increasing part of pension payments will not be financed from contributions but from transfers from the state budget, which would increase from around 2% of GDP in 2020 to 8% in 2070.[8]

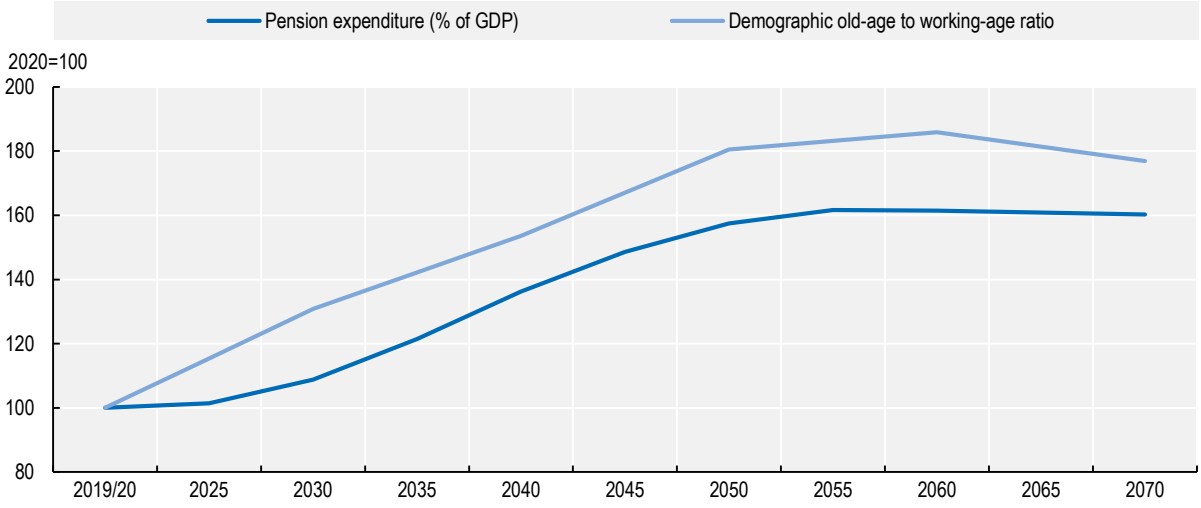
The Slovenian Government has committed to implement reforms needed to ensure pension fiscal sustainability. The Slovenian Recovery and Resilience Plan, adopted by the European Commission in July 2021, foresees that a comprehensive reform will be proposed by the Slovenian Government in 2023 and adopted by Parliament in 2024.

2.3.2. Building-up of pension financial imbalances driven by demographic changes

Pension expenditures are expected to be largely driven by demographic developments. Absent any pension reform and any change in the labour market, a 1% change in the old-age to working-age ratio affects the share of pension spending in GDP by 1%. The ratio of the number or people aged 65 or older to the working age population (20-64) is expected to soar by 80%, from 34 to 60 between 2020 and 2050, whereas the share of pension spending in GDP is projected by European Commission (2021[5])to increase by 57% (Figure 2.12). The difference between the two, which accounts for about 2% of GDP in pension spending in 2050, is mainly due to higher employment (see below). These demographic developments are subject to some uncertainty, in particular about longevity trends, but are largely determined today for at least next 30 years. They could be attenuated by net immigration flows in the medium term and by increased fertility rates over the longer term, but both these areas are beyond the scope of pension policy.

Figure 2.12. Pension expenditure will accelerate due to demographic shifts

Pension expenditure as a percentage of GDP, number of people over 65 divided by the size population aged 20-64 in Slovenia



Source: OECD calculations based on the European Commission (2021[5]), *The 2021 Ageing Report,* http://dx.doi.org/10.2765/84455.

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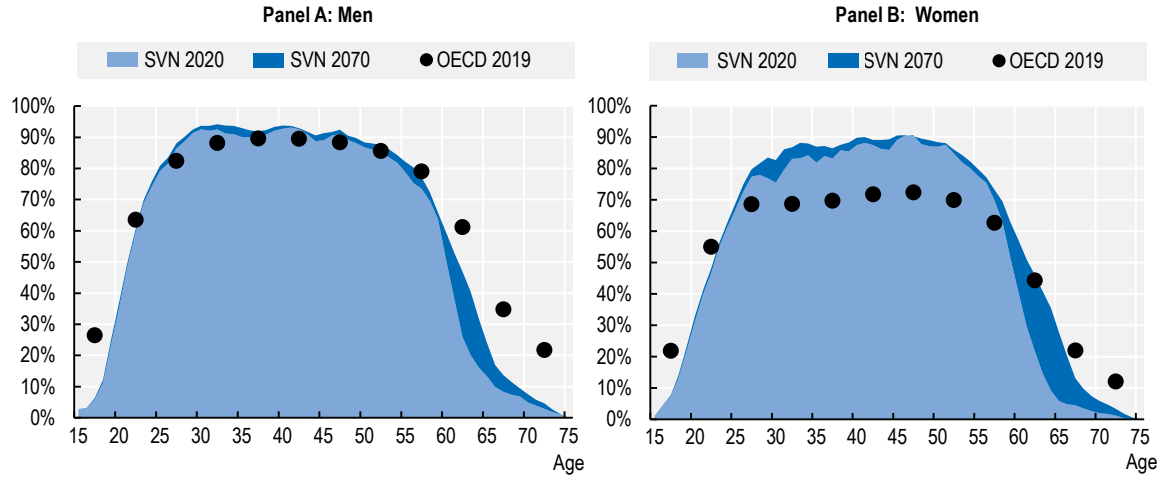
2.3.3. Higher employment rates are expected to partially offset demographic pressure

The most important factor offsetting the impact of the demographic shift is the increasing employment of older people leading to claiming pensions at older ages. As a result, the number of pensioners divided by the number of people aged 65 or more is projected to decline by 11% between 2019 and 2070 (European Commission, 2021[5]). Overall, the labour market participation rate among individuals aged 20-74 is projected to increase slightly in Slovenia, from 68% to 70%, similar to the EU average. However, despite a substantial increase in the age group 55-64, from 50% to 65%, Slovenia will remain well below the EU average of 72% in 2070. Among people aged 65-74, the participation rate is expected to increase from 4.6% to 9.4%, remaining twice lower than the EU average. Overall, the average age of labour market exit is expected to increase by 0.9 years to 62.9 in 2070 in Slovenia against a projected increase of 1.8 years to 65.6 in the EU on average. All these developments account for the expected impact of already legislated pension reforms. As for 2021, the Slovenian legislation does not foresee any increase in eligibility conditions.

Even after the projected increases, the employment rates of people older than 60 in Slovenia in 2070 will be much lower for both men and women than the OECD averages in 2019 (Figure 2.13). This means that there will still be a large room to increase employment rates at older ages in Slovenia.

Figure 2.13. Employment rates are projected to improve moderately in Slovenia

2021 projections of the employment rate by age and gender in 2020 and 2070



Note: Slovenia 1-year age groups projections smoothed with 3-period moving average. The OECD average for 5-year age groups presented in the centre of the intervals.
Source: OECD calculations based on European Union (2020[8]), *The 2021 Ageing Report Underlying Assumptions & Projection Methodologies*, http://dx.doi.org/10.2765/733565, and OECD Employment data.

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2.3.4. Benefit ratios are projected to increase

By contrast to most EU countries, the average pension is projected to increase relative to the average wage (the so-called benefit ratio) in Slovenia. The benefit ratio is projected to increase from 30.8% in 2020 to 34.2% in 2070 against a drop from 42.5% to 33.1% in the EU on average (European Commission, 2018[7]). This would increase pension expenditure by 1.4% of GDP in Slovenia compared with a decrease of 2.3% of GDP in the EU on average (European Commission, 2018[7]). The benefits are expected to

increase as a response to the 2019 pension reform which has been raising accrual rates and due to the growing popularity of combining work and claiming part of pensions. While these trends shed light on one factor behind spending projections, the benefit ratio would rise from a low level in Slovenia towards a ratio close to the EU average in 2070. The currently low benefit ratio is consistent with relatively high spending only because of the high retirees-to-workers ratio, well in excess of what the pure demographic old-age to working-age ratio can explain. In short, the big factor behind this whole nexus is low effective retirement ages in Slovenia.

2.4. Adjusting pension parameters to improve financial sustainability

Given the weaknesses identified in Chapter 1, the political choice could be made to overhaul the pension system through a systemic reform that would be designed to ensure financial sustainability. The PAYG part could be shifted from DB to a points or an NDC system. Funded DC pensions could also be developed as a complement along the lines of the analysis presented in a separate analysis of supplementary pension schemes, but this does not impact the needed adjustment of the public system. Using part of the current contributions to fund DC schemes is not an option as this would complicate even more the efforts to achieve financial sustainability.

Box 2.1. Models used for pension simulations

Pension simulations were prepared by the Institute for Economic Research (IER) with models that are used by the Slovenian Government for projecting pension expenditure and evaluating pension reform options. For example, IER delivered projections for the Ageing Report of the European Commission as well as for evaluating pension reforms in 2010 and 2019. Three models were used for the current project: Generational Accounting Model (GAM), dynamic microsimulation pension model (DYPENSI) and recursive dynamic CGE model (SloMod).

In GAM the economic per capita categories are distributed by age groups (sometimes called “age profiles”) and multiplied by population projections by age to obtain estimates for future development of public expenditures and public revenues. Within the current project, the model was extended to provide results for every year and for every cohort.

As GAM was used for the preparation of the 2021 Ageing Report, the results are consistent with the 2021 Ageing Report projections for the whole projections horizon from 2020 to 2070. Technically, GAM builds on three types of matrices: the age-profile matrix (PROF) with per capita averages of economic variables, the population matrix (P) and the coefficient matrix (C). PROF includes average values of projected categories by age groups or cohorts. It rests on the age profiles from the base year (2019). GAM assumes that next generations “inherit” the situation of the previous ones in the base year. This model was used to simulate the scenarios of changing the pension indexation rule, reducing the accrual rates.

To provide results for the scenarios that could not be provided by GAM – tightening the eligibility conditions to pensions, and adjusting minimum and maximum reference wages DYPENSI based on 1-year age cohorts was used.

The starting population for DYPENSI is an administrative database merged from many sources. The current model version is based on 2007 administrative data records constituting a 5% sample representative of the Slovenian population. In a running project for the MLFSAEQ, the model will be updated, refined and extended using data for the new base year 2017 based on a 20% sample of the Slovenian population.

Additionally, DYPENSI was extended with SloMod to assess the impact of increasing contribution rate on total employment. The construction of SloMod is based on standard general equilibrium theory. General equilibrium modelling helps better evaluate the socio-economic and environmental impacts of different economic policy instruments. General equilibrium models are based on individual (decentralised) optimising behaviour of economic agents. SloMod is currently calibrated on the Social Accounting Matrix (SAM) for 2015. SAM 2015 is built with data mainly provided by the Supply and Use Tables (SUT) 2015. It is built following the European System of Account (ESA 2010) structure. It is composed of different accounts (blocks) retracing the exchanges between different agents at different places (firm or market level). The model distinguishes different components, including commodities, outputs, factors of production, institutional setting, capital, and the rest of the world account. The model has been solved by using the general algebraic modelling system (GAMS).

Source: Information provided by IER.

Eight OECD countries – Estonia, Germany, Italy, Latvia, Lithuania, Norway, Poland, the Slovak Republic and Sweden – now have a points or NDC scheme at the core of their PAYG pension system. However, such a systemic reform would require a strong political commitment in order to build a broad consensus as a pre-condition to prepare it well and implement it successfully. An alternative is to opt for a parametric reform of the PAYG DB scheme. Given the magnitude of the needed adjustments in Slovenia, ensuring sound financing of pension promises will also require substantial political efforts and a clear mandate for reform.

This section assesses how adjustments in parameters of the Slovenian public pension scheme would affect financial sustainability and benefit adequacy. The assessed parameters include: retirement age, pension indexation, contribution rate, minimum and maximum reference wages and accrual rates. All options are assessed with models used by the Institute for Economic Research which were used in the past e.g. to deliver pension projections for the European Commission Ageing Report as discussed in Box 2.1. Most scenarios have been calibrated to generate savings of about 1% of GDP in 2050 relative to the non-reform projections (baseline).

2.4.1. Tightening eligibility conditions (retirement ages and contribution period)

Tightening eligibility conditions could improve financial sustainability by shortening the duration of benefit payments and raising GDP and contribution and tax receipts. More employment generally results in higher pension entitlements, which tends to lower the long-term effects on pension expenditure, if other accompanying measures, such as adjusting accrual rates, are not adopted to stabilise pension replacement rates.

The following scenarios assume that the tightening of eligibility conditions is accompanied by applying the regular accrual rates until the increased minimum contribution condition is reached. As of 2021, the minimum contribution condition is 40 years and the regular accrual rate of 1.36% is inflated in the 41st, 42nd and 43rd years of contributions to 3%.

Two scenarios tightening eligibility conditions are considered here:

a) Raising the minimum retirement eligibility conditions to 62 and 42 years by 2028 and linking age and contribution conditions to life expectancy thereafter.
b) One-off tightening of eligibility conditions in 2027 by 2.6 years.

These scenarios were modelled with DYPENSI (Box 2.1).

Raising the minimum retirement eligibility conditions to 62 and 42 years by 2028 and linking age and contribution conditions to life expectancy thereafter

The first scenario is based on the following assumptions: increasing the eligibility conditions from age 60 with 40 years of contributions (pensionable service without purchase) to age 62 with 42 years of contributions by 2028; eliminating the reductions of the minimum retirement age of 58 years for men and 56 years for women based on childcare, working before age 18 and military service; and, increasing from 2028 all these conditions along with the statutory retirement age, of 65 years in 2021, by eight months for every year of gains in remaining life expectancy at age 65. Under this scenario, remaining life expectancy at age 65 is projected to increase from 21.9 years in 2030 to 23.8 years in 2050 and 25.6 years in 2070.[9] Thus, the minimum retirement age is assumed to reach 63.4 with 43.4 years of contributions in 2050 and 64.6 with 44.6 years of contributions in 2070, while the statutory retirement age would remain 3 years higher. The extension of the contribution period would increase replacement rates after a full career similarly across all earnings levels.

The reforms envisaged in this scenario would gradually lower pension expenditure, by 0.9% of GDP in 2050 and by 1.6% in 2070 compared with the baseline. Both the average age of new old-age pensioners and the length of their contribution records increase, while the total number of pensioners decreases. In 2050, the retirement age of new old-age pensioners is expected to increase by 1.7 years among women and 2.2 years among men, relative to the no-reform baseline scenario (Table 2.1). The increases are 3.1 and 3.8 years, respectively, in 2070, as employment rates raise, especially among the 65-69 age group.

As a result of longer careers, the gross average pension is expected to be 3.8% and 4.0% higher for women or men, respectively, in 2050. By 2070, the average pensions would further increase by 4.8% and 6.1% in total, respectively.

Table 2.1. Impact of raising the minimum retirement eligibility conditions to 62 and 42 years by 2028 and linking age and contribution conditions to life expectancy thereafter

Deviations from the baseline (2021 Ageing Report)

Variable	Gender	Age groups	2030	2040	2050	2060	2070
Pension expenditure (% GDP)			**-0.7**	**-0.8**	**-0.9**	**-1.5**	**-1.6**
Average pension as (%)	Women		-0.4	1.9	4.0	4.2	4.8
	Men		1.3	1.9	3.8	4.3	6.1
Employment rates (percentage points)	Women	55-59	0	0	-1	0	0
		60-64	17	11	5	10	8
		65-69	1	9	19	31	39
	Men	55-59	3	0	-1	-1	0
		60-64	15	15	12	16	18
		65-69	1	8	16	26	33
Average age when claiming the old-age pension (years)	Women		1.3	1.4	1.7	2.5	3.1
	Men		1.6	1.8	2.2	3.2	3.8

Source: IER simulation models.

One-off tightening of eligibility conditions in 2027 by 2.6 years

The second scenario assumes increasing all the eligibility conditions to old-age pensions – but for the 15 years of insurance required to access pensions at the statutory retirement age – in 2027 by the same 2.6 years. Compared to the first scenario, the second scenario assumes the same final statutory retirement age in 2070 of 67.6 years but with a different time path and smaller adjustments overall to the minimum

eligibility conditions: 42.6 of contribution period at age 62.6 from 2027 (while the previous scenario has 42 and 62 in 2028, gradually increasing to 44.6 and 64.6 in 2070). However, although this has no impact for the simulations, one important policy difference is that 67.6 years is the statutory retirement age from 2027 irrespective of changes in life expectancy, while under the first scenario it is achieved only if current mortality projections effectively materialise. In addition in this second scenario, the options to retire below the minimum retirement age are not eliminated.

Under this scenario, pension expenditure would be by 1.1% of GDP lower in 2050 and slightly less (0.8%) in 2070, compared to the baseline scenario (Table 2.2). The effect of the reform will wane gradually as eligibility conditions do not adjust to longevity gains. Compared with the first scenario, this one generates larger savings in 2030 as initially the measures are stronger. As in the first scenario, the average age of new old-age pensioners is expected to increase, more until 2060 and less afterwards, and likewise for employments rates. Pensions are expected to be 8.7% and 7.2% higher in 2070, respectively, which is higher compared to the first scenario where the full effect materialises later.

Table 2.2. One-off tightening eligibility conditions in 2027

Deviations from the baseline (2021 Ageing Report)

Variable	Gender	Age group	2030	2040	2050	2060	2070
Pension expenditure (% GDP)			**-1.1**	**-1.2**	**-1.1**	**-1.0**	**-0.8**
Average pension as (%)	Women		-0.7	2.8	6.5	7.9	8.7
	Men		0.6	2.9	5.3	6.4	7.2
Employment rates (percentage points)	Women	55-59	0	0	-1	-1	-1
		60-64	20	11	4	8	6
		65-69	12	25	33	35	34
	Men	55-59	3	1	-1	0	1
		60-64	17	13	10	15	16
		65-69	9	19	26	26	26
Average age when claiming the old-age pension (years)	Women		2.3	2.4	2.5	2.6	2.7
	Men		1.9	2.4	2.9	3.0	2.9

Source: IER simulation models.

2.4.2. Reducing benefits

Reducing pension indexation

In this scenario the indexation of pensions is adjusted from 2027 onwards in a way to reduce pension expenditure by 1% of GDP in 2050. To create such savings the pension indexation would need to shift from today's mix of 60% of wages and 40% of prices to 34% of wages and 66% of prices. The effects of this measure are phased in during the life of the first generation of retirees who are affected. Its total effects are thus produced from 2060 onward. Under this scenario, the average pension would be lower by about 6.6% from 2060, compared to the baseline Table 2.3.

Table 2.3. Reducing pension indexation

Deviations from the baseline (2021 Ageing Report)

	Gender	2030	2040	2050	2060	2070
Pension expenditure (% GDP)		**-0.3**	**-0.8**	**-1.0**	**-1.1**	**-1.1**
Pensions of new retirees (%)		-0.7	-0.5	-0.4	-0.4	-0.4
Average pension (%)	Women	-2.7	-5.7	-6.5	-6.8	-6.7
	Men	-2.7	-5.6	-6.2	-6.5	-6.6

Source: IER simulation models.

Linking benefits to changes in life expectancy

This scenario assumes that from 2029 all newly-granted pensions are multiplied by a factor that lowers (increases) benefits proportionally to gains (losses) in remaining life expectancy (RLE) at age 65. Such a link is implicit in NDC schemes, and therefore applies for NDC pensions in Italy, Latvia, Norway, Poland and Sweden, although the exact formula depends of indexation rules and assumptions about the notional interest rate. Among countries with DB or point schemes, a sustainability factor based on such a link is in place in Finland and Germany (Chapter 4). Given mortality projections in Slovenia, this would imply that new pensions, across all earnings levels, will be lowered by 9.4% in 2050 and 17.8% in 2070 relative to the baseline (Table 2.4).[10] The impact of lower benefits on pension expenditure is gradual because it applies only to new retirees. Hence, the average pension would drop by 4.3% in 2050 and by 11.3% in 2070 compared to the baseline.

Table 2.4. Linking retirement benefits to remaining life expectancy

Percentage deviations from the baseline (2021 Ageing Report)

	Gender	2030	2040	2050	2060	2070
Pension expenditure (% GDP)		**0.0**	**-0.2**	**-0.7**	**-1.2**	**-1.8**
Pensions of new retirees (%)		-0.9	-5.2	-9.4	-13.6	-17.8
Average pension (%)	Women	0.0	-1.5	-4.1	-7.5	-11.3
	Men	-0.1	-1.6	-4.3	-7.7	-11.4

Source: IER simulation models.

Reducing accrual rates in a one-off manner

A straightforward way of adjusting pensions is to modify the accrual rates. This scenario looks into how much the accrual rates would need to be lowered in 2027, applied to the contribution records after this year, to decrease pension expenditure by 1% of GDP in 2050. To achieve such savings, the annual accrual rate should be lowered from the current 1.36% to 1.05%, i.e. by 23%, for the 16th through 40th years of contributions. For the first 15 years, the scenario maintains the current total accrual of 29.5%. As a result, total accruals after a 40-year career decreases from 63.5% to 55.7%, i.e. by 12%, across all earnings levels. A similar approach was used in the 1999 pension reform (Chapter 1) when the accrual rates earned from 2000 onwards were reduced from 2% to 1.5% while the accrual rate for the first 15 years remained constant. This scenario has the larger effects the longer the career after the reform.

The effect of this scenario is still partial in 2050 because entitlements earned before 2027 are not impacted, and in particular pensioners who will have retired before 2027 while still being alive are not affected at all. Under this scenario, pension expenditure decreases by 1% of GDP in 2050 compared to the baseline, and by 1.8% in 2070, while the average pension is lowered by 6.4% in 2050 and 11.3% in 2070 (Table 2.5).

Table 2.5. Lowering the accrual rate in a one-off manner in 2027

Deviations from the baseline (2021 Ageing Report)

	Gender	2030	2040	2050	2060	2070
Pension expenditure (% GDP)		**-0.1**	**-0.4**	**-1.0**	**-1.5**	**-1.8**
Pensions of new retirees (%)		-2.0	-7.0	-12.0	-12.0	-12.0
Average pension (%)	Women	-0.5	-2.8	-6.3	-9.4	-11.3
	Men	-0.5	-2.9	-6.5	-9.5	-11.3

Source: IER simulation models.

Lowering the minimum reference wage

The minimum reference wage provides low earners with a much higher replacement rate than average and high earners with the same contribution period. The following scenario assumes decreasing the minimum reference wage by 2 percentage points of the net average wage every year between 2027 and 2036, i.e. from 76.5% to 56.5%. Thus, the replacement rate of low earners would be lowered by up to 26%. This would be fairly extreme, as it will amount to almost eliminating the minimum reference wage given that the full-time minimum wage is slightly above 50% of the average wage. Only new pensions are affected under this scenario.

Gradually lowering the minimum reference wage from 76.5% to 56.5% between 2027 and 2036 is projected to reduce expenditure by only 0.4% of GDP in 2050 and by 0.6% in 2070 (Table 2.6). The number of new old-age pensioners, whose pension would be calculated using the lowered minimum pension base, would be sharply reduced, by 67% in 2050 and by 60% in 2070 compared to the baseline, for which the share of pensions being assessed at the minimum reference wage is projected to equal about one-quarter in both 2050 and 2070. At the aggregate level, this huge cut in the minimum pensions would to lead to a gradual decline of the average pension by around 3.0% in the long term.

Table 2.6. Reducing the minimum reference wage

Deviations from the baseline (2021 Ageing Report)

Variable	Gender	2030	2040	2050	2060	2070
Pension expenditure (% GDP)		**0.0**	**-0.2**	**-0.4**	**-0.5**	**-0.6**
Average pension (%)	Women	-0.2	-1.5	-2.5	-3.2	-3.7
	Men	-0.2	-1.4	-2.4	-3.0	-3.2
Number of new old-age pensions based on the minimum reference wage (%)	All	-27.2	-66.3	-66.9	-61.0	59.5

Source: IER simulation models.

Lowering the maximum reference wage

Lowering the maximum reference wage would reduce pension expenditure by lowering high pensions. This scenario assumes decreasing the pension ceiling by 10 percentage points of the average wage every year between 2027 and 2036, i.e. from 306% to 206% of the average wage in total. This means that the new old-age pensions based on the reference wage ranging between 206% and 306% of the average wage would be reduced by 0% and 33%, respectively.

As a result, compared to the baseline, the average pension would be about 3% lower while the pension expenditure would be lower by 0.5% of GDP from 2050 onwards (Table 2.7). The share of high pensions in the baseline is low at about 1% of all pensions, and the number of new old-age pensioners whose pension would be based on the reduced maximum reference wage would be multiplied by a factor of 5 to 6.5 depending of the time horizon.

Table 2.7. Lowering the maximum reference wage

Variable	Gender	2030	2040	2050	2060	2070
Pension expenditure (% GDP)		**0.0**	**-0.1**	**-0.3**	**-0.5**	**-0.5**
Average pension (%)	Women	-0.1	-0.9	-1.8	-2.5	-2.8
	Men	-0.1	-1.5	-2.6	-3.3	-3.6
Number of new old-age pensions based on the maximum reference wage (%)	All	54	661	436	550	646

Source: IER simulation models.

2.4.3. Increasing the contribution rate

Increasing pension revenues might also be needed to improve pension finances. This scenario assesses the needed increase in the contribution rate to raise revenues by 1% of GDP in 2050. Based on simulations from the CGE model (SloMod, Box 2.1), the contribution rate would need to gradually increase by 3 percentage points, from 24.35% to 27.2%, between 2028 and 2050. Were the negative impact of the higher contribution rate on GDP absent, this contribution rate would need to increase to 26.95% which is 0.3 percentage points less.[11]

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Notes

[1] As Chapter 1 shows, ZPIZ expenditures consist of the following main categories: old age pensions (66% of total expenditure in 2019), survivor pensions (3%), annual allowance (3%), health contributions for pensioners (8%), disability pensions (9%), other benefits and expenses (12%). Around 80% of recipients of disability pensions are older than 60.

[2] For Ireland, Spain and the United Kingdom it is difficult to separate the pension contributions from the other parts of social insurance such as unemployment. There are no mandatory pension contributions in New Zealand.

[3] For example, the top-up from the minimum reference wage could inflate pension benefits by up to 27.5% given that the minimum contribution base and the minimum reference wage are set at 60% and 76.5% of the average wage, respectively.

[4] The estimates are based on assuming that 90% of pension contributions finance old-age pensions. In 2019, the share of old-age, survivor and disability pensions in ZPIZ expenditure stood at 88%.

[5] This scenario excludes the possibility to combine work and pensions.

[6] Similar assessment was presented by the Fiscal Council, which expected financial balance of the pension budget to deteriorate by 1% of GDP in 2040 due to the 2019 changes in the pension law (Fiscal Council, 2019[9]; European Commission, 2020[10]). More precisely, the MDDSZ (2019[6]) showed the total impact on the financial balance of pensions to be 1.1% in 2040.

[7] MDDSZ (2019[6]) showed that the option to combine 20% of pension with full-time work while accruing 4% in 2012, introduced in 2012, is largely neutral for pension finances in the long run, increasing expenditures by 0.4% of GDP offset by higher pension contributions due to people prolonging their careers.

[8] The 2020 number is lower than the deficit of the total ZPIZ scheme of over 2% of GDP as only old-age, survivor and disability pension expenditure is included here.

[9] These projections are based on cohort life expectancy from the UN data.

[10] This is under the strong assumption that this link does not lead to any increase (decrease) in effective retirement ages.

[11] The increase of contribution rate is expected to have a very small impact on pension expenditure as a share in GDP. Lower employment would reduce the average contribution period, harming the average pension, but it would also lower the GDP.

3 First-tier benefits

Slovenia has a low level of income inequality in old age and is close to the OECD averages regarding relative poverty and material deprivation for older people. Old-age poverty is particularly concentrated among older people living alone. The levels of both the minimum pension and safety-net benefits for older people are relatively high in international comparison, although the coverage rate of the safety net is low. This is likely a result of the obligation of family members to provide support. The old-age safety net and the pension scheme are not sufficiently co-ordinated, with safety-net eligibility thresholds currently exceeding the minimum pension after a full career and with differing eligibility ages for women. Moreover, part of the old-age safety-net benefits is only available to people who are not in paid work, which discourages eligible people from engaging in formal employment.

3.1. Introduction

First-tier benefits provide older people with basic income security with the aim of ensuring that elementary needs are fulfilled. There are three types of first-tier benefits:

- *Basic pensions* are pension schemes in which the benefit is not tied to previous earnings. Entitlement to a basic pension is either non-contributory based on years of residence or contributory based on years of contributions, irrespective of the level of contributions paid.
- *Minimum pensions* refer to the minimum of a specific earnings-related pension scheme or of all schemes combined, to which people become eligible if they reach a certain amount of years of contributions. People who have built up an earnings-related pension that is below the minimum pension level, and fulfil the qualification requirements for the minimum pension, are provided a top-up to the level of the minimum pension.
- *Social assistance* or *safety-net benefits* are means-tested benefits that provide an income top-up to those who do not have sufficient pension entitlements to fulfil basic needs.

Slovenian first-tier benefits consist of a combination of protection mechanisms in the contributory earnings-related pension scheme and social assistance benefits. Within the contributory scheme, the minimum and guaranteed pensions provide income floors that increase with the length of the contribution period from at least 15 years. Women older than 63 years and men older than 65 who have insufficient means to fulfil basic needs can claim financial social assistance and supplementary allowance. Access to social assistance benefits is restricted by a means test and only available to people who cannot receive support from their partner or children, but the benefit levels are higher than those provided by minimum and, until 2021, guaranteed pensions under the contributory pension scheme.

This chapter consists of three parts. The first part gives an overview of old-age inequality and poverty in Slovenia relative to other OECD countries. It highlights some social groups that are more vulnerable in old age. In the second part, Slovenian safety-net benefits, including financial social assistance and supplementary allowance, are discussed and compared to non-contributory benefits in other OECD countries. Finally, Slovenian minimum pension provisions and their interaction with safety-net benefits are analysed relative to contributory benefits in other OECD countries and to other social and labour market income measures in Slovenia.

3.2. Vulnerabilities in old age

3.2.1. Low income inequality

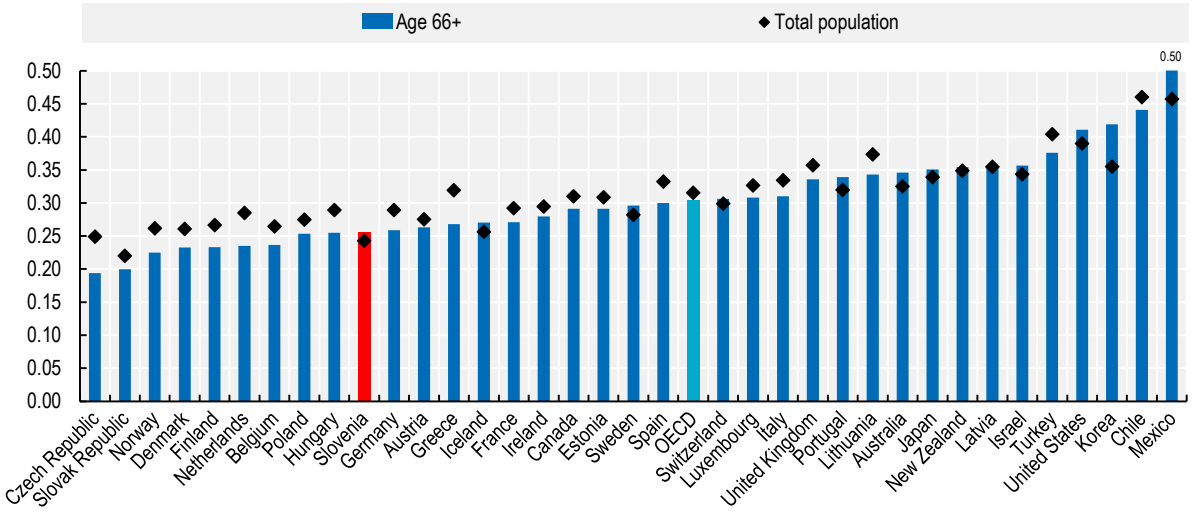
With a Gini coefficient – a measure of inequality that equals 0 if every person receives the same income and 1 if one person receives all income – of 0.256 among the population aged 66 and over, old-age income inequality in Slovenia is substantially below the OECD average of 0.304 (Figure 3.1). The Czech Republic and the Slovak Republic have the lowest levels of old-age income inequality, with a Gini coefficient just below 0.200. The Slovenian level is comparable to that of Germany, Hungary and Poland.

Low income inequality among older people in Slovenia is the result of the compressed wage distribution both before the transformation of the economy in the 1990s and, to a lesser extent, due to a high degree of wage co-ordination at the sectoral level since the transformation (OECD, 2020[1]). Moreover, the important role played by minimum pensions, as discussed in greater detail later, further reduces income inequality after retirement.

Over 2004-17, old-age income inequality was stable in Slovenia, as in the OECD on average (Figure 3.2). The Gini coefficient among older people increased by more than 0.05 in Latvia, Lithuania and Luxembourg, whereas it decreased by more than 0.05 in Greece and Israel.

Figure 3.1. Income inequality is much lower than in most OECD countries

Gini coefficient for people aged 66+ and the total population, 2017 or latest



Note: Data are from 2018 for Australia, Finland, Israel, Norway, Sweden and the United Kingdom; from 2016 for Denmark, Mexico and the Netherlands; from 2015 for Iceland, Japan and Turkey; and from 2014 for New Zealand.
Source: OECD Income Distribution Database.

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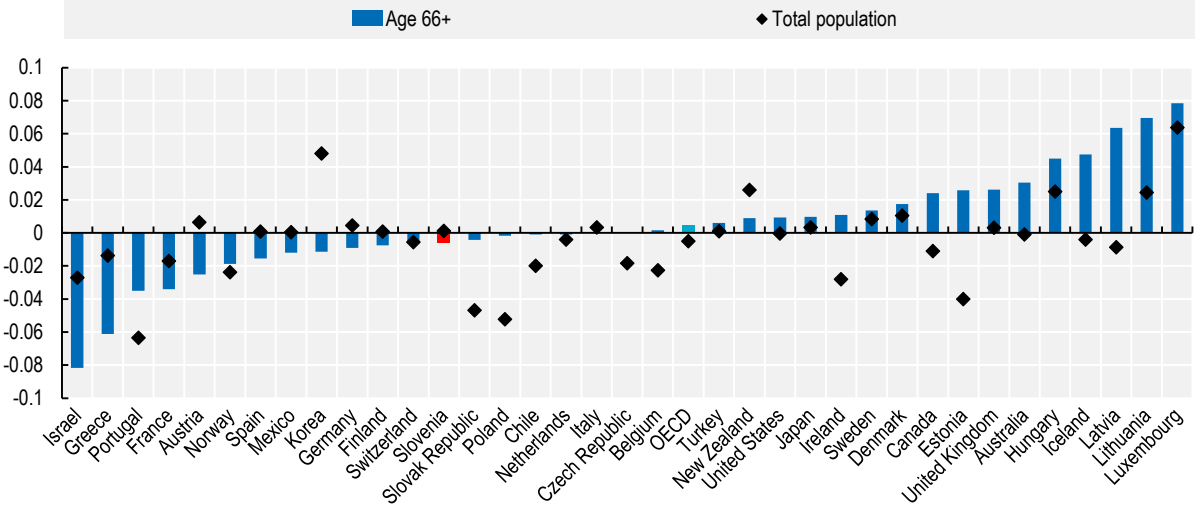
Figure 3.2. Income inequality has been stable in Slovenia

Evolution of the Gini coefficient among people aged 66+ and in the total population, 2004-17 or earliest to latest



Note: Earliest year is 2005 for Poland; 2006 for Hungary and Switzerland; 2008 for Germany; 2009 for Chile and Japan; 2011 for Denmark, France, Israel, the Netherlands, New Zealand, Sweden and Turkey; and 2012 for Australia, Korea, Mexico and the United States. Latest year is 2018 for Australia; 2016 for Denmark, Mexico and the Netherlands, 2015 for Iceland, Japan and Turkey; and 2014 for New Zealand.
Source: OECD Income Distribution Database.

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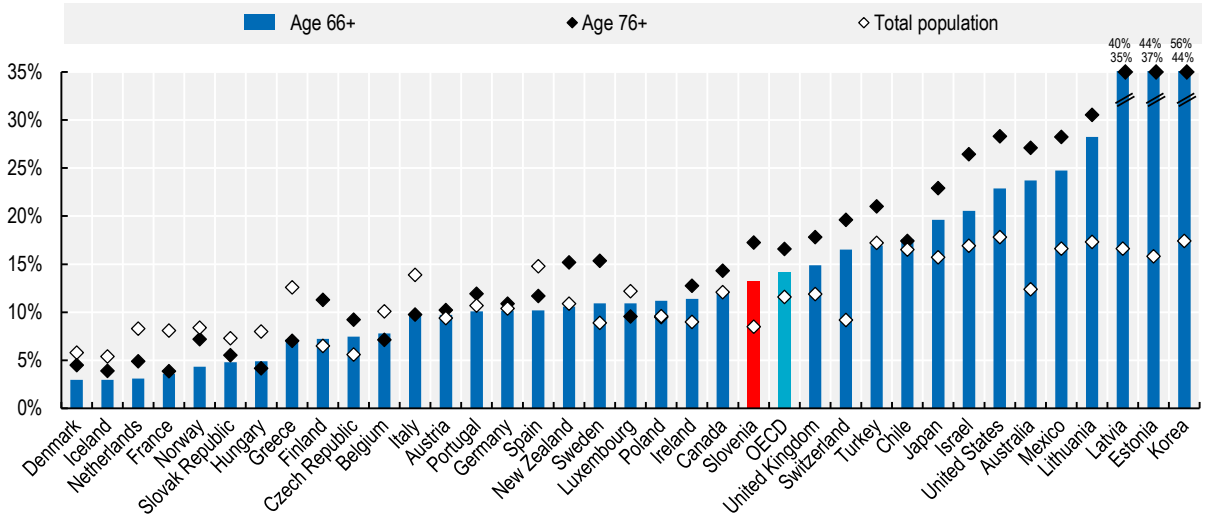
3.2.2. Old-age poverty

Relative poverty among older people is just below the OECD average (Figure 3.3). More precisely, measured as having a disposable income below half of the median equivalised household income, 13.2% of people aged 66+ fall below the relative poverty threshold in Slovenia, compared to 14.1% in the OECD on average. The relative poverty rate is higher at 17.2% among the 76+ in Slovenia, similar to the OECD average of 16.6% and substantially higher than among the 66-75 age group, which stands at 10.5%.

Figure 3.3. Relative old-age poverty rates are close to the OECD average

Relative poverty rate (share of people below 50% of median equivalised income), by age. 2017 or latest



Note: Data are from 2018 for Australia, Finland, Israel, Norway, Sweden and the United Kingdom; from 2016 for Denmark, Mexico and the Netherlands; from 2015 for Iceland, Japan and Turkey; and from 2014 for New Zealand.
Source: OECD Income Distribution Database.

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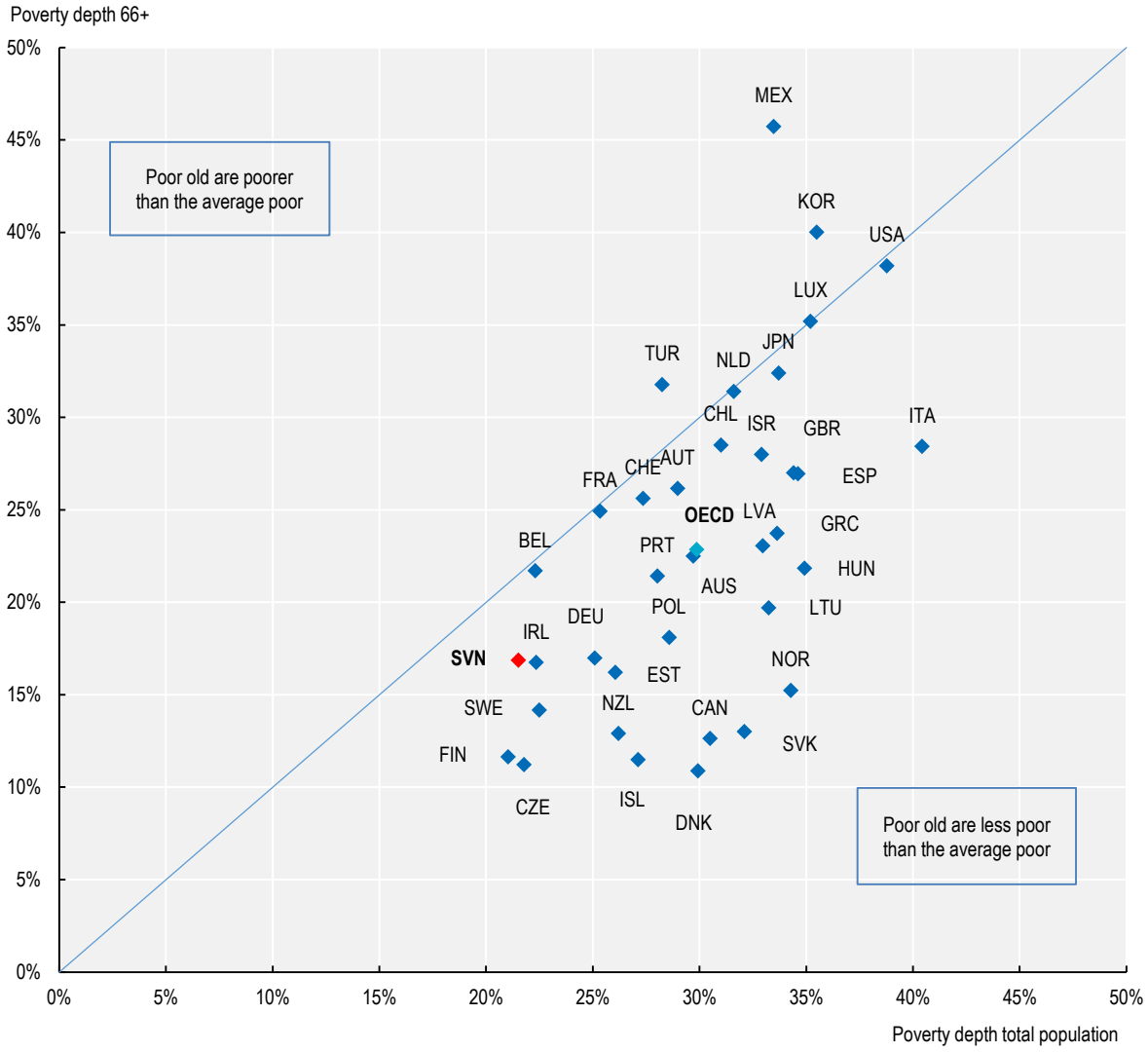
The depth of poverty, which measures how much the average disposable income of the poor is below the relative poverty threshold (in percentage of the threshold), is slightly lower in Slovenia than in the OECD on average (Figure 3.4). Older people classified as poor based on the relative poverty line defined at 50% of median income have on average a disposable income that is 17% below the threshold against 23% in the OECD on average.

The poverty depth among people aged 66+ is lower than in Slovenia in about one-third of OECD countries, including the Nordic countries, Canada, the Czech Republic, Estonia, Ireland, New Zealand and the Slovak Republic. As in most countries, the depth of poverty is lower among older people than among the whole population for whom the average disposable income of people in poverty is 22% below the poverty threshold. Only Finland has a lower depth of poverty in the total population than Slovenia.

Figure 3.4. Depth of income poverty among older people is below the OECD average

Gap between the poverty threshold of 50% of median disposable income, and average disposable income of people below the threshold, for the total population and the population aged 66+, 2017 or latest



Note: Data are from 2018 for Australia; from 2016 for Denmark, Mexico and the Netherlands; from 2015 for Iceland, Japan and Turkey; and from 2014 for New Zealand.
Source: OECD Income Distribution Database.

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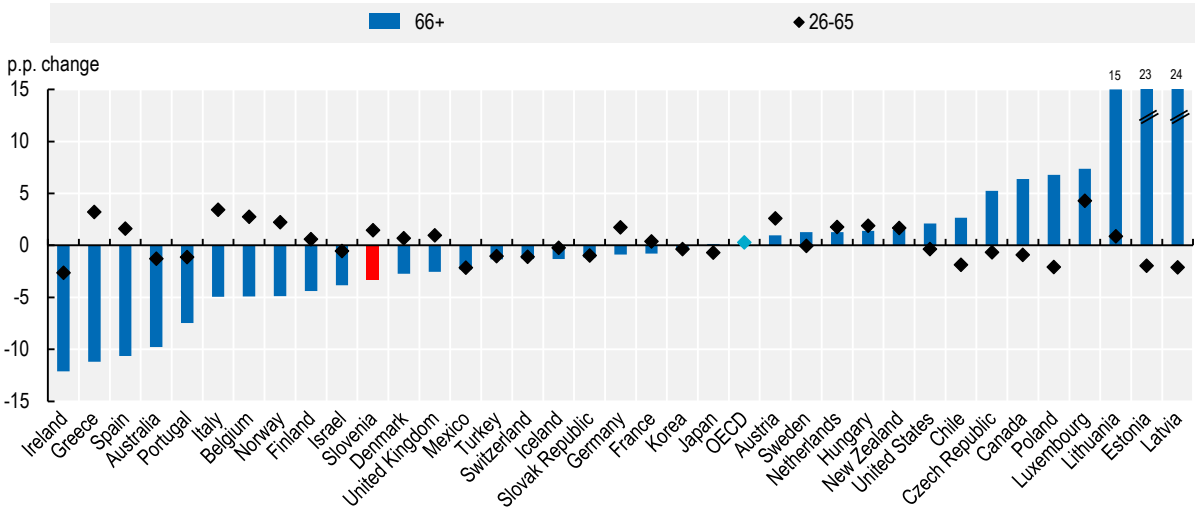
The relative old-age poverty rate declined by 3.3 percentage points between 2004 and 2017 in Slovenia, while it remained stable for the OECD on average (Figure 3.5). The reduction in old-age poverty was larger than 5 percentage points in Australia, Greece, Ireland, Portugal and Spain, while the three Baltic countries saw a dramatic increase of at least 15 percentage points. At the same time, the poverty rate in the Slovenian working-age population (26 to 65 years) increased by 1.5 percentage points, thereby reducing the poverty gap between working-age and older people over this period.

Figure 3.5. Relative poverty declined among older people in Slovenia since 2004

Evolution of the relative poverty rate among people aged 66+ and 26-65, 2004-17 or earliest to latest



Note: Earliest year is 2005 for Poland; 2006 for Hungary and Switzerland; 2008 for Germany; 2009 for Chile and Japan; 2011 for Denmark, France, Israel, the Netherlands, New Zealand, Sweden and Turkey; 2012 for Australia, Mexico and the United States; and 2015 for Korea. Latest year is 2018 for Australia; 2016 for Denmark, Mexico and the Netherlands, 2015 for Iceland, Japan and Turkey; and 2014 for New Zealand.
Source: OECD Income Distribution Database.

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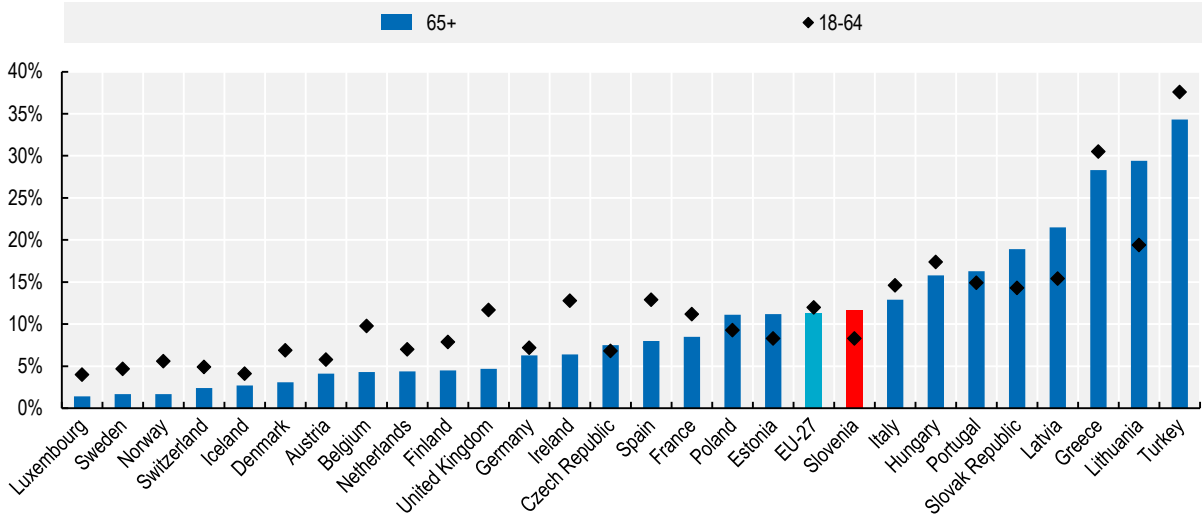
Slovenia has comparatively high levels of material deprivation among older people. Of all people aged 65+, 11.6% cannot afford at least three items of a nine-item list (Figure 3.6). That is just above the EU-27 average of 11.3%, and higher than the rate in the majority of European OECD countries. Thus, Slovenian old-age poverty rates are average not only in relative but also in absolute terms, with more than one in ten older Slovenians not being able to afford several basic goods. In Slovenia, material deprivation affects older people more than working-age individuals, as in the Baltic countries, Poland and the Slovak Republic. While the depth of income poverty indicates a rather high concentration of people just below the relative poverty threshold, the material deprivation rate signals that the income of a large share of these people remains insufficient to fulfil their basic material needs.

Figure 3.6. Material deprivation among older people is high in Slovenia

Share of population aged 18-64 and 65+ unable to afford at least three items of a nine-item list, 2019 or latest



Note: The nine items include payments connected to housing (e.g. mortgage, rent or utility payments), adequate heating for the home, a car, one week of holidays away from home, a meal with meat, fish or a vegetarian equivalent every other day, unexpected financial expenses, a telephone, a colour TV and a washing machine. Data are from 2017 for Iceland and the United Kingdom.
Source: Eurostat Income and Living Conditions Database (ILC_SIP8).

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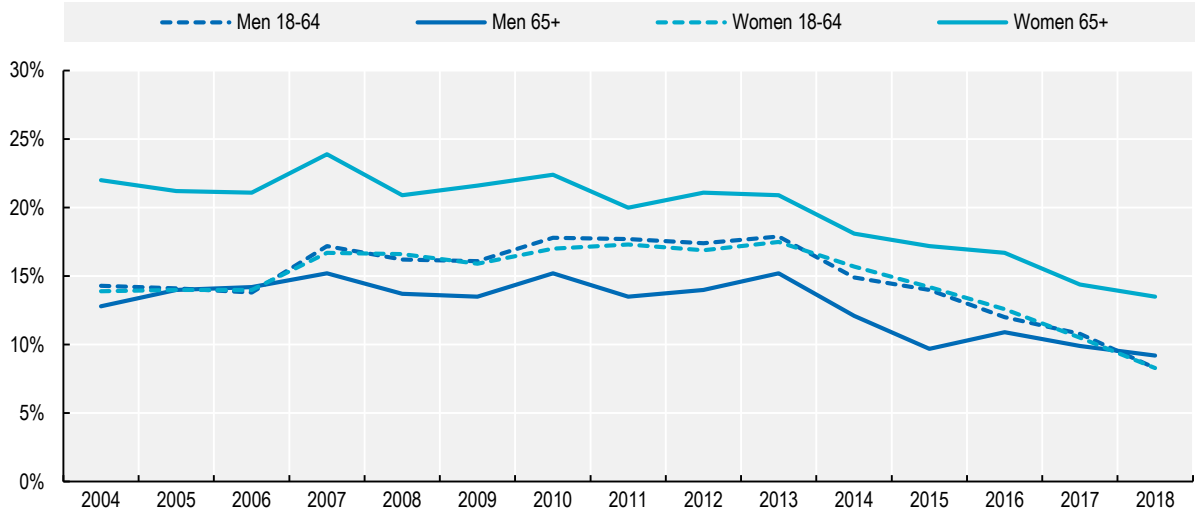
3.2.3. Older women face large vulnerabilities

Material deprivation in Slovenia has been declining for both older people and people of working age since 2013, and even since 2007 among older women. Whereas material deprivation was continuously at a similar level for men and women of working age between 2004 and 2018, there was a significant gender gap among older people throughout this period to the detriment of women (Figure 3.7). In 2019, 13.5% of women aged 65+ could not afford at least three items from a nine-item list, compared to 9.2% of older men and 8.3% of people of working age.

Figure 3.7. Material deprivation has fallen sharply in Slovenia overall, but remains high among older women

Evolution of the share of the Slovenian population unable to afford at least three items of a nine-item list between 2004 and 2018, by age and gender



Note: The nine items include payments connected to housing (e.g. mortgage, rent or utility payments), adequate heating for the home, a car, one week of holidays away from home, a meal with meat, fish or a vegetarian equivalent every other day, unexpected financial expenses, a telephone, a colour TV and a washing machine.
Source: Eurostat Income and Living Conditions Database (ILC_SIP8).

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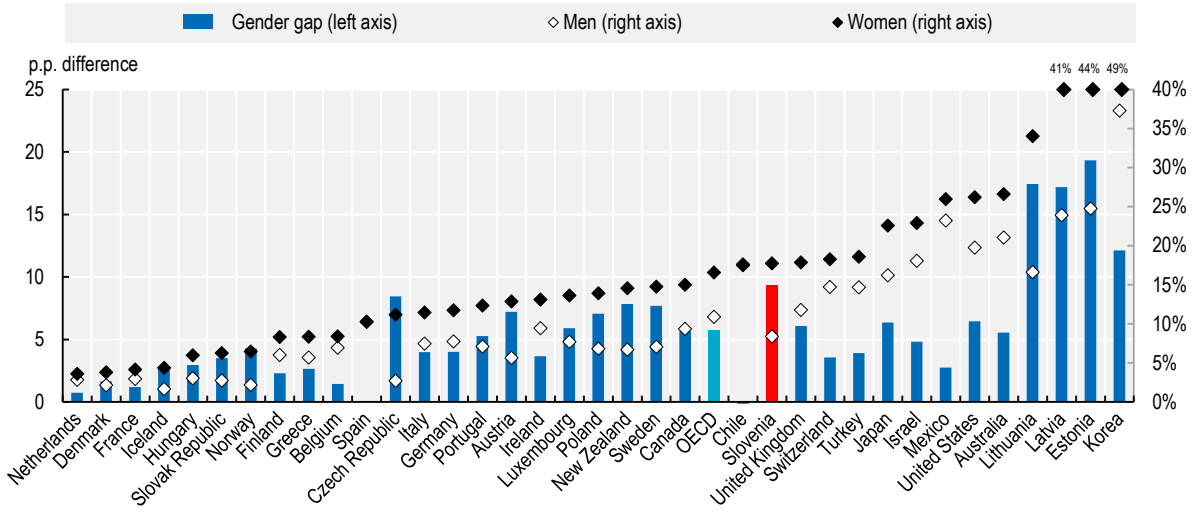
The gender gap in old-age income poverty rates is large in Slovenia, the fifth largest in the OECD after the three Baltic countries and Korea (Figure 3.8). Of all Slovenian women aged 66+, 17.8% have an income below half the median income, compared to the OECD average of 16.6%, against 8.4% and 10.9% for men, respectively. The share of older women below the relative poverty threshold is thus double the share of men in Slovenia. In particular, old-age poverty among women is higher than in Slovenia's regional peers including Austria, the Czech Republic, Germany, Hungary, Italy and the Slovak Republic. Women are overrepresented among pensioners receiving low pension benefits, likely due to their somewhat lower labour market participation rates both before (Vodopivec and Hribar-Milic, 1993[2]) and since the 1990s (OECD, 2021[3]). As such, their higher likelihood of living alone due to outliving their partners makes them more prone to falling below the poverty threshold because of higher individual costs of living alone.

As cohabitation leads to economies of scale, for instance in expenses on housing and utilities, couples have lower expenses per person than single individuals. Hence, the loss of a partner results in higher individual expenses. For people with a pension of their own in Slovenia, this loss is only partially offset by the survivor's pension equalling 15% of the deceased person's pension, unless the survivor's own pension is much higher (about double) the deceased's own pension. Disposable income remains stable for survivors without an old-age pension, as in that case the survivor's pension equals 70% of the deceased person's pension (Chapter 2).[1]

Figure 3.8. Slovenian old-age poverty among women is high

Relative poverty rate among men and women aged 66+ (%), and gender gap in relative poverty rate (percentage points), 2017 or latest



Note: Data are from 2018 for Australia, Finland, Israel, Norway, Sweden and the United Kingdom; from 2016 for Denmark, Mexico and the Netherlands; from 2015 for Iceland, Japan and Turkey; and from 2014 for New Zealand.
Source: OECD Income Distribution Database.

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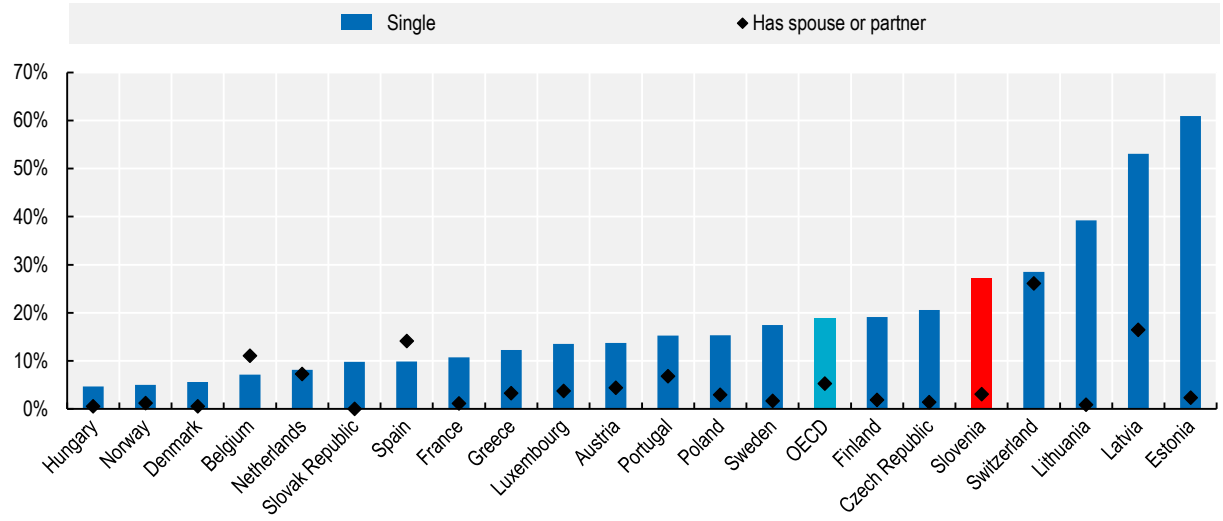
The equivalised disposable income of retirees living alone is significantly lower than that of retirees living together in Slovenia (Kump, 2017[4]). Single-person households accounted for 40% of retiree households, yet made up 61% of retiree households in the lowest three income deciles, based on 2014 EU-SILC data. Relative poverty rates among people aged 80+ in Slovenia are also highly dependent on whether or not people are single: 27% of Slovenians aged 80+ who are single live in relative poverty, compared to only 3% of people in the same age group with a spouse or partner (Figure 3.9). Indeed, the risk of poverty in old age is particularly concentrated among single people in Slovenia.[2] Among European OECD countries, the relative poverty rate among single people older than 80 is only higher in Switzerland and the Baltic countries.

The high share of women living alone in old age (Figure 3.10) contributes to the relatively high gender gap in poverty rate in Slovenia. In all countries, many more women than men live alone, partly because they are more likely to be widowed, but this is even more the case in Slovenia. With 45% of women aged 65+ living in single-person households, Slovenia is among European OECD countries with a large share, and second only to Latvia. The Slovenian share is 5 percentage points higher than the EU average.

Figure 3.9. Relative poverty is high among Slovenian single people aged 80+

Percentage of the over-80s with an equivalised income below 50% of the median, by whether they have a spouse or partner (2019).



Note: Data points contain minimum 200 respondents.
Source: OECD calculations, based on European Union Statistics on Income and Living Conditions (EU-SILC), 2020 edition.

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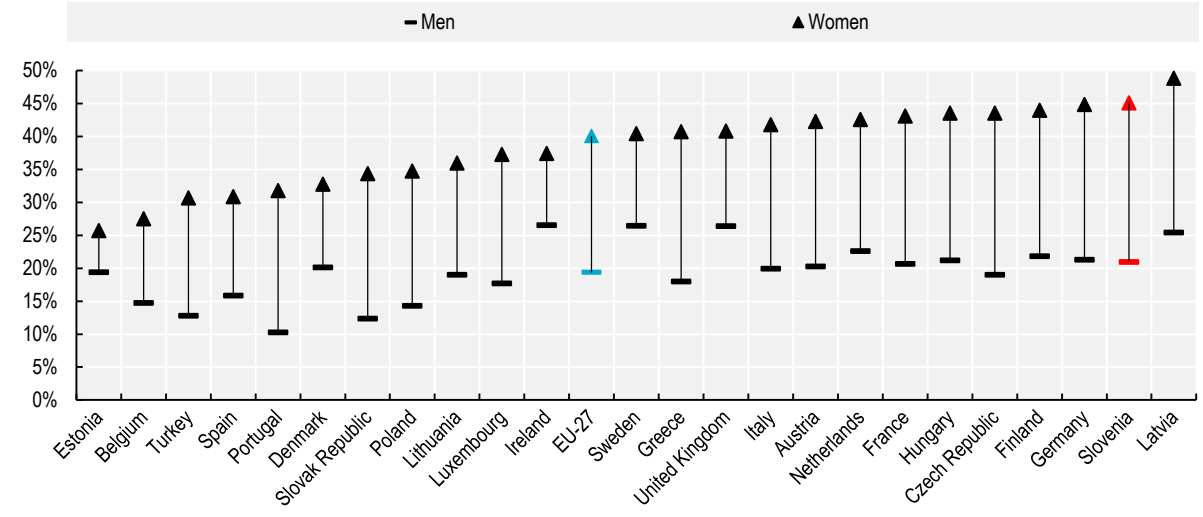
Figure 3.10. A large share of older women live alone in Slovenia

Share of population aged 65+ living in a single-person household, by gender, 2019



Source: Eurostat household composition statistics (LFST_HHINDWS).

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In sum, income inequality among older people is low, while relative income poverty and material deprivation among older Slovenians are close to the OECD and EU averages. Although relative poverty and material deprivation among older people have been declining, older women remain particularly vulnerable in old age. The high share of women living alone in old age contributes significantly to the high gender gap in old-age poverty.

3.3. Non-contributory benefits for older people

This section deals with non-contributory first-tier benefits, i.e. residence-based basic pensions and safety-net benefits. It first presents safety-net benefits in Slovenia and then compares those to non-contributory benefits accessible to older people in other OECD countries in terms of benefit levels and coverage. Subsequently, extra support available to people receiving social assistance is discussed. Finally, safety-net benefit expenditure is analysed.

3.3.1. Description of safety-net benefits in Slovenia

The basis of Slovenia's social assistance system is the Social Welfare Benefits Act (*Zakon o socialno varstvenih prejemkih*, ZSVarPre) that was adopted in 2010 and took effect as of January 2012. The law aims to provide support to people who cannot afford material security due to circumstances beyond their own control. The safety net for older people in Slovenia consists of two benefits, known as 'financial social assistance' and 'supplementary allowance'. For financial social assistance, the same rules apply to people beyond the statutory retirement age as to all other adults, but the benefit level depends on employment status. Qualification for supplementary allowance is dependent on age and employment status.

The purpose of financial social assistance (*Denarna socialna pomoč*) is to meet individuals' minimum living needs by topping up household income to a threshold. The threshold for the first adult in the household is known as the minimum income (*Minimalni dohodek*) and is equal to EUR 402.18 per month in 2021, which is about 22% of gross average earnings or 36% of net average earnings. For every other adult in the household, the threshold increases by 57% of the minimum income (EUR 229.24). These benefit levels apply to persons working fewer than 60 hours per month.

The thresholds are higher for individuals working at least 60 hours per month at 126% of the minimum income (EUR 506.75), and at 151% of the minimum income (EUR 607.29) for individuals working more than 128 hours per month. For every other adult in employment, the threshold increases by 70% of the minimum income (EUR 281.53) and 83% of the minimum income (EUR 333.81), respectively.

Benefit amounts paid to older people are typically smaller than those paid to working-age people as for the former they top up earnings-related pensions. In 2019, the average financial social assistance benefit was EUR 355, whereas it was just more than half that amount, at EUR 189, among people aged 65+.

The means test assessing eligibility for financial social assistance also covers assets.[3] Social assistance is not available to people owning the dwelling they live in if its value is above EUR 120 000, unless they comply with certain conditions, including an agreement that the state can reclaim part of the social assistance received at the time the dwelling is inherited – a rule that also applied to dwellings with a value below EUR 120 000 before 2017.[4] Moreover, people cannot claim social assistance if their total eligible assets are valued over 48 times the monthly minimum income (that is, more than EUR 19 304.64 in 2021), with exemptions for the dwelling one lives in, the value of occupational and individual pension plans and a vehicle for personal use up to a value of 28 times the minimum income (EUR 11 261.04).[5] In principle, adult children have an obligation to provide support to their parents if they are in need.[6] As such, social assistance benefits are only available to people for whom financial family help is not possible. This can be the case because children do not have the means to support their parents, for instance if the children are social benefit recipients themselves, or because circumstances make it clear that the child will not support the parent, for instance in case of alienation or domestic violence.

The other benefit, the supplementary allowance (*Varstveni dodatek*), which used to be a supplement to low-income pensioners within the pension scheme, was transformed into a part of social assistance in 2012. The supplementary allowance is only available to people who are permanently out of the labour market, i.e. people who are permanently unemployable or unable to work due to disability, as well as to women older than 63 and men older than 65 who are not in employment. The benefit is designed to cover long-term living needs such as maintenance costs or replacement of household equipment.

The scheme effectively increases the threshold (to which benefits are topped up) for receiving social assistance benefits to 147% of the minimum income for a single individual (EUR 591.20) or to 229% of the minimum income (EUR 920.99) for a couple in which both people qualify. Hence, for single individuals, the maximum supplementary allowance benefit is 47% of the minimum income (EUR 189.02).[7] In 2019, the average supplementary allowance benefit for people aged 65+ was EUR 167. The supplementary allowance is subject to the same asset test as financial social assistance.

Considering financial social assistance and supplementary allowance together, it is clear that the Slovenian social assistance system provides a disincentive for women aged 63+ and men aged 65+ to enrol in any kind of employment (Table 3.1). As people above this age limit who are not in employment are entitled to both financial social assistance and supplementary allowance, the social assistance eligibility threshold applying to them is at 147% of minimum income (EUR 591.20) for single individuals. However, the moment they take up any employment, they can no longer receive the supplementary allowance, resulting in the social assistance threshold being lowered to the minimum income (EUR 402.18). A similar threshold as the combined financial social assistance and supplementary allowance threshold is only reached again for people working more than 128 hours per month. This disincentive comes on top of the suspension of full pension benefits for people combining work and pensions as detailed in Annex A in Chapter 1.

Men who are able to work become eligible to supplementary allowance upon reaching the statutory retirement age (at age 65), whereas women can receive the benefit already two years earlier as the eligibility age did not follow the increase in the statutory retirement age to 65 for women. As the statutory retirement age is an important social norm influencing the division between employment and retirement, it is inconsistent to assume that women remain eligible to supplementary allowance from the age of 63 years.

Table 3.1. The social assistance eligibility threshold is lower for women aged 63+ and men aged 65+ enrolling in some employment

Eligibility thresholds for financial social assistance and supplementary allowance as a percentage of the minimum income, and the combined threshold in euros in 2021

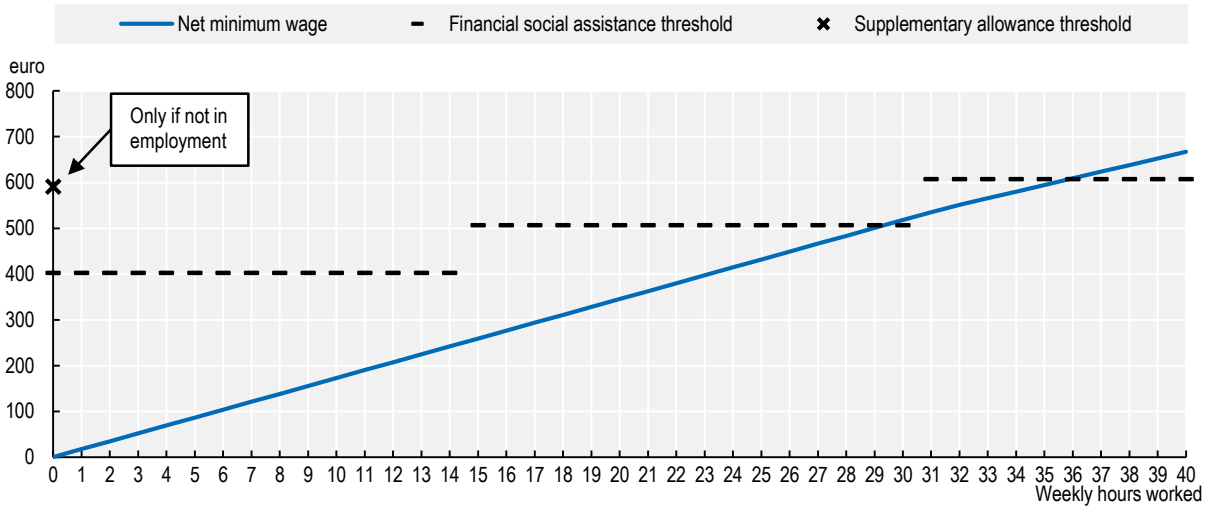
	Financial social assistance	Supplementary allowance top-up	Combined threshold	Combined threshold (EUR)
Maximum rate for single / first adult				
Permanently out of the labour market	100%	47%	147%	591.20
Unemployed / works < 60 hours per month	100%	0%	100%	402.18
Works 60-128 hours per month	126%	0%	126%	506.75
Works >128 hours per month	151%	0%	151%	607.29
Supplement for second adult				
Permanently out of the labour market	57%	25%	82%	329.79
Unemployed / works < 60 hours per month	57%	0%	57%	229.24
Works 60-128 hours per month	70%	0%	70%	281.53
Works >128 hours per month	83%	0%	83%	333.81

Note: The minimum income is EUR 402.18 in 2021.
Source: Social Welfare Benefits Act (ZSVarPre), art. 26 and art. 50.

While the loss of supplementary allowance provides a disincentive to be employed, the increase of financial social assistance eligibility thresholds by working hours in only two steps provides limited incentives to work more hours. For a person receiving social assistance, monthly income is the same if one works 15 or 29 hours per week with low wages (Figure 3.11).

Figure 3.11. Social assistance eligibility thresholds discourage working

Social assistance eligibility threshold for single women (63+) and single men (65+) and net minimum wage by weekly hours worked, 2019 amounts



Note: For a person combining work and pensions, it is not possible to work fewer than 10 hours per week.
Source: OECD calculations based on OECD (2019[5]), "Earnings: Nominal minimum wages (Edition 2019)", https://dx.doi.org/10.1787/97e15391-en, for the gross minimum wage, converted to a net amount based on OECD (2020[6]), *Taxing Wages 2020*, https://dx.doi.org/10.1787/047072cd-en.

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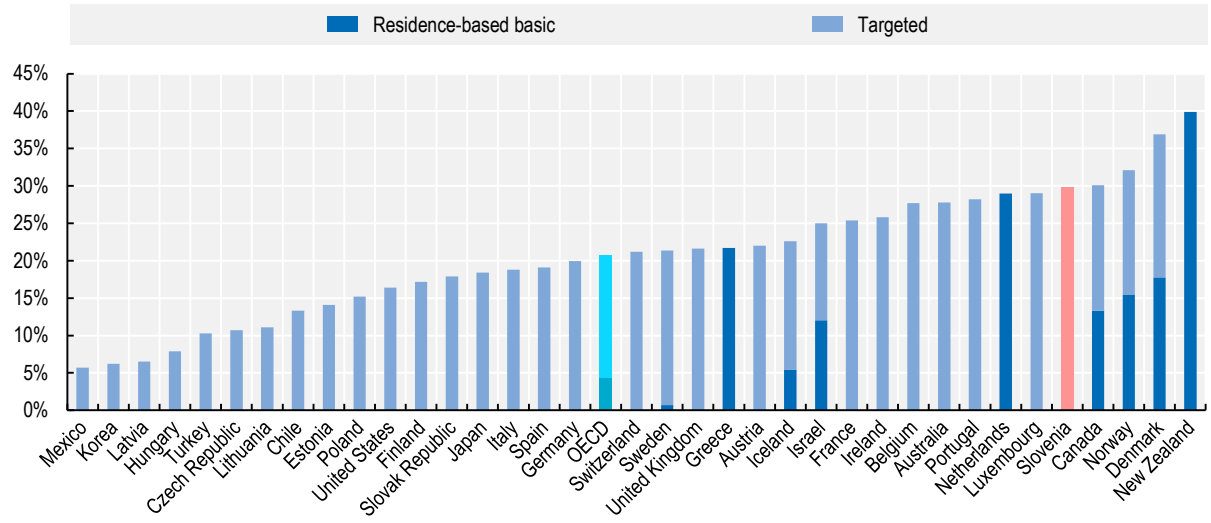
3.3.2. Assessment of benefit levels

The levels of Slovenia's non-contributory first-tier benefits are relatively high in international comparison. A single older person without any entitlements in the contributory pension scheme receives 29.8% of gross average earnings (EUR 591.20), compared to 20.7% on average in the OECD. Non-contributory pensions only exceed 30% of gross average wages in Canada, Denmark, New Zealand and Norway (Figure 3.12). New Zealand has no mandatory earnings-related pension, explaining the exceptionally high level of its residence-based basic pension. Canada, Denmark and Norway combine a residence-based basic pension with a targeted supplementary component.

Slovenia's targeted scheme includes an asset test (more on this below), whereas the targeted schemes in Canada, Denmark and Norway are only tested against income. Income and asset tests generally apply to benefits allowing people to fulfil their basic living needs. Targeted to that purpose, asset-tested benefits in Slovenia are the highest in international comparison, followed by Australia, Belgium, Luxembourg and Portugal where benefit levels are around 28-29% of gross average earnings.

Figure 3.12. Non-contributory old-age safety-net benefits are high in Slovenia

Full non-contributory benefits as a percentage of average gross earnings, 2018 (2021 for Slovenia)



Note: For Slovenia, benefits in June 2021 are compared to average gross earnings in the first four months of 2021.
Source: Figure 4.2 in OECD (2019[7]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en. Updated for Slovenia with data provided by the country and wage information from the Statistical Office of the Republic of Slovenia.

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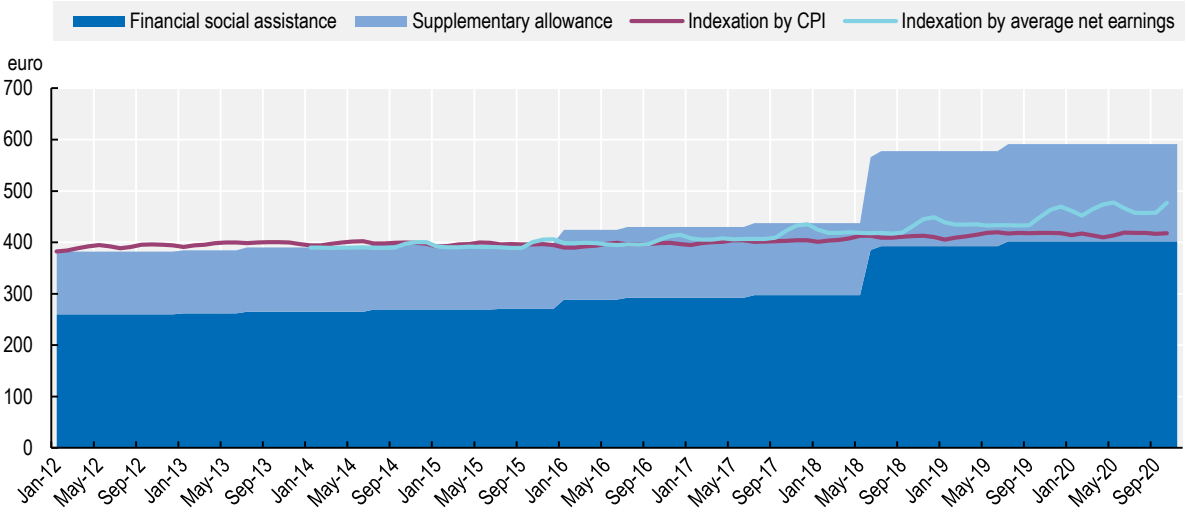
Financial social assistance and supplementary allowance are indexed to consumer prices. Hence, social assistance eligibility thresholds do not automatically keep up with increases in wages and average income. However, financial social assistance and supplementary allowance thresholds have grown much faster than price inflation or even wage growth over the last decade (Figure 3.13). In June 2018, they were sharply increased, by almost 30%. Discretionary adjustments have thus played a big role, and the large shift in June 2018 has deeply affected the consistency of non-contributory benefits that apply at older ages with first-tier contributory pensions (Section 3.4).

Figure 3.13. Social assistance benefits increased by almost 30% in June 2018

Evolution of social assistance eligibility thresholds (in euro) for people above the statutory retirement age, compared to their evolution if they were indexed by Consumer Price Index (CPI) or average net earnings, 2012-20



Note: A three-month running average was used to calculate the indexation by average net earnings, to smoothen fluctuations.
Source: Republic of Slovenia Statistical Office, 2020 (Consumer Price Index and evolution of average earnings), Zveza računovodij, finančnikov in revizorjev Slovenije [Association of Accountants, Financiers and Auditors of Slovenia], 2020 (minimum income), available at: https://www.zvezarfr.si/pripomocki/uporabni-podatki/minimalni-dohodek

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3.3.3. Coverage

Coverage rates for non-contributory first-tier benefits, measured as the number of recipients of a benefit relative to the population aged 65+, vary widely across OECD countries and benefit types (Figure 3.14). Coverage rates are highest in countries with residence-based basic pension schemes, covering on average 94% of the population aged 65+.[8] Targeted schemes have significantly lower coverage rates, 16% on average.

With 3.4% of the Slovenian older population covered by targeted benefits, coverage is low. With roughly one in ten Slovenians aged 65+ living in a household with an income below the supplementary allowance eligibility threshold, calculations provided by IER show that 34.6% of those people effectively received supplementary allowance in 2020. This means that the combination of the asset test and non-take-up results in almost two in three older adults passing the income test not receiving the benefit. A comparison by Eurofound (2015[8]) shows that non-take-up rates of this level are high but not exceptional for social assistance benefits: they reach over 50% in many European countries and even over 70% in the Czech Republic, Portugal and the Slovak Republic.

Tight asset testing is likely to be an important factor of low coverage, contributing to the relatively high material deprivation rate among the older population (Section 3.2.2) despite high safety-net benefit levels. Although a wide range of factors impact coverage rates of targeted benefits, three elements play a crucial role. First, coverage rates and benefit levels of earnings-related pension benefits, minimum and basic pensions can reduce the number of people needing social assistance. Several countries with above-average coverage rates of targeted benefits provide neither minimum nor basic pensions, including Australia, Finland and Sweden. With the exception of Germany and the United States, all countries with

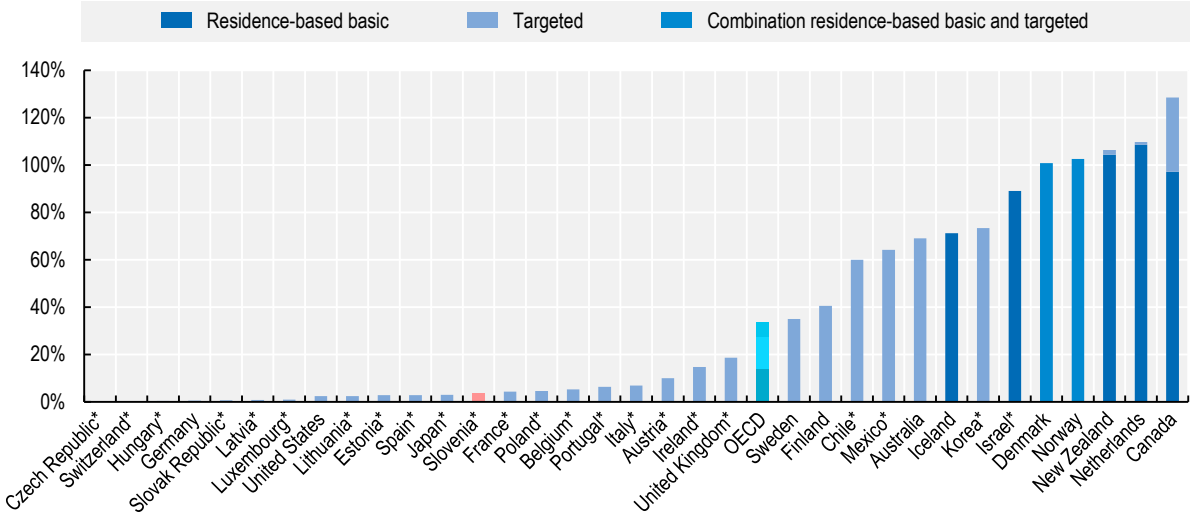
below-average coverage rates have a minimum or contribution-based basic pension. This is also the case for Slovenia, which provides a minimum pension (Section 3.4).

Secondly, eligibility thresholds for social assistance restrict the number of possible applicants. In Central and Eastern European countries, the low level of targeted benefits presented in Figure 3.12 is associated with lower coverage rates than in Slovenia, with the exception of Poland. However, the high benefit level in Slovenia does not translate in a correspondingly high coverage rate. That is likely the result of the third factor: the stringency of the means test. Several countries with above-average coverage rates test only for income, not assets. This is for instance the case in Canada, Finland, Korea and Sweden. However, some countries, including Slovenia and Portugal, extend the asset test not just to the household, but also to children, substantially increasing the stringency of eligibility conditions.

The primary legal responsibility for financial assistance is placed with the family in Slovenia. People with insufficient means may not be eligible for social assistance benefits if they have children with sufficient means to support them. This responsibility may create an important disincentive for people to apply for social assistance in the first place, contributing to non-take-up. As the state will contact children to check whether they can support an applicant for social assistance, people may be reluctant to apply in the first place in order not to inconvenience their children, or to hide their own neediness for the people around them out of shame.

Figure 3.14. Coverage of non-contributory benefits for older people is currently very low

Number of recipients as percentage of the population aged 65+, 2016 or latest (2019 for Slovenia)



Note: This table only contains coverage of minimum income protection in the form of non-contributory benefits. Countries indicated with an asterisk (*) provide minimum income protection to older people via contributory benefits such as a contribution-based basic pension or minimum pension, of which coverage is not included in this figure. The number of recipients can exceed 100% of the population aged 65+ if benefits are paid to people below age 65 and/or to people living abroad. The coverage rate for targeted benefits in Slovenia refers to the number of beneficiaries of supplementary allowance aged 66+ relative to the Slovenian population aged 66+. Data from 2012 for Luxembourg, and 2014 for Switzerland and the Netherlands. Coverage data are missing for targeted benefits in the Czech Republic, Iceland and Israel and for the residence-based basic pension in Sweden.

Source: Table 4.2 in OECD (2019[7]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en. Updated for Slovenia with data provided by the country and population data from the Statistical Office of the Republic of Slovenia; updated for Latvia from Figure 3.9 in OECD (2018[9]), *OECD Reviews of Pension Systems: Latvia*, https://dx.doi.org/10.1787/9789264289390-en.

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Economically, the legal obligation for children to provide assistance is effectively a tax on social mobility. As richer older people do not need financial assistance and poor older people with poor children qualify for safety-net benefits, only children of poor parents who have managed to build a better life for themselves economically would end up being forced to step in to pay for financial assistance to their parents. As such, the obligation to provide for older parents contributes to the transfer of disadvantage from one generation to the next, perpetuating income positions across generations and stifling social mobility.

Elsewhere, for instance in Belgium, children and grandchildren are excluded from the means test and the assessment of the benefit level even if living in with the older person. The goal of the policy is to neither force family solidarity nor penalise it by withdrawing benefits when children step in to provide assistance to their parents.

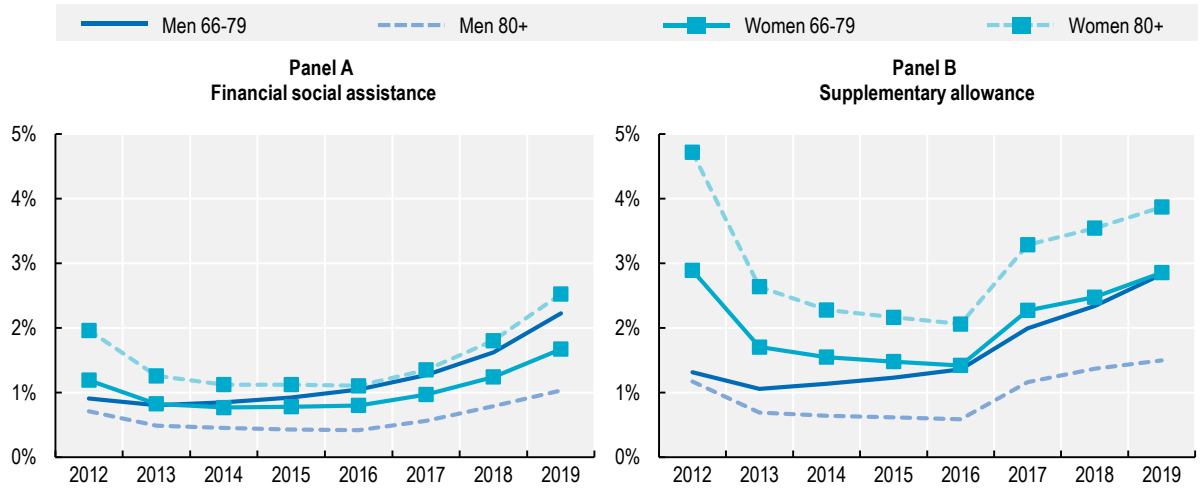
While remaining low, social assistance coverage has been on the rise since 2016 (Figure 3.15). The increase in uptake of financial social assistance and supplementary allowance coincides with increases in eligibility thresholds, resulting in more people qualifying for these benefits. In 2019, 2.5% of women and 1.0% of men aged 80+ were covered by financial social assistance benefits, whereas in the age group 66-79 this was respectively 1.7% and 2.2% (Panel A). The lower share of beneficiaries among men aged 80+ than among those aged 66-79 likely reflects the initially higher effective accrual rates that have systematically been reduced since the 1990s.

The share of the older population receiving the benefit is higher for the supplementary allowance than for financial social assistance as the maximum limit for the income test is higher (Panel B). In 2019, 3.9% of women and 1.5% of men aged 80+ were covered by a supplementary allowance, whereas in the age group 66-79 this was 2.9% and 2.8%, respectively.

Since the supplementary allowance was transferred from the pension system to social assistance in January 2012, it has been awarded to a household rather than an individual and became subject to the asset test. This resulted in a drastic drop in supplementary allowance beneficiaries from around 46 750 on 31 December 2011 to around 13 100 in 2012. The drop was largely caused by people no longer qualifying under the new conditions, although some 9 800 recipients renounced their right by 1 January 2012 (ZPIZ, 2012[10]). This is likely also the reason for a further drop in beneficiaries between 2012 and 2013 (Panel B). Since then, the share of older people benefiting from a supplementary allowance has followed roughly the same pattern as for financial social assistance. Moreover, for people owning their own dwelling, the amount of financial social assistance and supplementary allowance received had to be reimbursed after they passed away, but since February 2017, dwellings with a value below EUR 120 000 are exempt from this rule. This likely explains the hike in beneficiaries in 2017, whereas the big increase in benefit level only occurred in 2018.

Figure 3.15. Share of social assistance beneficiaries among the older population

Evolution of the share of people aged 66+ that is a beneficiary to financial social assistance and the supplementary allowance, by age and sex



Note: The data present the number of beneficiaries to social assistance benefits as a share of the population groups. As in a multi-person household one person can receive a benefit covering several beneficiaries in the household, the number of recipients is lower than the number of beneficiaries.
Source: OECD calculations based on data supplied by the country and data from the Statistical Office of the Republic of Slovenia.

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3.3.4. Other safety-net benefits

A rental subsidy (*Subvencija najemnine*) is available to tenants. A household is eligible for a rental subsidy if 70% of household income is lower than a ceiling equal to the sum of: the minimum income level for the type of household; and, the amount of 'not-for-profit rent' – an administratively set value determined by dwelling size, location and a number of costs for the owner including maintenance, management, financing and depreciation.[9] The subsidy is equal to the difference between the ceiling and 70% of the household's total income, and is maximally 80% of the not-for-profit rent. For a single older person living in a 30m^2 apartment valued at the maximal not-for-profit rent, the rental subsidy is EUR 91 per month if the person receives the supplementary allowance.

Medical and care expenses affect social assistance recipients in a number of ways. Healthcare is free for people receiving social assistance benefits. Adults in institutional care are entitled to financial social assistance at the full minimum income of EUR 402.18, but not to supplementary allowance. Furthermore, there is an Assistance and Attendance Allowance (*Dodatek za pomoč in postrežbo*) available to people who need help from another person to carry out activities of daily life (ADLs).[10]

Extraordinary financial social assistance (*Izredna denarna socialna pomoč*) is available for a period of up to six months, or paid as a lump-sum, to finance an acute material need that cannot be covered by either the recipient's own or the family's income. The maximum benefit is the full minimum income (EUR 402.18 per month) for a single individual or up to EUR 1 106.00 for a family in 2020. The benefit application has to contain a specific purpose for the benefit, and the recipient has to provide evidence that the benefit received was spent accordingly. The benefit can be used to cover such things as utility and heating expenses, or purchases of household equipment such as a washing machine or a stove. A benefit of one month of minimum income is available to cover expenses of a funeral of a family member, and a benefit

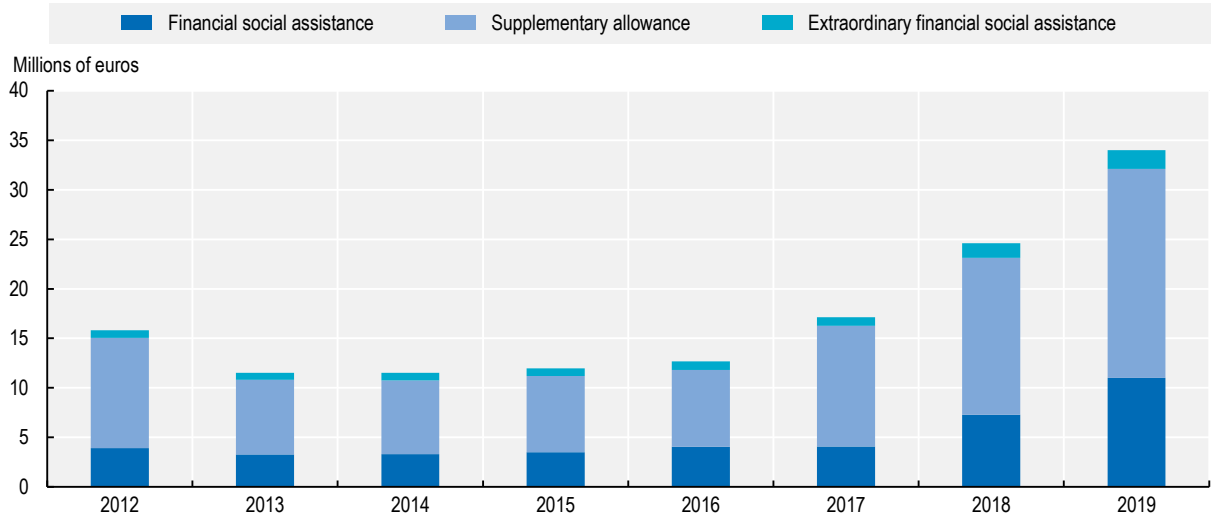
up to 5 months of minimum income can be applied for to cope with the consequences of misfortunes such as natural disasters.

3.3.5. Safety-net expenditures

Expenditure on safety-net benefits for older people is very low in Slovenia, although it has risen in recent years. Expenditure reached EUR 34 million in 2019, representing less than 0.1% of GDP (Figure 3.16). The recent increase reflects higher social assistance eligibility thresholds as shown in Figure 3.13 and a higher number of beneficiaries as presented in Figure 3.15.

Figure 3.16. Safety-net expenditure on people aged 66+ has risen sharply since 2016

Evolution of safety-net benefit expenditure on the population aged 66+, in millions of euros, 2012-19



Note: For financial social assistance and supplementary allowance, expenditure for the population aged 66+ is calculated by multiplying total expenditure by the proportion of beneficiaries aged 66+ and by the ratio of the average benefit for people aged 65+ over the average benefit for all recipients. For extraordinary financial social assistance, total benefit expenditure is divided by the share of people aged 66+ among financial social assistance beneficiaries, assuming it follows the same age distribution but benefit height does not differ by age.
Source: Data provided by the country.

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3.4. Minimum pension and guaranteed pension

The contributory pension scheme also contains some features to reduce financial vulnerability in old age, notably the minimum pension and the guaranteed pension. In this section, both schemes are presented and compared to minimum pensions and contributory basic pensions in other OECD countries. First, qualifying conditions are compared, then benefit levels, and finally coverage. The last section will discuss their interaction with non-contributory benefits.

3.4.1. Description of minimum and guaranteed pensions in Slovenia

Slovenia has two pension provisions that can be classified as minimum pensions in the typology of first-tier benefits: the minimum pension per se (*najnižja pokojnina*) and the guaranteed pension (*zagotovljena pokojnina)*. The minimum pension is based on the same accrual rates as earnings-related pensions, but is calculated based on a minimum reference wage. The minimum reference wage (also known as the

minimum pension base, *najnižja pokojninska osnova*) equals 76.5% of the average economy-wide monthly salary in the previous year, net of taxes and contributions.

Same accrual rates as for earnings-related pensions mean that once a person qualifies for an old-age pension, after 15 years of contributions, the minimum pension equals 29.5% of the minimum reference wage for women and 27.5% for men in 2021. The rate for men was set to increase to the rate of women by 2025 in increments of 0.5 percentage points per year, but in 2021 it was decided to shorten the transition process reaching gender neutrality in accrual rates by 2023. For every year of contributions after 15 years, the accrual rate is 1.36% for women and 1.28% for men in 2021, with men catching up here also by 2023. Moreover, after reaching 40 years of pensionable service without purchase and 60 years of age, there are additional accruals of 3% for every extra year of contributions for a period of up to 3 years, after which the accrual rate falls back to 1.36% and 1.28% for women and men, respectively.

Through the minimum reference wage, the minimum pension for new retirees is indexed to wage growth. For people drawing a pension for the first time in 2021, the minimum pension is equal to EUR 269.27 after a 15-year career for both men[11] and women, and EUR 543.10 for men and EUR 579.62 for women after a 40-year career. For women – and then for everyone in the future – this represents approximately 24% of economy-wide net average earnings after 15 years and 51% after 40 years. During retirement, the minimum pension follows the same 60-40 indexation mechanism that applies to all pensions.

As the minimum pension was considered insufficiently rewarding after a career of 40 years, a push for a higher pension led to the introduction of the guaranteed pension in 2017, guaranteeing a pension of at least EUR 500 per month for careers of at least 40 years of pensionable service without purchase. At the end of 2020, the guaranteed pension only affected men as the minimum pension after a 40-year career for women exceeded the guaranteed pension. Moreover, as men's accrual rates will converge towards those of women, the guaranteed pension would have no longer provided any supplementary income to the minimum pension for men either, making it obsolete. However, as part of the 2021 measures, the guaranteed pension was increased by 9% from EUR 566.88 to EUR 620 per month, which is about 49% of average net earnings. Hence, it currently supplements men's monthly minimum pension after a 40-year career by about 14% (EUR 76.90) and women's (as well as men's as of 2023) by about 7% (EUR 40.38). For both new pensions and pensions in payment, the guaranteed pension is indexed in the same way as other pension benefits (60% wages and 40% prices).

3.4.2. Assessment of qualifying period

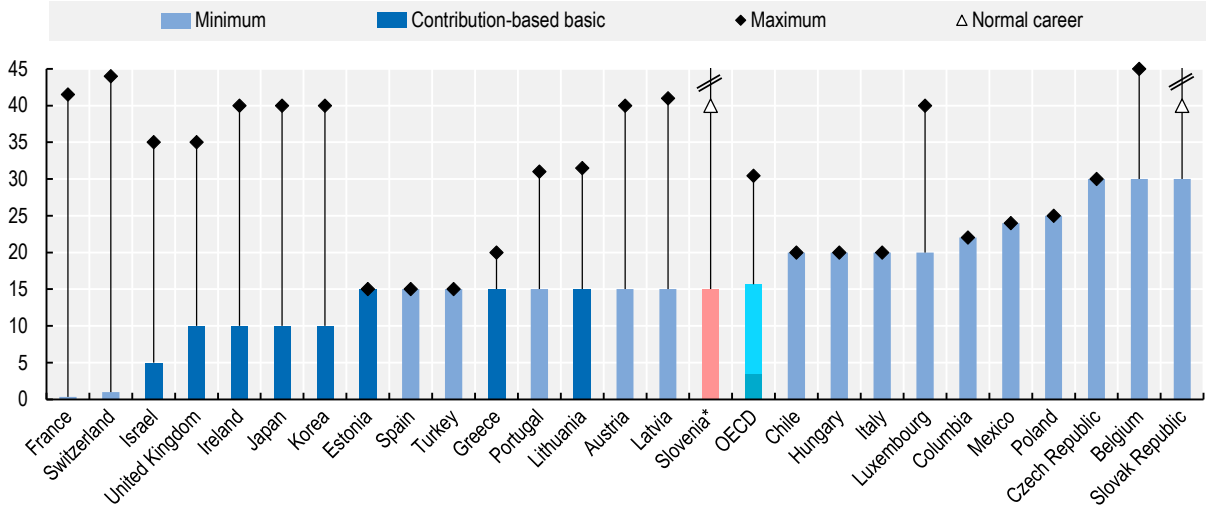
A career of 15 years is required to access the minimum pension in Slovenia, with the guaranteed pension effectively providing a top-up after a 40-year career. The 15-year career is counted in full-time equivalents with working hours compared to a 40-hour work week (Chapter 2), meaning that a person permanently working on half-time contracts becomes entitled to the minimum pension after 30 years. Several countries with minimum or contribution-based basic pensions also require at least 15 years of contributions, including Austria, the Baltic countries, Greece, Portugal, Spain and Turkey (Figure 3.17). While minimum career requirements to qualify for contribution-based basic pensions range from 5 to 15 years, minimum pension schemes vary more widely in the career length required to qualify. People have access to the minimum pension after at least one-quarter of contributions in France and 12 months in Switzerland, but qualification requires 30 years in the Czech and the Slovak Republics.

Countries also vary widely in the amount of years of contributions required to qualify for a full minimum pension, ranging from 15 years in Spain and Turkey to 44 years in Switzerland and 45 years in Belgium. In Slovenia and the Slovak Republic, there is no maximum minimum pension: the minimum pension increases with every extra year of contributions paid, without an upper limit to the number of years of contributions accounted for in the minimum pension. Only in Estonia, Spain and Turkey do 15 years of contributions result in a full minimum or contribution-based basic pension. In Belgium, Luxembourg and

the Slovak Republic, however, people only qualify for a partial minimum pension after 20 or 30 years of contributions.

Figure 3.17. Contribution periods to be eligible to first-tier contributory pensions

Number of years of contributions required to qualify for a full or partial basic or minimum pension at the statutory retirement age



Note: There is no maximum number of career years for the minimum pension in the Slovak Republic and Slovenia. * The guaranteed pension is granted after 40 years of pensionable service without purchase, indicated by the 'normal career' mark. For Italy, the data in the graph refer to the old social insurance system as the new NDC system does not contain minimum pension provisions. In Greece and Israel, the basic pension contains both contributory and residence requirements. The Czech Republic and Luxembourg combine a contribution-based basic pension with a minimum pension.

Source: Country profiles in OECD (2019[7]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en, and information provided by countries.

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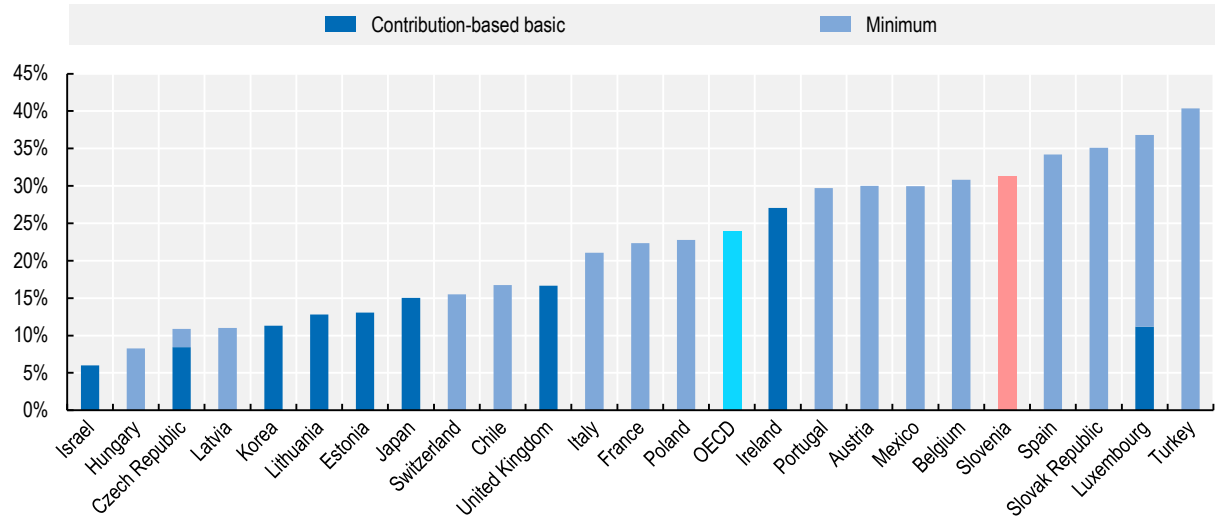
3.4.3. Assessment of benefit levels

At 31.3% of gross average earnings in 2021, Slovenia has among the highest levels of minimum pensions after a full career among OECD countries (Figure 3.18). Luxembourg, the Slovak Republic, Spain and Turkey have 34% or more, while the full benefit is close to 30% in Austria, Belgium, Mexico and Portugal. Among OECD countries with a minimum pension, the average full benefit is 24.0% of gross average earnings. The full minimum pension in Spain and Turkey reaches an even higher level and is eligible after only 15 years of contributions. As low pensions are not taxed in Slovenia (Chapter 2), the full minimum pension expressed as a percentage of net earnings is even comparatively higher for Slovenia.

Figure 3.18. Slovenian minimum pension benefits are relatively high

Full contributory first-tier benefits as a percentage of gross average earnings, 2018 (2021 for Slovenia)



Note: The benefit levels indicated are the levels received upon the normal retirement age, i.e. the moment a person having a full career from age 22 can start drawing pension benefits without a penalty. The Slovenian data refer to the guaranteed pension of EUR 620 compared to gross average earnings in the first four months of 2021. The OECD average number only refers to the minimum pension after a full career; the average contribution-based basic pension equals 13.5% of gross average earnings among OECD countries with such a scheme. Countries that neither have a contribution-based basic pension nor a minimum pension are not included in the graph. This is the case for Australia, Canada, Denmark, Finland, Germany, Greece, Iceland, the Netherlands, New Zealand, Norway, Sweden and the United States.
Source: Figure 4.3 in OECD (2019[7]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en. Updated for Slovenia with data provided by the country and wage information from the Statistical Office of the Republic of Slovenia.

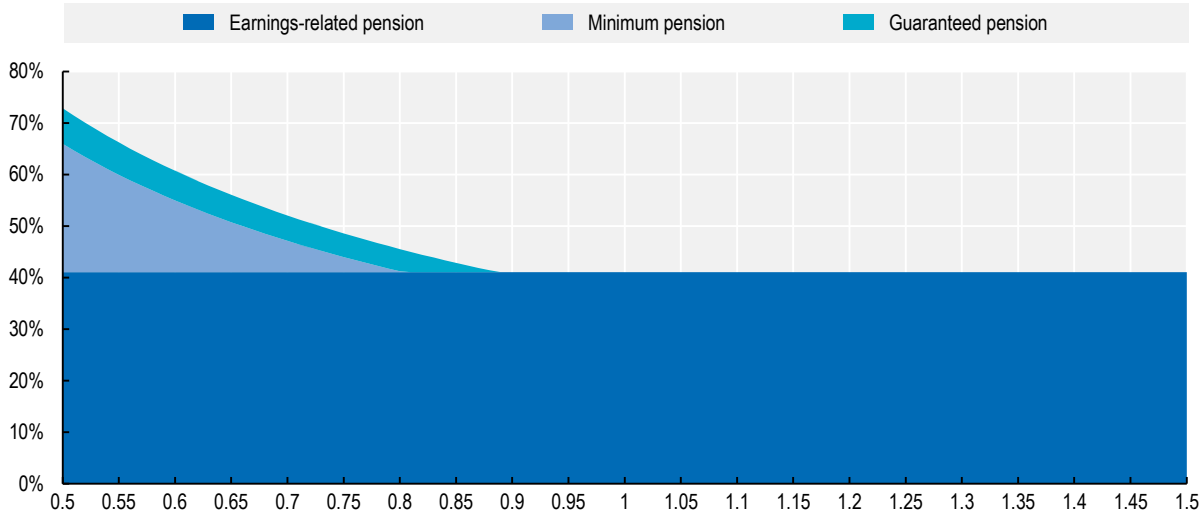
StatLink https://stat.link/8znky5

The minimum and guaranteed pensions have a large impact for low earners. For a person with a full career, the future gross replacement rate of the earnings-related pension is 41.0% whatever the earnings level below twice average earnings. However, the minimum pension provides a top-up to people with a 40-year career at earnings up to 80% of average earnings and the increased guaranteed pension benefits people up to 88% of average earnings. At 50% of average earnings, the minimum and guaranteed pensions will increase the future gross replacement rate to 72.8% in total (Figure 3.19).

The minimum pension is more important for women than for men as 45% of women and 30% of men receive an old-age pension below EUR 600 (Figure 3.20). Moreover, minimum pensions have gained in importance among recent cohorts of pensioners. Indeed, the share of new pensioners receiving a benefit at the minimum reference wage rose from 17% of men and 32% of women in 2013 to 30% of men and 38% of women in 2019 (ZPIZ, 2020[11]).

Figure 3.19. The minimum and guaranteed pension play a big role for low earners

Future gross replacement rates by benefit type after a 40-year career at various income levels (in proportion of average earnings)

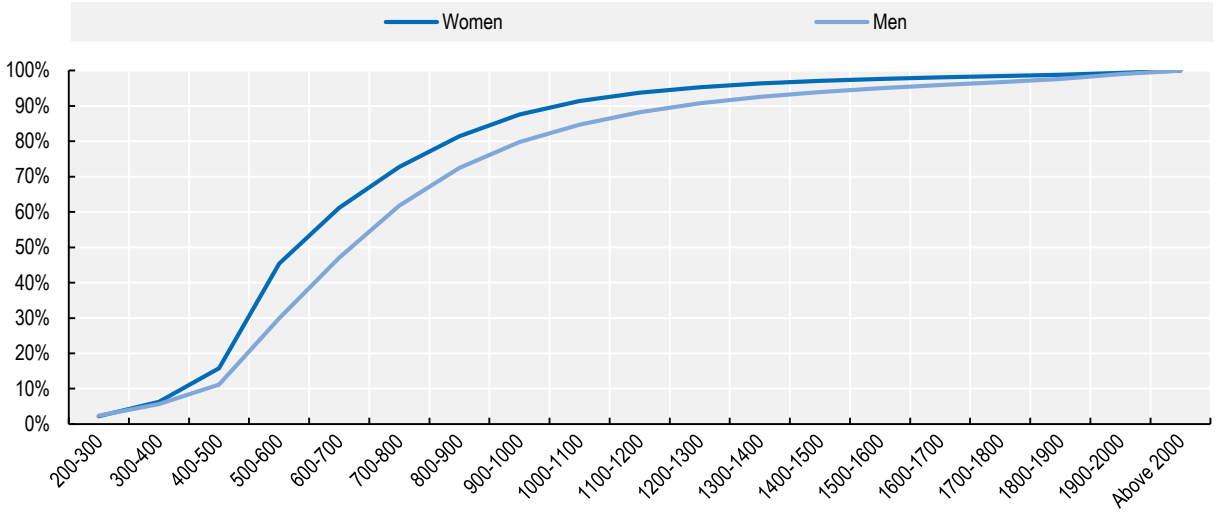


Note: Replacement rates are given for a person entering the labour market in 2020, and working 40 years at a fixed proportion of average earnings at an initial accrual of 29.5% for the first 15 years and a subsequent accrual of 1.36% per year thereafter.
Source: OECD pension model.

StatLink https://stat.link/8l7nk4

Figure 3.20. Almost half of women and one-third of men receive an old-age pension of less than EUR 600 per month

Cumulative distribution of male and female old-age pension recipients by pension level (in euros), 2019



Note: Partial and pro-rata old-age pensions are not included. After a 40-year career, the minimum pension equals EUR 568.25 for women and EUR 555.76 for men (i.e. guaranteed pension).
Source: ZPIZ, 2020 ([11]), "Beneficiaries of entitlements from pension and disability insurance 2019", p. 205.

StatLink https://stat.link/wlkym7

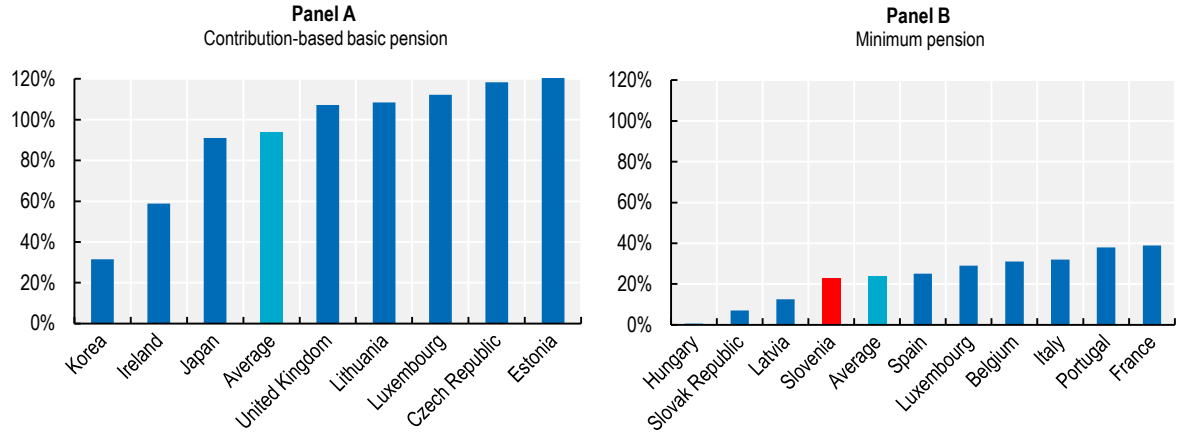
3.4.4. Coverage

Among contributory first-tier benefits, contribution-based basic pension schemes have very large coverage rates (Figure 3.21, Panel A) as there is no associated income test. By contrast, minimum pensions only benefit recipients whose earnings-related entitlements are low such that they can be topped up to the minimum pension level. The average coverage rate for minimum pension schemes is 24% in OECD countries with such a scheme (Panel B).

The Slovenian coverage rate for the minimum pension scheme of 23% is thus similar to this average. Among the ten OECD countries having a minimum pension for which coverage rates are available, the coverage is larger than 30% in Belgium, France, Italy and Portugal, while it is low in other Central and Eastern European Countries (Hungary, Latvia and the Slovak Republic).

Figure 3.21. Coverage of contribution-based basic and minimum pensions in the OECD

Number of recipients of contribution-based basic pension (Panel A) and minimum pension (Panel B) as percentage of the population aged 65+, 2016 or latest (2019 for Slovenia)



Note: The number of recipients can exceed 100% of the population aged 65+ if benefits are paid to people below age 65 and/or to people living abroad. Data from 2012 for Italy and Luxembourg. Coverage data is missing for the contribution-based basic pension in Israel and for minimum pensions in Austria, Chile, the Czech Republic, Mexico, Poland and Switzerland.
Source: Table 4.2 in OECD (2019[7]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en. Updated for Slovenia with data provided by the country and population data from the Statistical Office of the Republic of Slovenia; updated for Latvia from Figure 3.9 in OECD (2018[9]), *OECD Reviews of Pension Systems: Latvia*, https://dx.doi.org/10.1787/9789264289390-en.

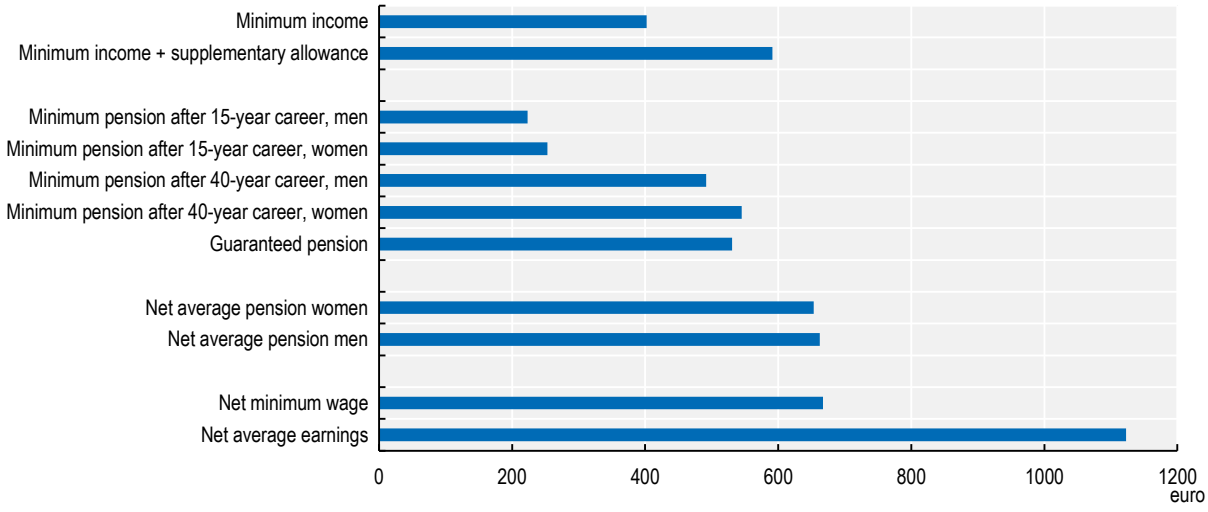
StatLink https://stat.link/cwpdiz

3.4.5. Interplay between safety-net benefits and minimum and guaranteed pensions

Figure 3.22 shows that the supplementary allowance eligibility threshold was just about 10% below the average net pension in 2019. Moreover, after 40 years of contributions, the minimum pension was 17% lower than the average net pension for women, and the guaranteed pension 20% lower than the average net pension for men – the difference between the average pension and the guaranteed pension will be smaller in 2021 due to the increase in the guaranteed pension. The minimum and guaranteed pension contribute significantly to compressing the low part of the pension distribution, as seen in Figure 3.20. In 2019, taking into account the pensions for all cohorts of retirees, which are determined by initial pensions when retiring and indexation, the net average pension was equal to 59% of the net average wage.

Figure 3.22. First-tier benefit levels compared with average pensions and wages

Earnings and benefit levels, 2019



Note: For comparison, all amounts refer to 2019, the last year for which all included data are available. Minimum income is the level of financial social assistance received by a single person. In 2021, the guaranteed pension level is between the supplementary allowance eligibility threshold and the net average pension due to its increase to EUR 620. The conversion of wages from gross to net is based on taxation for a single person without children.

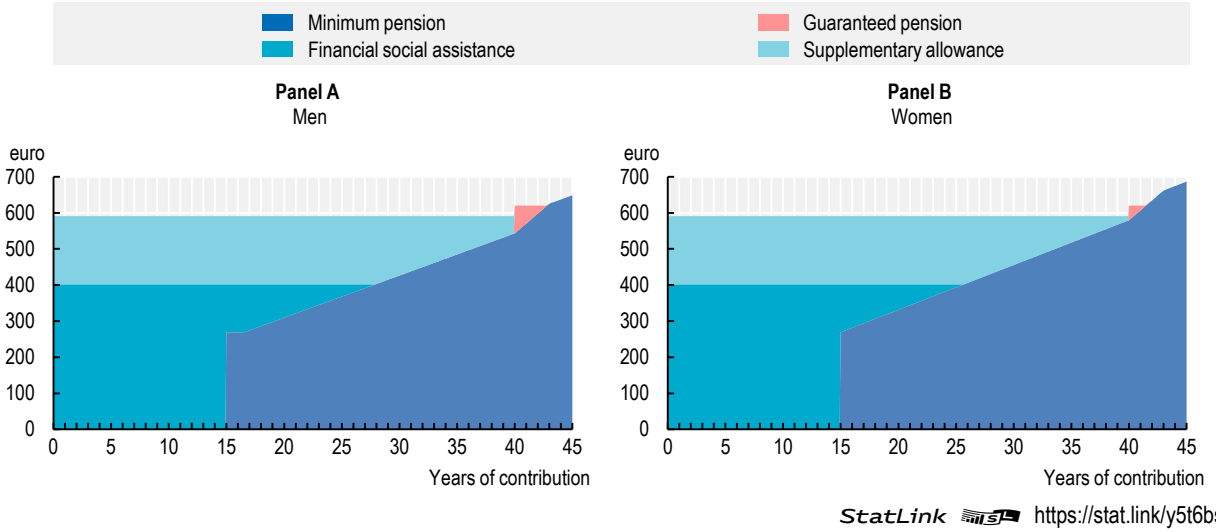
Source: OECD (2019[5]), "Earnings: Nominal minimum wages (Edition 2019)", https://dx.doi.org/10.1787/97e15391-en, for the gross minimum wage, converted to a net amount based on OECD (2020[6]); *Taxing Wages 2020,* https://dx.doi.org/10.1787/047072cd-en, comparative tables for average net earnings; ZPIZ (2020[11]), "Beneficiaries of entitlements from pension and disability insurance 2019", for average net pensions, and ZPIZ (2019[12]), "Mesečni statistični pregled Julij 2019", and data provided by the country for data on first-tier benefits.

StatLink https://stat.link/heau1m

While in 2019, the levels of social assistance benefits were larger than the minimum and guaranteed pensions, the substantial increase in the guaranteed pension in 2021 brought its level above the supplementary allowance eligibility threshold. For the 2021 numbers shown in Figure 3.23, the income limit for the supplementary allowance at EUR 591.20 for an individual exceeds the minimum pension of EUR 579.62 for women and EUR 543.10 for men after a 40-year career, but is now below the guaranteed pension of EUR 620.00. The minimum pension only exceeds the supplementary allowance eligibility threshold after a career of 41 years for women and 43 years for men.

Figure 3.23. Social assistance benefits exceed the minimum pension after a 40-year career

Benefits for single individuals by years of contribution, 2021 amounts in euros



With the safety-net eligibility threshold exceeding minimum pension levels, is the minimum pension an obsolete instrument in providing basic income security to older people who have contributed to old-age pensions? Given the low coverage of safety-net benefits, the minimum pension remains an important instrument to reduce old-age poverty. This is because, among couples in which both partners have long careers, minimum pensions are not adjusted to family size, as is standard in all countries. Moreover, a normative argument could be made to provide better minimum income protection to people who have contributed more. The current unusual hierarchy of benefit levels is the result of the sharp discretionary increase in the safety-net benefits in 2018. However, it currently has limited implications because of the stringent conditions embedded in the asset test and the resulting low coverage of the safety nets as discussed in Section 3.3.

As the minimum pension is pegged to the evolution of average wages whereas social assistance benefits are in principle only adjusted to price inflation, minimum pension benefits grow faster than safety-net benefits in a normal economic environment. Hence, the balance between minimum pension and safety-net benefits changes over time. The minimum pension has been catching up with the safety-net eligibility threshold again since the steep increase in 2018, reducing the difference from 17% for men and 8% for women in 2018 to 11% and 4% in 2020, respectively.

This nexus further illustrates the need for stronger co-ordination of first-tier benefits for older people. A more deliberate balance should be sought between safety-net eligibility thresholds and the minimum pension to improve transparency, provide basic income security to older people and offer some extra benefits to individuals contributing to the pension system.

3.5. Conclusion

Slovenia has a low level of income inequality among both the working-age and the old-age populations and, thanks to recent improvements, has relative poverty and material deprivation levels close to the OECD averages. Old-age poverty is particularly concentrated among older people living alone in Slovenia, which is an important factor in the large gender gap in relative old-age poverty – despite a low gender pension gap in international comparison – as women are more likely to live alone in older age.

The minimum pension plays a big role within contributory pensions, by effectively topping up low pensions in relation with the contribution period. In addition, Slovenian safety-net benefits provide a high level of support to a very selective group of people. Social assistance benefits are high relative to average earnings in a comparative perspective, but coverage rates are low.

The analysis highlights a number of issues in the design of first-tier benefits in Slovenia. First, coverage of social assistance is very low despite high threshold levels. This is likely the consequence of the obligation of family members including adult children to provide financial support to individuals in need. As the state contacts family members to check whether they can support an applicant for social assistance, people may decide not to apply for the benefit for various reasons. They might do so to avoid being a burden on their family members, because they believe it is not right that children should support their parents, or in order to try to hide their own neediness from the people around them out of shame.

The legal obligation for the family to provide financial assistance effectively is a tax on social mobility. As richer older people do not need financial assistance and poor older people with poor children qualify for safety-net benefits, only children of poor parents who have managed to build a better life for themselves economically would end up being forced to step in to pay for financial assistance to their parents. As such, the obligation to provide for older parents contributes to the transfer of disadvantage from one generation to the next, perpetuating income positions across generations and stifling social mobility.

Secondly, the social assistance and minimum pension schemes should be better co-ordinated. The safety-net level prevents that low or middle earners are rewarded for having contributed to their pensions even in case of long careers. A person with a minimum pension for a full career can still be entitled to social assistance as safety-net eligibility thresholds currently exceed the minimum pension after a full career. Yet, this was not the case before the large increase in the safety-net threshold in 2018. The 2021 increase in the guaranteed pension only overcomes this problem to a small extent. On top of this issue, as eligibility for supplementary allowance depends on being permanently out of employment, the benefit discourages eligible people from engaging in any kind of formal employment as that would result in the loss of the benefit. There is a need for a more deliberate balancing of safety-net eligibility thresholds and minimum pension to provide basic income security to older people while providing additional benefits based on past contributions. Moreover, the eligibility age to the supplementary allowance for women is no longer aligned with their statutory retirement age since the latter increased to 65 years.

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Notes

[1] However, if both partners had an equally high pension before, the survivor's pension would have to be at 41% of the deceased person's pension for the equivalised income of the surviving partner to remain at the same level as before the passing of the spouse. This is based on the OECD equivalence of scale dividing household income by the square root of the household size.

[2] More precisely, 88% of people aged 65+ with an income below the relative poverty threshold are single, whereas only 37% of people with an income above the threshold are single. In the age group 80+, this is 94% and 59%, respectively.

[3] For people who are permanently outside the labour market, referring to people who are permanently unemployable or unable to work due to disability, as well as women aged 63+ and men aged 65+ who are not in employment, social assistance is granted for a period of up to one year at a time. Total income net of taxes and contributions over the three months preceding the application for social assistance is assessed.

[4] Under some circumstances, a person can be eligible for social assistance benefits despite living in a dwelling one owns that is valued above EUR 120 000. If the owners temporarily would not be able to sustain themselves through the dwelling for reasons outside their control and otherwise qualify for social assistance, they can claim social assistance for up to 18 months in a 24-month period. After that period, they can claim social assistance on the condition that they accept a restriction on alienation and encumbrance of the property in the land register at the benefit of the Republic of Slovenia. At the moment that the dwelling is inherited, then, the Republic of Slovenia reclaims from the inheritance two-thirds of the social assistance received, reduced by 12 maximum monthly amounts of the social assistance received.

[5] Other real estate up to a value of EUR 50 000 is exempt, as are personal savings up to EUR 2 500, and family savings up to EUR 3 500. For employed individuals, the exemption for savings is limited to three

times the minimum income (EUR 1 206.54) for the individual's savings and to EUR 2 500 for family savings.

[6] Children are obligated to provide support to their parents who are in need for as long as their parents supported them, i.e. for as long as the child was in education or not in employment, and for at least 18 years.

[7] And 25% of the minimum income for every subsequent qualifying adult (EUR 100.55).

[8] The Latvian residence-based basic pension is not included in the average coverage rate of 94.0% across residence-based basic pension schemes in the OECD. The Latvian basic pension is only accessible to retirees without a pension entitlement from the social security system. Due to the full-employment policy deployed under the former Soviet regime and the rather beneficial treatment of non-employment spells in the social security system until 1996, few retirees qualify for the basic pension. Fewer than 0.1% of people aged 65+ in Latvia were covered by the basic pension in 2017 (OECD, 2018[9]).

[9] Legally, a household is eligible to a rental subsidy if the household income does not exceed the minimum income for the household type (without work allowance), increased by 30% of household income and the amount of not-for-profit rent. Mathematically, this is the same as stating that 70% of household income should not exceed the sum of the minimum income for the household type (without work allowance) and not-for-profit rent.

[10] In 2020, the Assistance and Attendance Allowance benefit is EUR 150 if help is required for the majority of activities of daily life (ADLs), EUR 300 if it is needed for all ADLs and EUR 430.19 if the person is severely disabled and in need of 24-hour care.

[11] As part of the 2021 decision to speed up of the convergence of men's accrual rates to women's, the minimum pension for men after 15 years of contributions was set at the same level as that of women already as of 2021.

4 Reform options to improve public pensions

This chapter discusses policy options for Slovenian public pensions, based on the analyses developed in Chapters 1 to 3, and makes policy recommendations. It looks into how the rules of earnings-related pensions could be improved, making them more transparent and aligning them between various groups of workers. It shows how to improve pension financial sustainability and make the system more resilient to population ageing. The chapter also discusses options to improve the minimum pension and safety-net benefits for older people.

4.1. Introduction

The pension system in Slovenia has evolved substantially over the last two decades through changes in pension parameters. The replacement rates for average earners are close to the OECD average while low-wage workers benefit from a strong redistribution. The contribution rate is higher than on average across OECD countries and has remained constant since 1996. In response to the COVID-19 crisis in 2020, Slovenia introduced job-retention schemes and options to subsidise or defer pension contributions. As in all OECD countries, Slovenia had to deal with very volatile contribution revenues with a large slump in the second quarter of 2020. While it is still early to assess the long-term impact of the COVID-19 crisis on the pension system, the analysis in Chapters 1, 2 and 3 highlighted different ways to improve public pensions in Slovenia.

The main weaknesses of the current system are threefold. First, eligibility conditions for earnings-related pensions are loose, whereas they are relatively restrictive for safety-net benefits. There is no planned legislation to change these conditions while pension expenditure is projected to rise strongly. Second, the calculation of contributory benefits is complicated and poorly co-ordinated with safety-net benefits. Pension entitlements are unclear to workers before they are actually claimed, and even gross pensions depend on income tax rates. Third, population ageing will put a substantial pressure on pension finances, threatening sustainability. This chapter discusses reform options to improve the public pension system in Slovenia. The first section focuses on improving public earnings-related pensions, while the second section provides avenues to enhance financial sustainability. The third section deals with first-tier pensions. The last section summarises policy options.

4.2. Improving public earnings-related pensions

4.2.1. Simplifying the pension rules

The calculation of pension benefits is unnecessarily complicated. One reason is that the reference wage is based on the best consecutive 24 years of adjusted (see below) earnings. There are two issues with this method. First, it is complicated. Such a rule implies that workers do not know the pension entitlements they accrued, for example, in a given year. Moreover, workers may not know which consecutive 24 years in the whole career are the best. This makes it almost impossible for workers to know the pension level they can expect – beyond uncertainty related to the uprating of past earnings – before they actually retire, which is likely to undermine their understanding of how the pension system works.

The second issue is that, while using the best consecutive 24 years of earnings protects everyone by ignoring the remaining, less favourable years, it is more beneficial to people with strong career progressions, who also tend to have higher lifetime earnings. For a given level of spending, this rule is thus regressive, redistributing from low to high earners.

Basing pensions on the average lifetime earnings rather than the 24 best consecutive years would eliminate these unfavourable elements and greatly simplify the calculation of accrued entitlements and pension benefits. As the objective of this change is not to reduce pensions, it should be combined with raising accrual rates as needed, for example in a budget neutral way thus keeping the average pension unchanged (this would imply increasing the accrual rates by about 10%). As is the case today, the impact of career breaks on pensions should be cushioned by other instruments, i.e. granting pension entitlements for unemployment and childcare periods.

The large majority of OECD countries takes into account wages throughout the whole career for calculating the pension benefit. Recently, the Czech Republic, Greece and Norway joined this group. Exceptions are Austria (which will use lifetime earnings for people born from 1955), France, Portugal, Slovenia, Spain and

the United States. France, Slovenia and Spain are the only countries using 25 years or less. France was planning to switch to lifetime earnings, but the reform plans were suspended due to the COVID-19 crisis.

Another issue making pension calculation complicated is that the reference wage used to calculate gross pensions is based on gross earnings adjusted by a multiplication coefficient equal to the ratio of the net to the gross average wage. This means that gross pensions are calculated from wages that are expressed in a form that is close to net wages – although it is less than net wages for low earners and more than net wages for higher earners due to progressive income taxes. Hence, any adjustment to contribution and tax rates is likely to affect the coefficient, and thereby *gross* pensions. For example, an increase in personal taxes reduces gross pensions by lowering net wages, and then it might additionally reduce net pensions by increasing taxes paid on gross pensions. This unusual and undesirable calculation rule should be modified to ensure that, as in all OECD countries with defined benefit schemes except Hungary, the reference wage is calculated based on gross wages while adjusting accrual rates accordingly in a budget neutral way.

A third complication factor is due to the discretional annual allowance, which is granted once a year to all pensioners, but with a larger benefit for low pensions. This allowance increases old-age income and reduces old-age inequality, but it unnecessarily complicates the determination of total pension benefits. There is no need to add an additional instrument as there is already a variety of instruments (accrual rate, minimum reference wage, pension credits, etc.) that can be used to fulfil the objective pursued by the annual allowance.

Furthermore, different terms for period requirements are used to capture different aspects, but nuances are not always easy to understand. For retiring at age 60, 40 years of *pensionable service without purchase* are required. The pensionable service without purchase includes all work-related periods for which contributions have been paid, e.g. dependent employment, self-employment, agricultural activity, unemployment spells or parental leave. For retiring at age 65, 15 years of *insurance period* are needed. Insurance period is a broader term that includes all periods for which contributions have been paid, including *purchase periods* and *voluntary contributions*. Up to 5 years can be purchased at any time, which are included in the insurance period and in the period of pensionable service. When retiring based on the purchased periods, a permanent penalty of 0.3% per month missing before age 65 applies to pension benefits. For benefit calculation, *all periods of pensionable service* are used. These include pensionable service without purchase, purchase periods, but also other periods for which the due contributions were not paid.

There are various ways to drastically simplify the calculation of earnings-related pensions. Within a defined benefit (DB) scheme, it can be done based on a constant accrual rate applied to earnings during the whole career. This would generate the same replacement rate across all earnings levels. In order to achieve a given redistributive pattern of replacement rates – i.e. higher replacement rates for low earners – there are two main options. The first is to keep the minimum pension scheme – but adjusted to take into account lifetime earnings – currently working through the minimum reference wage. An alternative, which would facilitate the communication of pension entitlements and their understanding by workers, consists of complementing the constant-accrual-rate rule with a contribution-based basic pension. A contribution-based basic pension is based on the contribution period but is not earnings-related. Nine OECD countries have such a scheme, including the Czech Republic and Estonia. The levels of the accrual rate and of the basic pension can be calibrated to achieve the replacement-rate pattern and therefore the redistribution across lifetime earnings that reflect social preferences (OECD, 2020, pp. 46-49[1]).

The 2016 White Paper on Pensions (MLFSAEQ, 2016[2]) suggested introducing a points scheme, which is another way to simplify the rules and improve transparency. In a points scheme, individuals earn points every year based on their pension contributions or their total earnings. This means that a generic points system results in a clear link between earnings and entitlements. Pension entitlements are computed by multiplying the number of acquired points by the point value, which is known at any point in time and follows

a transparent valorisation rule. This framework provides a good basis for building confidence in the pension system as the acquired entitlements can be easily communicated to everyone at any age. Among OECD countries, public pension schemes are based on points in Estonia, Germany, Lithuania and the Slovak Republic whereas in France the planned introduction of a universal points scheme has been suspended due to the COVID-19 crisis.

Here also the generic points scheme can be combined with a contribution-based basic pension to help achieve redistribution objectives. Alternatively, redistributive objectives can be achieved by setting the minimum and maximum number of points granted every year, similar to the minimum and maximum reference wage (called the minimum and maximum pension rating) in the Slovenian defined benefit scheme. Moreover, similar to the current situation in Slovenia, some additional points might be granted for periods of unemployment, childcare for one year or for periods of part-time work combined with a longer childcare period.

4.2.2. The minimum contribution base is high

Low earners pay a higher effective contribution rate than high earners because the minimum contribution base, at 60% of average wage, is higher than the minimum wage which was close to 50% of average wage in 2019.[1] This results in those earning the minimum wage paying the same contribution amounts as those earning 60% of average wage. At these earning levels, workers will receive the same pensions as they will benefit from the minimum reference wage set at 76.5% of the average wage.

The higher effective contribution rate for low earners reduces their disposable income and might restrain work incentives, even though progressive income taxation partially offsets this effect. Lowering the minimum contribution base would be a step towards equalising effective contribution rates among earnings levels. However, this would also reduce contribution revenues, while low earners already benefit from much higher replacement rates. Hence, if the minimum contribution base were lowered, how to compensate revenue losses would be a normative question. For example, given that lowering the minimum contribution base would effectively increase the already high redistribution within the scheme – as low earners would pay lower contributions while still receiving benefits calculated on the minimum reference wage – lowering the minimum reference wage might be an option to accompany the measure. Lowering the minimum contribution base benefits low-wage workers while lowering the minimum reference wage used for pensions penalises low-income pensioners.

4.2.3. Providing more flexibility to combine work and pensions

In Slovenia, only 40% of the old-age pension can be claimed while working full time, which limits the flexibility to combine work and pensions. Thus, full-time work does not allow to access 60% of the benefits that are available to those with the same insurance history but who are not working. However, when combined with the 40% pension limit after 40 years of contributions, the accrual rate increases from 1.36% to 3% for new entitlements, hence providing financial incentives that are close to actuarial neutrality.

The access to pensions should be disconnected from whether working or not. There is no obvious reason why there should be any restriction to combine work and full pensions when combining is not costly for public finances, i.e. when total flexibility to combine work with a full pension does not deteriorate pension finances in the long run. In the past, some countries raised such obstacles based on arguments related to the “lump of labour” fallacy, or views, outdated especially given health improvements at older ages, which associated pension receipts with the inability to contribute to society through working. Most OECD countries have considerably relaxed the conditions allowing to combine work and pensions (OECD, 2017[3]; OECD, 2021[4]).

Likewise, terminating the employment contract is generally not used any more as an eligibility condition to receive a full pension. Only a few countries, including Finland, France, Italy and Poland impose such a

constraint nowadays. The conditions allowing combining work and pensions should depend neither on the type of employment contract nor on employment history. In particular, they should not require terminating the employment contract nor impose restrictions when re-entering employment after having retired.

Introducing one of the following options would improve flexibility in combining work and pensions. The first option would be to enable combining work and the receipt of 100% of pensions while limiting the accrual rate for extra years to the regular 1.36% that applies to prior years. The 3% higher accrual would apply only to those who withdraw 40% of their pension. Although this will render drawing full pensions while working consistent with actuarial principles, this solution would add to the already complex structure.

The second option would be to introduce a standard bonus scheme for deferrals and replace the 3% higher accrual rate by the regular accrual rate. For example, once eligibility conditions are met, deferring pensions on accumulated entitlements would lead to a higher pension of about 4%-4.5% per year of deferral (about 1% per quarter).[2] While this bonus would apply to deferred pensions, it should not apply to pensions combined with work.[3] Individuals could then decide to either defer claiming the pension and benefit from the bonus or receive the pension without any bonus, while accruing additional pension entitlements from working but at the same rate as before drawing pensions.

The third option is similar to the second one, but with an element to nudge behaviours about working longer. For individuals who continue to work after having met the full-pension conditions, they would not pay employees' pension contributions and employers' pension contributions would be paid as additional income without generating any additional pension entitlements, whether working these extra years are combined with pensions or not. Thus, individuals would have the same choice as under the second option, but no additional pension entitlement would accrue, employees would not pay pension contributions and employers' pension contributions would be paid as additional wages.

Whatever the option selected, it is important to ensure a high level of transparency in the communication of accrued entitlements. People should be in a position to easily assess the consequences of their decisions. Whether pensioners benefit from such a framework to combine work and pensions depends on their capacity to make well-informed choices, according to their individual situation and preferences, in order to avoid jeopardising their final retirement incomes.

4.2.4. Aligning pension rules for the self-employed and employees

The self-employed contribute and receive pension entitlements in a similar way as employees in Slovenia. The mandatory nominal contribution rates are harmonised and the self-employed pay the contribution rate equal to the sum of employees' and employers' shares.

Still, the income base to calculate contributions and benefits is lower for the self-employed than for employees with the same earnings, which does not ensure an equal treatment of workers in terms of both obligations (contributions) and entitlements (benefits). Harmonising contributions would require setting the contribution base at 86% of profits, rather than at 75% today. This would increase both the contributions paid by and the future pensions of the self-employed. In addition, profit calculation is favourable for the self-employed in the flat-rate cost regime, as they are allowed to deduct 80% of income as costs.

The self-employed, similarly to full-time employees, cannot pay contributions on less than 60% of the average wage, which is the highest level of the minimum contribution base in the OECD. While part-time employees pay pro-rated contributions, working time cannot typically be identified for the self-employed, which implies that the minimum contribution base cannot be pro-rated and that self-employed with low earnings face very high effective contribution rates. There may be good reasons to allow the self-employed with low earnings to pay less contributions than those based on the minimum contribution base, but this is not as straightforward as it might seem. Similar treatment of the self-employed and employees implies that the self-employed with income lower than the full-time minimum wage should pay reduced contributions as is the case for the part-time employees. However, given the flexibility for many self-employed to report

low profits, especially in the flat-rate tax regime, the possibility for reduced contributions might be misused, both putting at risk future pensions of the self-employed and deteriorating pension finances in the short run.

For high earners, there is no ceiling to the contribution base for employees while the self-employed do not pay contributions from earnings higher than 350% of the average wage. Such a ceiling implies that the self-employed with very high income do not pay their share of financing public pensions. Hence, there is a case for removing this ceiling and, if needed, additional measures to monitor profit reporting might be put in place.

4.2.5. Improving transparency of pension finances

Old-age and survivor pensions are financed together with disability pensions and some long-term care benefits. Securing adequate income when old is a different objective than providing income in case of disability or providing resources to finance long-term care needs. Entitlements to old-age pensions are accrued throughout the career, allowing to shift resources from younger to older ages when labour income typically falls. By contrast, disability and long-term care schemes cover risks of high costs but low incidence. Separating the financing of disability insurance and old-age pensions would pave the way to managing separate budgets, which would improve transparency and facilitate the management of both schemes over the long term. In particular, the financial sustainability of old-age and survivor pensions cannot be precisely defined and monitored when financial management is blurred with other schemes covering risks that are different in nature.

To further improve the transparency of pension finances, the financial flows related to all redistributive elements within the pension scheme should be precisely identified and reported. Part of pension redistribution is financed by an earmarked subsidy from the state budget of 0.5% of GDP in 2019. The earmarked subsidy covers entitlements based on: periods of unemployment and childcare; some other reasons (e.g. for veterans); and, the part of the top-up from minimum pensions corresponding to the first 15 years of insurance. Neither the remaining cost of the minimum reference wage beyond the first 15 years nor the surplus generated by the maximum reference wage are reported by ZPIZ while the state budget covers the deficit of the ZPIZ budget, at 1.4% of GDP in 2019. The other part of redistribution thus takes place within the pension scheme – although this part is not reported – and/or is covered by transfers from the state budget in indeterminate proportions. It is not clear why only the earmarked subsidy is identified as part of expenses covered by the state budget, hence not entering the ZPIZ deficit (or surplus). Beyond improving transparency, estimating the cost of all redistributive measures could be the first step to justify using tax revenues to finance redistributive pension components.

The financing of health care contributions for pensioners is not transparent. Healthcare contributions for pensioners are paid by ZPIZ to the Health Care Institute, i.e. mainly from contributions levied on wages. This means that contributions on wages finance the health insurance of both workers (through health contributions) and pensioners (through pension contributions). The health insurance of pensioners should be financed either by health contributions paid by pensioners or general taxation.

Monitoring pension finances more transparently through better reporting of annual pension flows, both revenues and expenditures, would then allow a proper reporting of pension finances in terms of stock, i.e. in terms of cumulative balances. Such a monitoring of cumulative balances over the long term is crucial for the assessment of pension finances and for the detection of signs of sustainability issues. In particular, monitoring cumulative financial balances would allow separating the long-term structural mismatches between pension expenditure and pension revenues from the short-term fluctuation of contributions. A way of implementing such a monitoring would be to task an independent body with the calculation of the actuarial balance sheet of the pension scheme in order to better inform the society (Vidal-Meliá, Boado-Penas and Settergren, 2009[5]).

4.2.6. Lack of solid arguments for mandatory retirement in Slovenia

Mandatory retirement refers to terminating employment contracts when employees reach a certain age. Among other ways, this can be done through removing employment protection as of a certain age. There has been a push by EU institutions to restrict mandatory retirement as much as possible, as part of efforts to combat age discrimination, although with weak legal power. The rulings of the Court of Justice of the European Union (CJEU) have tried to circumscribe the conditions under which the practice of mandatory retirement might be considered lawful. According to the CJEU, a mandatory retirement age should be argued for with concrete occupation- or sector-specific evidence, for example related to health and safety concerns when working at an old age, and is only possible if the employees concerned have access to a full pension.

Mandatory retirement practices have been reduced in a number of countries. More than half of OECD countries do not allow for mandatory retirement in the private sector. Only in one in four countries does some form of mandatory retirement exist in the private sector before the age of 68 years. Although mandatory retirement is more common in the public sector, nine countries ban mandatory retirement even for civil servants. This also means, however, that it remains possible to lay off employees once they reach a certain age in many EU countries. Within its 2015 Recommendation that calls for governments to give people better choices and incentives to continue working at an older age and to respond to the challenges of rapid population ageing, the OECD recommends that countries seek to discourage mandatory retirement in close consultation and collaboration with employers' and workers' representatives.

Some economic arguments are sometimes put forward to justify mandatory retirement practices. These include the need to offset the impact of seniority in wage-setting mechanisms and the strictness of employment protection against individual dismissals. Some even refer to the need to free jobs for young generations ("lump of labour" fallacy). None of these arguments is convincing to back a mandatory retirement age in Slovenia more than in other OECD countries.

The question of mandatory retirement should also be assessed within the current context of the Slovenian labour market. Slovenia has the second lowest labour force participation in the OECD among people older than 60. In line with early exits from the labour market in international comparison, eligibility to a full pension in Slovenia is based on loose conditions, from age 60 with 40 years of insurance. The introduction of mandatory retirement counteracts efforts to make people work longer, while pension spending is projected to increase substantially in Slovenia given fast population ageing. Since the employment protection of workers eligible to an old-age pension was lifted in December 2020 (Chapter 1), Slovenia is the only European OECD country allowing mandatory retirement before the statutory retirement age, at age 60, although effective implementation will depend on the decision of the Constitutional Court on the regulation. It is difficult to provide solid arguments for mandatory retirement in Slovenia based on international evidence, and in particular to allow mandatory retirement below 68 years, at least in the private sector, and certainly not before the statutory retirement age.

4.2.7. Aligning rules for civil servants and private-sector employees

In Slovenia, the state budget finances the mandatory occupational pension scheme for civil servants. Based on the assumptions of the OECD pension model, the scheme will provide a pension top-up of 11% compared to full-career private-sector employees with the same earnings. It is generally difficult to provide a good justification for higher replacement rates for civil servants. It is even more difficult today as a career spent totally in the public sector is much less common than in the past: granting specific treatment is even less suitable in the world of enhanced mobility between the civil service and the private sector. In addition, it is often argued that higher pensions for civil servants represent a form of deferred compensation for lower wages.

The special treatment of workers in some occupations or sectors raises fairness issues. Moreover, lower wages and higher pensions for civil servants generate, beyond the lack of transparency, significant inefficiencies (Whitehouse, 2016[6]). A large number of pension reforms in OECD countries over the past decades have integrated the pension schemes covering private-sector and public-sector workers (OECD, 2016[7]). In Slovenia, this alignment should be achieved by adopting the same rules for mandatory pensions for all workers.

There are three options to align mandatory pensions across private-sector and public-sector workers in Slovenia. The first would be to make the occupational scheme for civil servants voluntary, in which the employer might top up employees' contributions. The second option would simply be to eliminate the occupational scheme for civil servants. This would create savings for the public purse or increase wages for civil servants, depending on how the savings from contributions that are currently paid are distributed. However, this would diminish the pensions of civil servants from mandatory schemes. The third option would be to extend the mandatory coverage to all workers. This would increase mandatory contributions paid by private-sector employers with a positive impact on future pensions and potentially negative effects over time on international competitiveness, net wages and employment.

4.3. Addressing financial sustainability issues

Given current rules, pension finances will be subject to intense pressure in the forthcoming decades. This will come mostly from the shift towards an older population structure. Population ageing has started to accelerate from about the mid-2010s and will continue at a fast pace until about 2050. Boosting employment rates, overall and especially at older age groups, could alleviate part of the financing pressure. However, significant pension reforms will also be required as the financial gap is projected to be very large. Although policy action might focus primarily on the spending side, additional revenues will be needed, beyond those that would be driven by higher employment.

More precisely, pension spending in Slovenia is projected to sharply increase from 10.0% of GDP in 2019 to 15.7% in 2050 and 16.0% in 2070, based on recent European Commission projections.[4] This contrasts strongly with a modest increase of 1.1% of GDP on average among EU member countries by 2070; only in Luxembourg, the Slovak Republic and Slovenia are pension expenditures projected to increase by more than 5% of GDP. In 2050, based on these projections, Slovenia is the OECD country which will spend the most on pensions as a share of GDP except for Luxembourg.

Pensions in Slovenia are financed mainly from payroll contributions on a PAYGO basis. Revenues therefore tend to follow trends in the wage bill or GDP, while any deficit is automatically covered by the state budget. Hence, past and current pension parameters would imply that transfers from the state budget to finance pensions will need to sharply rise from around 2%[5] to 8% of GDP[6] between 2019 and 2050. In the absence of pension measures, this would result in substantial tax increases or spending cuts in other areas, or sharp increases in public debt.

Based on current rules, the pensions of almost all workers will need additional subsidies from the state budget. That is, given the internal rates of return of the Slovenian PAYGO scheme, workers' contributions will be insufficient to finance pension promises (Box 4.1). While many countries subsidise low pensions within their public pension system or through taxes, in Slovenia contributions will be insufficient for almost all workers, even for those earning four times the average wage throughout their career. Additional top-ups from taxes or an increase in contributions paid by the next generations will be required to maintain current rules.

Box 4.1. Actuarially fair replacement rates in Slovenian public pensions

The OECD was asked by the government to compute replacement rates corresponding to actuarial fairness, i.e. the level of pensions that the PAYG system in Slovenia would deliver for different career patterns based on paid contributions compounded by the internal rates of return. By no means does this exercise provide any normative statement of what the replacement rates should be. It simply gives an indication of replacement rates that could be fully financed by contributions in the steady state, in particular disregarding other financial sources used to fund redistribution within the system.

To do this, different assumptions are needed. First, it is assumed that the pension contribution rate is equal to 21.9% corresponding to 90% of total social security contribution rate of 24.35% (Chapter 1). Second, the internal rate of return is assumed to be equal to the sum of employment growth and wage growth; the latter is in turn assumed to equal labour productivity growth (Chapter 2). Table 4.1 summarises the key results. Various scenarios are considered. Estimates in Panel A cover full-career private-sector workers starting their career now at age 22 with three earnings levels: low earners at half the average wage during the whole career, average-wage earners and high-wage earners at twice the average wage (Panel A). Panel B shows estimates for people with shorter careers, hence retiring at age 65. Projections also include self-employed workers, either paying contributions on total earnings or on the minimum contribution base (Panel C).

Table 4.1. Actuarially fair replacement rates in Slovenian public pensions

Calculations based on different assumptions

	Age of retirement and career length (in years)	**Future net replacement rates based on legislated measures**	**Actuarially fair net replacement rates when retiring around 2060 based on:**					
			Ageing Report baseline assumptions	*No life expectancy improvements*	*Lower employment growth*	*Lower productivity growth*	*Higher contribution rate by 2 percentage points and price indexation*	*3-year increase in career length and retirement age, and price indexation*
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*
Assumptions								
Annual labour productivity growth			*1.9%*	*1.9%*	*1.9%*	*1.3%*	*1.9%*	*1.9%*
Annual employment growth			*-0.3%*	*-0.3%*	*-0.6%*	*-0.3%*	*-0.3%*	*-0.3%*
Contribution rate			*21.9%*	*21.9%*	*21.9%*	*21.9%*	*23.9%*	*21.9%*
Projected life expectancy gains are included			*Yes*	*No*	*Yes*	*Yes*	*Yes*	*Yes*
Panel A: **Full career with various earnings levels**								
50% of avg. wage	62, 40	**95%**	55%	67%	49%	53%	70%	75%
100% of avg. wage	**62, 40**	**63%**	**50%**	**61%**	**45%**	**48%**	**64%**	**68%**
200% of avg. wage	62, 40	**59%**	49%	58%	44%	47%	60%	64%
Panel B: Various career length with average earnings								
100% of avg. wage	65, 40	**63%**	53%				70%	73%
100% of avg. wage	65, 30	**51%**	40%				53%	59%
100% of avg. wage	65, 15	**32%**	20%				27%	32%

Panel C: Self-employed workers								
100% of avg. wage contributions paid on total earning	62, 40	**54%**	43%				54%	59%
100% of avg. wage contributions paid on minimum base	62, 40	**47%**	27%				35%	37%
50% of avg. wage contributions paid on minimum base	62, 40	**95%**	55%				70%	75%

Note: All cases assume that claiming pensions is not combined with work, and that workers work without breaks until retirement (for shorter careers they start working later). The case with the higher contribution rate assumes that additional contributions are paid by employers to simplify the calculations. Based on current rules, the replacement rate does not depend on the productivity growth, on employment growth, the contribution rate, mortality assumptions. The average-wage case for self-employed workers assumes that after deducting social security contributions, the profit of the self-employed equals the average wage net of social security contributions. Columns 4-6 are not presented for Panels B and C to simplify the table. Projected changes in life expectancy are based on UN data for individuals born in 1996 while the no-change case relates to individuals born in 1960.
Source: OECD calculations.

Panel A

Column 2 shows the future net replacement rates based on current pension rules, consistent with what was shown in Chapter 1. Given these rules, replacement rates do not depend on productivity-growth assumptions, as productivity affects both the pension level when retiring and the wage level similarly (*). Column 2 indicates that for individuals retiring at age 62 after a 40-year career, the future net replacement rates are equal to 95%, 63% and 59% for low earners, average earners and high earners, respectively.

Based on assumptions used in the 2021 Ageing Report (annual employment growth of -0.3% and productivity growth of 1.9%), the future replacement rates consistent with actuarial fairness (Column 3) are much lower than those currently promised (Column 2). For example, at the average wage, it is equal to 50% or 13 percentage points lower than based on current rules. Actuarially fair replacement rates are almost flat across different wage levels, the small pattern being explained by effective contribution rates, which are higher for low incomes (see more detail in the main text), and by progressive taxation. This implies that for low earners, who currently benefit from a strong redistribution, the actuarially fair replacement rate is drastically lower than based on current rules.

Columns 4-6 show actuarially fair future replacement rates based on different assumptions than column 3. First, the exercise is replicated assuming the same future life expectancies as of now (Column 4), thereby neutralising the effect of expected health improvements. For example, at the average wage, the actuarially fair replacement rate is equal to 61% instead of 50% based on mortality projections. This is similar to the replacement rate promised by current rules: the future replacement rate is higher than what the PAYG system can deliver based on contributions and internal rates of return at the average-wage level implying that expected improvements in life expectancy are not factored in current pension rules. Column 5 shows the impact of the less optimistic employment scenario, assuming an annual decline of 0.6% instead of 0.3% in column 3. Lower employment growth mechanically diminishes the internal rate of return, which translates into replacement rates being about 5 percentage points lower. Column 6 assumes annual productivity growth of 1.25% instead of 1.9%.

When productivity growth is higher, both internal rates of return and wages are similarly affected upward. As pensions in payment are indexed to only part of wage growth, this increase in the rate of return allows to finance a higher replacement rate when retiring. Reciprocally, a lower productivity growth leads to a lower actuarially fair replacement rate at retirement, by about 2 percentage points compared with column 3 when productivity growth is lowered from 1.9% to 1.25% per year.

Columns 7-8 show the two reform scenarios which, based on Figure 1.5 in Chapter 2, are more consistent with sustainable rates of returns at the average-wage level. More precisely column 7 is based on increasing the contribution rate by 2 points and indexing pensions to prices. At the average wage, the actuarially fair replacement rate is equal in that case to 64%, very close to what the current rules promise. Column 8 is based on increasing both the retirement age and the contribution period by 3 years, switching to price indexation, 1.36% accrual rate up to the new retirement age with no possibility to combine work and pensions until that age. The actuarially fair future replacement rate increases to 68% at the average-wage level. Tighter eligibility conditions and lower indexation allow to achieve a much higher replacement rate than in column 3, and at a level that is consistent with what current rules generate: based on current legislation (but assuming a 1.36% accrual rate after 40 years of contributions), the future net replacement rate for an average earner when retiring at 65 with 43 years of contributions would be 67%, a number that is not shown in the table.

Panel B

This panel shows the case of shorter contribution periods (15, 30 or 40 years) when retiring at age 65. Based on the Ageing Report assumptions, the future actuarially fair replacement rate is about 10 percentage points lower than what the current rules indicate. Compared to low earnings after full career, a short career is much less cushioned by the pension rules.

Panel C

This panel shows the case of self-employed workers. At the average-wage level, for those who pay contributions on total earnings, the future net replacement rate based on legislated rules is at 54% slightly lower than for average-wage employees (Chapter 1). The actuarially fair replacement rate is about 11 percentage points lower than implied by legislation, as for employees shown in Panel A. A much larger gap of 16 percentage points applies to the self-employed opting for the minimum contribution base (next row in the table) because their benefits are increased by the minimum reference wage. The last row shows low-earner self-employed, for whom the picture is similar to that of low-wage employees, as they also pay higher effective contribution rates.

(*): However, productivity growth affects indexation of pensions in payment.

A range of policy options should be considered to address financial sustainability issues. The main priority is to reign in pension spending, especially as both the tax wedge and the contribution rate are relatively high. However, given the projected financial gap, action will be needed to boost pension revenues as well. Box 4.2 summarises the expected impact of various policy options.

Box 4.2. Quantifying the impact of potential pension reforms on financial sustainability

Various scenarios have been simulated to limit the increase in pension expenditure. Table 4.2 summarises the expected impact of various policy options on pension expenditure, average pensions, the average age of claiming pension for the first time and the required transfer from the state budget to balance pensions, with details provided in Chapter 2.

For example, different options could separately generate pension savings of around 1% of GDP in 2050 compared with the no-action baseline. One option is to increase the minimum conditions to access pensions from age 60 with 40 years of contributions to age 62 with 42 years of contributions by 2028 and then to link all eligibility conditions to life expectancy in a way that one year of life-expectancy gains raises the eligibility conditions by 8 months. Similar savings can be achieved by lowering the indexation from a mix of 60% of wages and 40% of prices to 34% of wages and 66% of prices. In order to reduce spending by about 1% of GDP by 2050 through changes in the accrual rates applying to entitlements from 2027 will have to be reduced by 12%. On the revenue side, an additional 3 percentage points of contributions would be needed.

Table 4.2. Potential pension reforms to improve financial sustainability

Compared to the baseline of no policy adjustments in 2050

Policy option	Net savings (Percentage points of GDP)	Average pension (%)	Average age of claiming old-age pension for the first time (years)
1a. Raising the minimum retirement eligibility conditions to 62 and 42 years by 2028 and linking retirement age to life expectancy thereafter	-0.9	4.2	2.0
1b. Increasing retirement age by 2.6 years in 2027	-1.1	6.4	2.7
2. Reducing pension indexation from 60% to 34% of real wages	-1.0	-6.4	0
3a. Linking benefits to changes in life expectancy from 2027	-0.7	-4.2	0
3b. Lowering accrual rates by 12%	-1.0	-6.4	0
4. Decreasing minimum reference wage from 76.5% to 56.5% of the average wage	-0.4	-2.3	0
5. Decreasing the ceiling to reference wage from 306% to 206% of the average wage	-0.3	-2.3	0
6. Increasing contribution rate from 24.35% to 27.22%	-1.0	-	-

Notes: Net savings shows the reduction of pension expenditure for policy options 1-5 and the increase in pension revenues for option 6.
Source: For details see Chapter 2.

Improving pension financial sustainability is never easy politically, but at least some of the options discussed below should be implemented as soon as possible to limit the economic and social costs from changing the rules in an ad hoc and abrupt manner when fiscal pressure becomes too tight. This could be done through introducing automatic adjustment mechanisms linking pension parameters with demographic or economic indicators (Box 4.3). Having an expert body – the greater the independence of this institution the better – in charge of the assessment of pension schemes, the pension expenditure projections and, more broadly, the evaluation of the impact of demographic changes would also be very helpful to strengthen the diagnosis and the acceptance of reforms, as well as to provide support for a sound management of the system (Fall and Bloch, 2014[8]). Several countries, including Belgium, Canada, France and Sweden, have such an independent body.

Box 4.3. Automatic adjustment mechanisms exist in more than half of OECD countries

Automatic adjustment mechanisms are present in about two-thirds of OECD countries. Beyond the links between retirement age and life expectancy covered in Box 4.4, some mechanisms automatically adjust benefit levels. Automatic adjustment mechanisms help to both prevent the accumulation of large financial deficits and smooth needed adjustments thereby reducing political, social and economic disruptions. They are perceived as a remedy to the tendency of governments to procrastinate measures to address financial sustainability issues. Such mechanisms improve the rationality of sharing ageing costs (Börsch-Supan, 2007[9]) and improve transparency about how the adjustments will be made (Turner, 2007[10]).

In 15 countries mandatory pensions include funded or notionally defined contribution (FDC or NDC) schemes which directly account for changes in life expectancy in the calculation of annuities (*). Notional accounts within NDC schemes in Italy, Latvia and Poland additionally valorise pension entitlements with the growth rate of the wage bill or GDP through the notional interest rate. In Estonia, Germany, Japan, Lithuania, Luxembourg, the Netherlands and Sweden, benefits from mandatory pensions are linked to the pension financial balance, demographic ratios or the wage-bill growth.

In Germany, the sustainability factor, which accounts for changes in the number of contributors relative to the number of pensioners, has been used to index the pension point value since 2005. The 2018 sustainability factor was positive, increasing pensions by 0.3%, but it is now projected to be negative, decreasing the adjustment of the pension point value by 0.5% per year until 2032. However, benefits cannot be reduced in nominal terms as a result of the adjustments. In that case, the downward adjustment from the sustainability factor is only applied if other factors in the pension point value (such as wage growth) are positive. Unapplied negative adjustments are, however, carried over to later years as it happened in the past.

In Lithuania, both the value of the pension point and of the basic pension are linked to changes in the wage bill. If the wage bill falls in nominal terms (which will cause a drop in contributions) the indexation of pension benefits and entitlements does not apply. In Estonia, the value of the pension point is also linked to contribution revenues.

In Sweden for the NDC scheme, the Swedish Pensions Agency calculates a solvency indicator, the balance ratio, by dividing the sum of the assets of the buffer fund and the approximate value of future contribution flows from current workers by pension liabilities (accrued notional pension entitlements) (Settergren and Mikula, 2005[11]). There is an automatic adjustment of NDC pensions to the balance ratio as there is no guarantee that the automatic link to life expectancy in the NDC formula, which computes NDC “annuities”, is enough to ensure financial sustainability. When a deficit is identified in the form of a balance ratio lower than one, a brake is activated, reducing the notional interest rate below the wage growth rate in order to help restore solvency, which both limits accumulation in notional accounts and reduces indexation of current pensions in payments. When rebalancing is achieved, any surplus is used to boost the notional interest and pension indexation during a catch-up phase. Sweden experienced some difficulties in applying the brake rule during the Great Recession, and revised it to avoid sharp adjustments. Overall, while the Swedish mechanism was put to the test, it proved resilient to such a huge economic shock, only requiring a small adjustment, with its broad principles remaining largely unchallenged.

Relatively recently, Finland introduced a sustainability factor in its DB pensions to ensure financial sustainability; Spain also introduced one, but suspended it before it came into effect. Portugal also has a sustainability factor, but it only applies to early retirement (OECD, 2019[12]). These sustainability factors are automatic adjustment mechanisms, linking pension benefits to life expectancy.

In Finland, since 2010 the initial level (at retirement) of PAYGO earnings-related pensions has been adjusted to take into account changes in life expectancy at age 62. The life expectancy coefficient lowers initial pensions by the ratio of average life expectancy at 62 in 2005-09 to average life expectancy at 62 in the 5 years prior to retirement. The life expectancy coefficient is 0.957 for the cohort reaching the statutory retirement age in 2021, and is projected to be equal to 0.869 in 2066 (the year in which someone entering the labour market in 2020 will be allowed to retire). Additionally, the minimum retirement age is also linked to life expectancy (Box 4.4), which, along with actuarial adjustment of benefits, cushions the negative impact of the life expectancy coefficient on replacement rates.

In Japan, the adjustment mechanism of pension benefits, introduced in 2004, is based on changes in both the number of contributors and life expectancy, called macroeconomic indexation. The sustainability factor is the sum of two components: a fixed factor accounting for increases in life expectancy (currently -0.3%) and the average change in the number of contributors over the past 3 years (0.1% in 2019). However, this adjustment mechanism is not applied at times of negative inflation. Hence, a catch-up system was introduced in 2018, which carries over downward benefit revisions in years of negative inflation to later years. In 2019, as both prices and wages increased, the macroeconomic indexation was applied, and in addition the unrealised benefit reduction in the previous year was reflected through the carry over mechanism.

A comprehensive overview of automatic adjustment mechanisms in OECD countries is presented in OECD (2021[4]).

(*): When lump sums or programmed withdrawals are available, the assets are used throughout the retirement period, making the link with longevity implicit but similar to that prevailing with the pricing of annuities.

4.3.1. Increasing retirement ages and contribution periods

By allowing to access a full pension, i.e. without any penalty, from age 60 with 40 years of contributions, Slovenia offers loose conditions relative to other OECD countries. This is the case for people retiring now, but as there are no legislated changes to these conditions, differences with other countries will widen given reforms adopted elsewhere. Such loose conditions make it very challenging to finance adequate pension benefits in a sustainable way, a difficulty that will be exacerbated by longevity trends and relatively low fertility rates. With health improvements over the past decades, there is large scope to tighten eligibility conditions to access full pensions. By contrast, the option to retire at age 65 with a shorter contribution period is better aligned with the situation in other OECD countries. To reduce future spending, increasing the minimum retirement age and possibly the contribution period to get a full pension should therefore be at the top of the policy agenda given that effective retirement ages are low today.

In a second step, both the minimum and the statutory retirement ages should be linked to changes in life expectancy. Catching up with other countries in terms of current eligibility conditions in the short-to-medium term will not be enough to address future financial gaps (Box 4.2). Links to life expectancy reduce uncertainty about future pension rules by minimising the need for ad hoc adjustments. They improve credibility and help to build trust in the pension system. For example, transmitting two-thirds of gains in life expectancy to the retirement age would broadly keep the share of working time (and of retirement period) in adult life constant across generations, thus contributing to equity. Yet, larger increases in the retirement age might be needed to ensure financial sustainability, given that the shift in the population structure goes beyond the impact of longer lives, and given that the starting point might not be balanced. Box 4.4 provides details about the links between retirement age and life expectancy in OECD countries. Tightening eligibility conditions will affect future pensioners.

One potential issue with linking the retirement age to life expectancy arises when inequality in life expectancy increases (OECD, 2019[13]). There is conflicting evidence about how socio-economic

differences in life expectancy have changed among OECD countries. In Slovenia, an increase in life-expectancy inequality is overall not supported by the evidence. The life expectancy gap across education levels declined by 0.7 years among men between 2007 and 2017, while is increased slightly by 0.2 years among women.[7] While automatically linking retirement age to life expectancy is one of the key policies to improve financial sustainability, it is important to monitor as closely as possible the medium-to-long-term trends in life-expectancy inequality.

Without other changes in pension parameters, increasing the retirement age has a positive effect on pension levels and generates net savings from both a shorter retirement period and a longer contribution period. Depending on policy priorities, further savings may be achieved through additional measures, such as lowering the accrual rates to accompany the increase in retirement ages, for example in a way that keeps the target replacement rate at the minimum retirement age constant.

Childcare periods should not result in lowering the minimum retirement age. There are valid reasons to grant pension entitlements for periods of childcare and thereby to limit the impact of childcare-related breaks on pensions. However, it is far less obvious why parents should be able to retire earlier compared to childless people and only five OECD countries relax pension eligibility conditions based on having children. In Slovenia, mothers and fathers can retire four and two years below the statutory retirement age, respectively.

If perceived as socially desirable, increases in the retirement age might be cushioned by introducing an early retirement option, which would allow to retire a few years (two or three) before the statutory retirement age. This option should not be costly for pension finances, which implies, that at least actuarially neutral permanent penalties to benefits should apply – between 4% and 5% annually in Slovenia. Larger penalties would reduce incentives to retire early, but they would also increase the risk of people making mistakes in using this option and ending up with low benefits.

Consistent with the efforts to increase effective retirement ages, labour market policies should not be age-specific. The current extended unemployment protection for older workers poses a risk of being used as a pathway to retire early. It might thus limit the impact of tightening eligibility conditions to old-age pensions. For older workers who cannot find employment due to health problems, disability benefits are the adequate policy instrument, while active labour market policies should help those without health incapacity who experience difficulties to find a job.

Box 4.4. Links of retirement age to life expectancy in OECD counties

Denmark, Estonia, Finland, Greece, Italy, the Netherlands and Portugal have linked retirement ages to life expectancy, although Italy has (temporarily) suspended the link for some occupations (*) (OECD, 2021[4]). The Slovak Republic had established such a link in 2012 but eliminated it in 2017; recent legislation foresees an increase of the retirement age to 64 by 2030, while a new mechanism of raising the retirement age beyond this age is to be established. Beyond pensions, such links lower the impact of ageing on total output and ultimately on the average standard of living of the whole population.

The exact link differs across countries. Denmark, Estonia, Greece and Italy increase the retirement age by one month for every month gained in life expectancy at age 65, except for Denmark which uses age 60. This might be needed to ensure financial sustainability, but a one-to-one link basically implies that all additional expected life years are spent working, while the length of the retirement period is constant, leading to a steady decline in the share of adult lives spent in retirement. In Denmark, the parliament has to vote every five years to ensure the link is maintained.

In Finland, the Netherlands and Portugal the statutory retirement age increases by two-thirds of life expectancy at 65; Sweden plans to implement a similar link. In Finland, this is done with the expressed goal of keeping the ratio of expected time in retirement to time spent working constant. In addition in

Portugal, someone with more than 40 years of contributions can retire four months earlier for each year over 40 years of contributions. This effectively implies that only half of life expectancy gains are reflected in the normal retirement age (OECD, 2019[13]). The Netherlands switched from a one-to-one to a two-thirds link in 2020.

Not all links between retirement ages and life expectancy ensure by themselves the financial sustainability of PAYGO DB schemes, even if the pension system is based on sound finances initially i.e. notwithstanding the impact of demographic changes. First, whether it does depends of course on the extent to which changes in life expectancy are transmitted to changes in retirement ages. One-third, two-thirds or one-to-one links do not produce the same effects, even though they will all reduce the length of pension payments when longevity increases. Second, changes in the size of the working-age population driven by past fertility rates matter for pension finances irrespective of longevity gains. Third, in most countries additional years of work mean additional pension entitlements, and depending on how far current rules are from actuarial neutrality, this will generate more or less pension saving for the pension provider. As long as the pensioner-to-contributor ratio stays constant, a stable aggregate replacement rate can be financed by a stable contribution rate in a sustainable way when the initial parameters are also set in a sound way. This is why one objective of such links is to help stabilise the pensioner-to-contributor ratio, which tends to increase with longevity gains and retirement ages that do not adjust. Not raising the retirement age in line with improvements in life expectancy tends to deteriorate financial balances, which then need to be improved through lower replacement rates, reduced pension indexation, or higher contribution rates or additional tax resources.

Two aspects make the implementation of such a link attractive. First, it is conditional on health changes that are effectively taking place. If health improvements do not materialise then retirement ages do not increase. Second, such links limit the political cost to undertake such unpopular measures as raising the retirement age.

(*). Italy suspended the automatic links with life expectancy of both career-length eligibility conditions for early retirement (42.8 and 41.8 years for men and women, respectively), and the statutory retirement ages for some workers only, including those in arduous occupations until 2026.

4.3.2. Adjusting pension indexation

Reducing the indexation of pensions in payment is a powerful instrument to limit pension expenditure without lowering initial pension levels. There is no optimal indexation mechanism as, for a given level of spending, there is a clear trade-off between higher initial benefit levels when retiring and a higher indexation. Price indexation maintains the purchasing power of pensions, while wage indexation ensures a stable relative income, but tends to be more costly. If the objective is to reduce pension spending beyond the impact of higher retirement ages, one option is therefore to either cut the initial pension (or the replacement rate at retirement) or to reduce indexation.

When comparing these two options, the first penalises in particular those with a shorter life expectancy while the second will lower the relative income of the oldest pensioners. From a financial point of view, one big advantage of a move to price indexation is that it generates savings even in the short term. In addition, it would affect both current and future pensioners, thus sharing the adjustment burden more broadly, which might be fairer if current pensioners have benefited from relatively favourable pension rules. In principle, there is no reason why current pensioners should not participate in improving financial sustainability provided that, consistent with price indexation, their purchasing power is not reduced. For example, changing pension indexation from today's mix of 60% of wages and 40% of prices to full price indexation is projected to reduce pension expenditure by about 2% of GDP by 2050.[8]

4.3.3. Increasing contribution rates or expanding tax resources

Raising contribution rates is generally one key measure that could be used to improve pension finances. However, it is problematic because this tends to reduce the disposable income of current workers, deteriorate firms' competitiveness and hamper employment. The combined impact of these effects depends on various factors, including the initial contribution rates, the stringency of employment protection legislation and the intensity of product market competition. Increasing the contribution rate shifts the cost of adjusting pension finances to workers and firms.

In Slovenia, the tax wedge – the difference between labour cost and take-home pay as a percentage of gross wages – is relatively high, which suggests that the space to raise contribution rates might be limited. Based on a general equilibrium model which accounts for labour supply effects, an increase of about 3 percentage points in total contribution rates would be needed to increase contribution revenue by 1% of GDP. In Slovenia, as discussed above, the boundary between taxes and contributions to finance pension redistribution is blurred. The 2018 OECD Tax Policy Review of Slovenia provides policy options on how financing of public spending could be improved (OECD, 2018[14]).

Should the political decision be taken to improve long-term pension finances by raising contribution rates or using tax revenues, a buffer fund might be built up to smooth the increases. Indeed, instead of waiting to increase contribution rates when pension expenditure actually rises, accumulating the reserves earlier would enable more gradual increases. This would cause less disruptions in the labour and product markets, and would share the potential cost in terms of disposable income more evenly across cohorts. In that case, however, to avoid the buffer fund from being misused later on, it is crucial that objectives, dissolution rules and financing sources are set upfront in detail. In short, the design of the buffer fund should ensure that its use is restricted to fulfilling the initial mandate (or entail large political cost if this is not the case). As pension expenditures are projected to accelerate between 2030 and 2050, the buffer fund should start to accumulate resources as soon as possible and be gradually and partly withdrawn e.g. from the late 2030s. The more the future deficits are pre-financed across generations, the lower the level that contribution and tax rates will need to reach.

Reserve funds can be used for various purposes: the better management of large temporary albeit long enough shocks, such as the impact of the baby boom generations retiring; the cushioning of short-term economic shocks affecting pension revenues (and benefits); and, the diversification of pension revenues. In Sweden, a reserve fund worth around 30% of GDP helps to smooth ageing-related adjustments and separate earnings-related pension finance from the state budget. Every year, the value of the reserve fund is added to the estimated value of the future contribution flows of current workers, the so-called implicit or contribution asset (Settergren and Mikula, 2005[11]). This makes for total assets, which are then compared with pension liabilities made of pension entitlements accrued so far.[9] If the total assets are not enough to cover pension liabilities, both current pensions and pension entitlements are adjusted while a smoothing mechanism prevents abrupt changes in benefits. In Finland, the partial prefunding of pensions, with financial assets of mandatory schemes being around 85% of GDP, allows to diversify risks and to separate earnings-related pensions from the state budget. In the United States, the social security trust funds worth around 14% of GDP are not allowed to borrow and are strictly separated from the state budget. Unless the legislation is adjusted, the depletion of the trust funds, which is projected in the 2030s, will translate into benefit cuts.

The part of public pensions that is funded is negligible in Slovenia. This part comes from income coming from state-owned assets managed by Kapitalska Druzba, which amounted to about 1% of total pension expenditure in 2019. In October 2020, the government proposed a bill to create the National Demographic Fund, which would pool state-owned assets worth between 17% and 23% of GDP, with 40% of the dividends from these assets used to finance public pensions. Even with an optimistic assumption, this annual stream of income for pensions would not be larger than 0.5% of GDP,[10] which would cover a small part of the expected financial gap, of around 8% of GDP by 2050. By comparison, implicit public pension liabilities are estimated to have increased sharply from 313% to 359% of GDP between 2015 and 2018.[11] In order to improve transparency

and better separate pension financing from the state budget, the National Demographic Fund might be used as a reserve fund for pensions, but this would require implementing clear rules about financing pension balances as for example in Sweden. In particular, it is crucial to limit the tendency of governments to interfere in the investment process of public pension reserve funds (Palacios, 2002[15]).

4.3.4. Adjusting replacement rates

Another policy option to further improve financial sustainability is, for a given career, to lower replacement for future cohorts depending on demographic factors, such as expected changes in life expectancy or contributor-to-pensioner ratios. For example, lowering replacement rates proportionally to changes in remaining life expectancy at age 65 from 2027 would lower pension expenditure by 0.7% of GDP in 2050.

This negative impact on future benefits might be offset by raising the retirement age and linking it to life expectancy. For example, with the two-thirds link of both the retirement age and the contribution period to life expectancy, a decrease in accrual rates of around one-third of changes in remaining life expectancy would stabilise the replacement rate at the normal retirement age. Such a benefit adjustment would affect only future retirees.

Depending on political objectives, redistributive features such as the minimum and maximum reference wages could also be adjusted to improve financial sustainability, affecting the replacement rates of low and high earners, respectively. For example, gradually lowering the minimum reference wage from 76.5% to 58.5% between 2027 and 2036 is expected to reduce expenditure by 0.4 percentage points of GDP in 2050. The net replacement rate for those earning half the average wage throughout career would decrease strongly from 90%, much above the OECD average, to the OECD average of 69%. Lowering the lowest pensions to such an extent, however, must be seen as a last resort option. As for high pensions, a gradual decrease of the maximal reference wage from 306% to 206% of average wages between 2027 and 2036 would lower pension expenditure by 0.3% of GDP in 2050, while the average pension would decrease by 2%. Those affected would see their future pensions lowered by up to one-third.

4.4. Improving first-tier pensions

4.4.1. Revise eligibility criteria for social assistance benefits

The means test to access social assistance benefits should only apply to the individual or the couple requiring assistance, and should not include children. The obligation of adult children to provide financial support to individuals in need is likely to be a major obstacle for older people to access social assistance benefits. As a result, some older people might not be getting the financial support they need. Moreover, the current family obligation effectively acts as a tax on social mobility, as particularly children of low-income parents who have managed to grow out of their parents' precarious situation would be obliged to support them.

Entitlements are also complicated because the financial social assistance eligibility thresholds depend on the number of working hours while the supplementary allowance is accessible to people who do not work. The level of social assistance benefits should depend on other income but neither on the employment status nor on working hours.

One interesting feature of the supplementary allowance is that it ensures that individuals who are older than the retirement age receive a higher social assistance benefit than working-age people, because after the retirement age there should be less concern about work disincentives. However, while the current eligibility age is at the statutory retirement age for men, it is earlier than the statutory retirement age for women. Moreover, there is no need to have the supplementary allowance as a distinct instrument. Rather it should be merged with financial social assistance, which would just include a higher eligibility threshold for people older than the retirement age.

4.4.2. Adopt a more integrated framework for first-tier pensions

For older people who do not work, one important issue arises as social assistance benefits are withdrawn at a rate of 100% against other income, meaning that for example one euro of contributory pensions results in the loss of one euro in social assistance benefits. Given that social assistance benefit levels have exceeded most minimum pensions – at least until 2021 –, such high withdrawal rates strongly diminish the advantages generated by pension contributions for low earners as extra contributions do not result in higher entitlements.

High withdrawal rates are attractive because they minimise cost, but this comes at the price of poor incentives. By contrast low withdrawal rates minimise crowding-out effects on labour supply and contributory pensions, but are more costly. Valdés-Prieto (2009[16]) suggests that it is optimal to opt for a scheme with a relatively low withdrawal rate, around 30%-50%, which ensures that each amount or period of contributions results in higher total benefits. Moreover, withdrawing based on income allows for the elimination of the link with hours worked. By setting a lower withdrawal rate, receiving a higher income from other sources than social assistance always results in a higher total income – no matter whether this is the result of a higher pension, a higher wage or more hours worked.

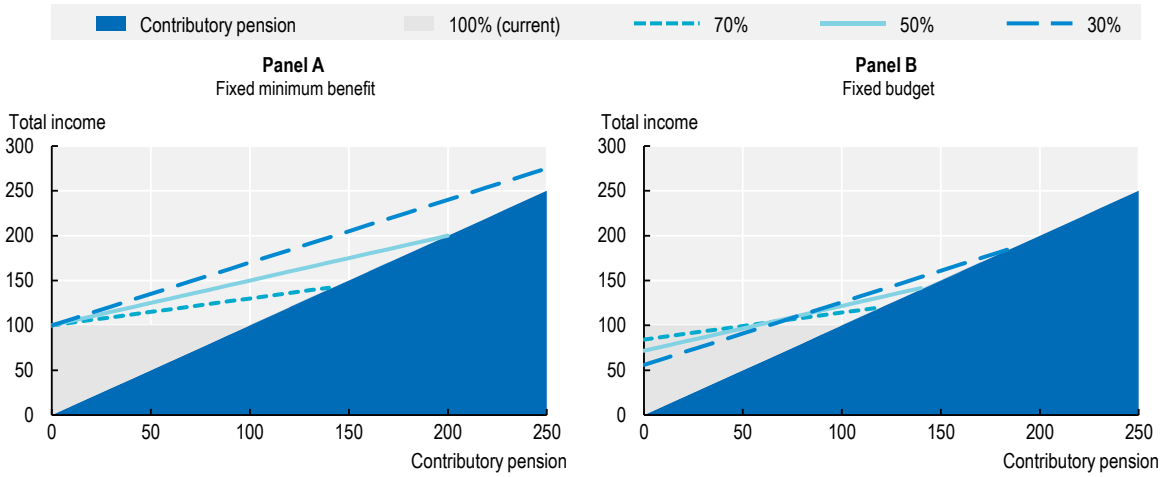
The interaction between the minimum pension and safety-net benefits could take different forms depending on the withdrawal rate. Figure 4.1 shows possible interactions between social assistance (the merging discussed above between financial social assistance and the supplementary allowance for people older than the statutory retirement age) and the contributory pension – or any other source of income. While under current rules corresponding to a withdrawal rate of 100%, the level of total income of a person receiving social assistance does not increase with contributory pension benefits until the safety-net eligibility threshold, a withdrawal rate lower than 100% implies an increase of total income at a rate that is equal to 100% minus the withdrawal rate. As the withdrawal rate becomes smaller, people can combine a pension with social assistance benefits until higher pension benefit levels (Panel A). However, if withdrawal rates are to be implemented in a budget-neutral way, a lower withdrawal rate also means a lower benefit level for people with no other income (Panel B as an illustration). Alternatively, to guarantee that no one falls below a certain income level an initial withdrawal rate of 100% could be maintained, after which a lower withdrawal rate guarantees that higher contributory pension benefits also result in a higher income (Panel B, but with 100 as the minimum total income). Doing so would reduce the period for which having made more contributions does not affect the income level of people receiving social assistance. Box 4.5 provides examples of the withdrawal-rates structures used in four selected countries.

The guaranteed pension was raised in 2021 to ensure that a person with 40 years of pensionable service without purchase would have a pension income above the threshold to qualify for social assistance. The guaranteed pension generates discontinuities in pension build-up, with a steep increase in pension entitlements after 40 years of pensionable service without purchase followed by a period during which paying more contributions does not result in additional entitlements. As such, the scheme effectively eliminates work incentives generated by the increased accrual of 3% for low-income earners. Therefore, the scheme should be merged with the minimum pension so as to eliminate these discontinuities in a budget neutral way. Moreover, in order to ensure that having paid more contributions always generates higher incomes in old age, replacing the accrual rate of 29.5% after 15 years of employment by an accrual rate of 1.967% (= 29.5%/15) per year for the first 15 years of contributions could be considered.

Also, once a more integrated framework for first-tier pensions has been adopted, social assistance eligibility thresholds could be indexed to wages instead of prices. If both the minimum pension and safety-net thresholds follow the same indexation rule, then their ratio remains constant over time. However, there is a trade-off between the level of the same indexation to both minimum pension and safety-net benefits, and the cost of the social assistance system. In any case, wage indexation of safety-net benefits should not be considered before a consistent first-tier pension framework is in place.

Figure 4.1. Total income and contributory pensions for different withdrawals of social assistance

Illustration of how social assistance benefits are adjusted to contributory pensions at different withdrawal rates (from 30% to 100%) with fixed minimum benefit (Panel A) and fixed budget (Panel B)



Note: The withdrawal rate refers to the amount of social assistance benefit a person receives less for every euro of other income the person receives.
Source: OECD calculations.

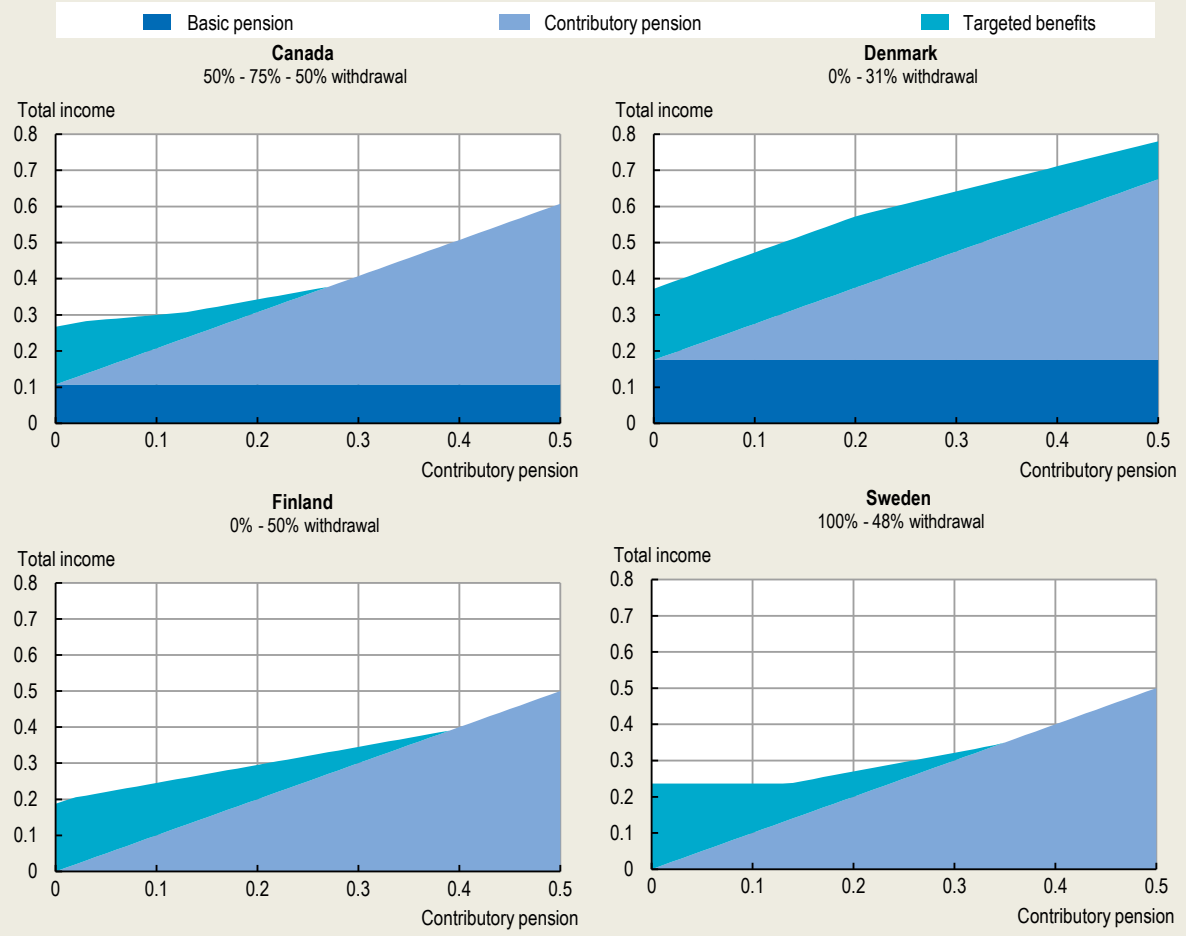
StatLink https://stat.link/7rsfno

Box 4.5. Withdrawal rates of targeted benefits in selected OECD countries

Canada currently has an initial withdrawal rate of 50%, after which the withdrawal rate increases to 75% meaning that an extra dollar in contributory pension benefits results in a loss of 0.75 dollars in targeted benefits. As contributory pension benefits increase further, the withdrawal rate is lowered to 50% again (Figure 4.2). Denmark and Finland provide large incentives for people with little contributory pension to build up a pension by not withdrawing the targeted benefit against initial contributory pension. While in Finland, only the first EUR 56 per month is not withdrawn, in Denmark this is almost tenfold the amount (DKK 7 475). At 30.9%, Denmark also employs a much lower withdrawal rate after this point than Finland (50%). By contrast, Sweden has an initial withdrawal rate of 100%, after which the targeted benefit is withdrawn at 48% against the contributory pension.

Figure 4.2. Withdrawal rates of targeted benefits in selected OECD countries

Contributory pension and total income as proportion of gross average wage, 2021



Source: Country profiles in OECD (2019[13]) *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en and information provided by the countries.

StatLink https://stat.link/v54icg

Policy options

Improving public earnings-related pensions

- Simplify the pension rules, while adjusting accrual rates as needed for example to stabilise pension levels on average, by: increasing the reference period from the best 24 years to lifetime earnings, using gross wages for the reference-wage calculation; and, eliminating the annual discretionary allowance.
- Improve the transparency of pension finances by: creating an independent expert body in charge of monitoring pensions to provide support for a sound management of the system; separating the financing of old-age and disability pensions as a first step to run separate budgets; improving the reporting of the net cost of minimum and maximum reference wages; and, explicitly recording the cumulative balance between contributions and entitlements over time.
- Remove the restrictions to combine work and pensions once a worker is eligible for a full pension, provided that combining work and pensions does not deteriorate public finances in the long term.
- Raise the contribution base of the self-employed from 75% of profits (86% of profits will harmonise contributions with employees).
- Roll back the reform which removed the requirement to provide a justified reason when dismissing an employee who has met eligibility conditions to the old-age pension.
- Align pension contributions and entitlements between civil servants and private-sector workers.

Addressing financial sustainability issues

- Tighten the minimum eligibility conditions to pensions (minimum retirement age and contribution-period condition for a full pension) and link retirement ages to life expectancy.
- Remove the lowering of the minimum retirement age based on childcare periods.
- Lower indexation of pensions in payment.

In addition, pension finances would be enhanced by combining some of the following options, with different impacts as discussed in the text:

- Adjust benefits to life expectancy or to the ratio of contributors-to-pensioners, increase contribution rates, finance pension redistributive components from the state budget, and lower the minimum and/or the maximum reference wages.

Improving first-tier pensions

- Remove the means-testing of social assistance benefits (both financial social assistance and supplementary allowance) to children of beneficiaries.
- Eliminate the conditionality of financial social assistance and supplementary allowance on employment and hours worked; make the supplementary allowance eligible at the statutory retirement age for both men and women; and, merge the supplementary allowance with financial social assistance by granting a higher benefit level for people older than the retirement age relative to people below the retirement age.
- Merge the guaranteed pension with the minimum pension in a budget-neutral way.
- Adopt an integrated framework for old-age safety nets and contributory pensions by ensuring that contributions paid (at least from 15 years) result in higher total benefits through the withdrawal of safety-net benefits at a much lower rate than the current 100%.

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Notes

[1] The minimum wage increased by almost 9% in 2021, which is expected to be a stronger growth than the average wage's, but the minimum wage will remain lower than 60% of the average wage.

[2] On top of the increase stemming from the valorisation of past wages and before accruing additional entitlements.

[3] When combined with work, pensions should just increase based on additional accruals without any bonus.

[4] The 2019 figure of 10.0% of GDP is lower than the ZPIZ budget of 11.5% of GDP as the ZPIZ budget covers also benefits other than old-age and survivor pensions.

[5] In 2019, all ZPIZ expenditure, which include also some long-term care benefits, were 2.2% of GDP larger than contributions. This difference was covered mainly by a transfer from the state budget, of which 0.5 percentage points was paid to cover some redistributive elements of pensions and 1.4 percentage points was paid to cover the ZPIZ deficit. When pro-rating the allocation of tax revenues based on expenditures by category, total transfers from the state budget to finance old-age and survivor pensions would stand at 1.8% of GDP in 2019, of which 1.2% of GDP would cover the "deficit".

[6] The 2018 EC projections show that the pension contributions as a share in GDP are expected to decrease from 8.9% to 8.6% between 2020 and 2050. The actual share for 2019 stood at 9.3% of GDP.

[7] Source: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=demo_mlexpecedu&lang=en. Mackenbach et al. (2014[17]) did not find significant changes among women, and an absolute decrease and relative increase in inequality among men.

[8] Simulations show that changing pension indexation from a mix a 60%-40% of wages and prices to 34%-66% lowers pension expenditure by 1% of GDP in 2050. Reduction in pension indexation only to inflation, i.e. twice larger reduction in real indexation, would translate into approximately twice higher reduction in pension expenditure. Indeed, Čok, Sambt and Majcen (2010[18]) paper shows that reducing

pension indexation from 100% of wages to 50% of wages and 50% of prices would have half the effect on pension expenditure compared to reducing pension indexation to prices.

[9] Pension liabilities equal to the value of notional accounts in the Swedish NDC scheme.

[10] Optimistically assuming annual dividends equal to 5% of assets means that 40% of the dividends would be around 0.5% of GDP (=23% (asset value in GDP) * 5% (annual dividend) * 40% (part of dividend to finance pensions)=0.46%).

[11] Data based on releases of the Slovenian Statistical Office data: https://www.stat.si/StatWeb/en/News/Index/9322 and https://www.stat.si/StatWeb/en/News/Index/7179.

5 Review of supplementary pension savings arrangements

This chapter reviews the regulation, design and outcomes of the Slovenian supplementary pension system. It assesses these elements against international standards and practices to identify possible areas where improvements may be needed to strengthen the sustainability and role of this segment of the pension system in the provision of retirement income.

5.1. Introduction

The Slovenian pension system comprises a public pay-as-you-go component, as well as a supplementary component, where assets accumulate to back individuals' future retirement income. The size of the supplementary pension component in Slovenia is relatively modest in international comparison, and this chapter aims to uncover possible areas where improvements may be required to strengthen the sustainability and role of this segment of the pension system to ensure Slovenian people receive an adequate income in retirement.

This chapter first describes the structure of the Slovenian supplementary pension system, and then analyses its coverage and contributions. The third section covers the tax treatment of retirement savings. The fourth section looks into the assets and investments of the supplementary pension system, while the fifth section analyses the risk management and funding requirements applicable to supplementary pension funds. The sixth section describes the pay-out options available to Slovenians saving for retirement and the different rules which apply to these options. The seventh section discusses aspects related to the relationship between providers and members of the supplementary pension system, including applicable fees and communication with members. The eighth section concludes by highlighting some of the challenges identified in the Slovenian supplementary pension system.

This review is complemented by a proposal for reform in Chapter 6, which offers policy options to improve and reinforce the supplementary pension system in Slovenia based on the challenges identified.

5.2. Structure of the funded pension system

The Slovenian supplementary pension system is organised according to different types of pension plans, and comprises both mandatory and voluntary occupational and personal retirement savings arrangements. Occupational and personal retirement savings arrangements may be set up as mutual pension funds, umbrella pension funds (consisting of sub-funds) or long-term business funds; and they can be managed either by pension companies, insurance companies or banks (Table 5.1).

Table 5.1 Types of pension funds

Fund type	Characteristics	Provider	Type of pension arrangements	Supervisor
Mutual pension fund	- No legal personality - Assets are separate from those of the pension fund manager - Owned by the members through property units - Formed and managed exclusively for the benefit of the members	Insurance company Pension company Bank	Occupational Personal	Securities Market Agency (SMA)
Umbrella pension fund	- Mutual pension fund consisting of three sub-funds with different risk profiles	Insurance company Pension company Bank	Occupational Personal	Securities Market Agency (SMA)
Long-term business fund	- Intended to cover the liabilities stemming from supplementary pension - Owned by its manager - Subject to technical reserves - A company may offer three long-term business funds with different risk profiles	Insurance company Pension company	Occupational Personal	Insurance Supervision Agency (ISA)

Source: Articles 295, 296 and 323 of the Second Pension and Disability Insurance Act (ZPIZ-2) http://pisrs.si/Pis.web/pregledPredpisa?id=ZAKO6280.

Different legislations and regulations apply to retirement savings arrangements, depending on their structure. Pension companies are defined and governed by the Second Pension and Disability Insurance Act (ZPIZ-2), while insurance companies may be authorised to conduct life insurance activities, including retirement savings activities under the insurance law, and banks may be licenced to operate pension funds under the bank law. Three institutions supervise the private pension system in Slovenia: the Securities Market Agency (SMA) and the Bank of Slovenia supervise retirement arrangements set up as mutual and umbrella pension funds. The Insurance Supervision Agency of Slovenia (ISA) supervises insurance and pension companies and is responsible for supervising the implementation of the provisions of ZPIZ-2 for long-term business funds.

5.2.1. Occupational schemes

The Slovenian funded pension system comprises both mandatory and voluntary occupational retirement savings components.

Mandatory occupational retirement savings plans

Occupational retirement savings plans are mandatory for two groups of workers in Slovenia: people working in arduous and hazardous occupations, and civil servants.

Mandatory scheme for workers in arduous and hazardous occupations

The mandatory scheme for workers in arduous and hazardous occupations is a hybrid defined contribution-defined benefit retirement savings plan, designed for workers who are deemed not to be able to work until the statutory retirement age, because of difficult working conditions or of an adverse effect of their occupation on workers' health and working capacity.

Occupations covered by this scheme are considered as particularly difficult and unhealthy, or cannot be successfully performed professionally after a certain age, i.e. until the conditions to receive a public pension are fulfilled.

Occupations which are subject to the mandatory scheme for workers in hazardous jobs are meant to be determined by a commission, based on criteria set by law, although the system is not yet in force.[1] Currently, the list of occupations which was set about 50 years ago still determines which workers are subject to this mandatory scheme. The list of occupations is published on the Ministry of Labour, Family, Social Affairs and Equal Opportunities' website and includes for example miners, firefighters and lorry drivers.[2] However, a new law requires that the criteria are set by a commission consisting of seven members: three appointed by employers' associations, three appointed by national trade unions or confederations, and one appointed by the Ministry of Labour, Family, Social Affairs and Equal Opportunities.[3] A special law may also define additional occupations for which enrolment into the scheme for workers in arduous and hazardous occupations is compulsory. The regulation governing this has not yet been adopted and the commission is yet to be appointed.

For workers in hazardous and arduous occupations retiring early, the occupational retirement scheme acts as a bridge between employment and the statutory retirement age, when the public pension starts covering them, and is therefore a hybrid scheme with benefits linked to assets accumulated from contributions, and subject to a minimum and maximum income based on the minimum and maximum old-age pension. Workers covered by the scheme who decide not to retire early may use assets accumulated in the scheme to receive additional retirement income upon reaching the statutory retirement age.

A single provider, Kapitalska Družba, manages this mandatory scheme, which is established as a mutual pension fund. Kapitalska Družba is fully owned by the Republic of Slovenia.

Mandatory scheme for civil servants

The mandatory scheme for civil servants is a defined contribution retirement savings plan, which all civil servants join upon starting employment.

The insurance company Modra zavarovalnica (Modra) has managed the occupational scheme for civil servants since 2004, taking over from Kapitalska Družba. Kapitalska Družba managed the civil servants fund from 2004 until 2011. In October 2011, after structural and legislative reforms, Kapitalska Družba was restructured and Modra was created as a spin-off entity for pension fund asset management and activities. Modra took over the management of the closed mutual pension fund for civil servants, among other functions.[4] The scheme for civil servants is set up as an umbrella pension fund. It is closed and as such cannot be joined by workers outside the public sector. Despite the restructure, Kapitalska družba continued to manage the fund of compulsory supplementary pension insurance for people in hazardous and arduous occupations.

Voluntary occupational retirement savings plans

For all other workers in Slovenia, occupational retirement savings schemes are voluntary. If a company has a representative trade union, that trade union decides on whether a pension plan would be included in employees' contracts. If there is no representative trade union in the company, this decision falls on a workers' council. If there is neither a representative trade union nor workers' council at the workplace, employees can decide directly on the formation of a pension plan at the assembly of workers or with a special written statement. In this case, the decision requires a simple majority vote (50%) by all employees. Once an occupational retirement savings plan has been set up, all employees can join the plan.

Voluntary occupational schemes can be managed by pension companies, insurance companies or banks, and may be set up as closed or open funds. Occupational plans can be managed by pension companies regulated under the Second Pension and Disability Insurance Act (ZPIZ-2), insurance companies licenced to operate life-insurance business and regulated under insurance law or banks licensed to operate pension fund management operations and regulated by the banking law. Funds may either be closed to employees of the founding employer(s) or open to employees from different employers. At present, the public sector fund is the only closed fund in Slovenia. Mutual funds and umbrella pension funds can be set up as closed funds if they have at least 1 000 members, while this membership floor does not apply to closed long-term business funds.

5.2.2. Personal schemes

Personal retirement savings schemes are voluntary, and are similar in structure to voluntary occupational schemes. They can be set up as mutual pension funds, umbrella pension funds, and long-term business funds by pension funds, pension companies and banks. Any individual can join a personal retirement savings plan, as long as they are covered by the compulsory pension and disability insurance.

5.2.3. Market structure

Kapitalska Druzba is a public company founded and owned by the Republic of Slovenia. It is in charge of providing additional funds for pension and disability insurance by managing both the mandatory scheme for workers in arduous and hazardous occupations, and the equity holdings of the Republic of Slovenia.

Modra has managed the closed scheme for civil servants since 2004. This provider was chosen through a public tender open to all financial institutions (public and private), and selected by a committee comprising four members of the government, four trade union representatives, each holding one vote, and advised by four independent members with no voting power. As a spin-off from Kapitaska Druzba, Modra was created in 2011 as a private insurance company, although fully owned by Kapitalska Druzba. The collective

agreement establishing the scheme for civil servants lays out a procedure for replacing the fund manager, at the request of the fund management board. No such procedure has yet been initiated.

There are currently three pension companies. four insurance companies, and one bank offering voluntary supplementary pension funds in Slovenia (Table 5.2).

Excluding assets saved by civil servants and workers in arduous and hazardous occupations under their respective closed schemes, one pension company (Triglav pokojninska družba) and one insurance company (Prva) hold the highest market shares in terms of assets managed (with 20% and 18% of assets at end of 2020 respectively). Three additional companies – one pension company (Pokojninska druzba A) and two insurance companies (Modra zavarovalnica and Zavarovalnica Triglav) – represent 10% of assets managed or more (17%, 17% and 13% respectively). Overall, these five companies combined manage 84% of assets saved for retirement in voluntary collective and personal pension plans, while the remaining four companies combined manage 16% of assets. Table 5.2 recaps the assets managed at the end of 2020 by the different providers of voluntary supplementary pension, by company type, together with their respective market share.

Table 5.2. Market share of voluntary supplementary pension providers

Assets managed at end 2020

Provider type	Company name	Assets managed excluding mandatory schemes (in thousand EUR)	Market share excluding mandatory schemes
Pension company	Pokojninska družba A	324 972	17%
	Sava pokojninska družba (to 2017 Moja naložba)	155 440	8%
	Triglav pokojninska družba (to 2019 Skupna pokojninska družba)	367 651	20%
	Sub-total	*848 063*	
Insurance company	Generali zavarovalnica	52 385	3%
	Generali zavarovalnica (previously Adriatic Slovenica)	34 087	2%
	Modra zavarovalnica	308 864	17%
	Prva osebna zavarovalnica	340 115	18%
	Zavarovalnica Triglav	237 495	13%
	Sub-total	*972 946*	
Bank	Intesa	48 761	3%
	Sub-total	*48 761*	
Total umbrella or mutual funds		*410 010*	
Total long-term business funds		*1 459 759*	
TOTAL		1 869 769	

Note: Note: Dark blue shaded cells denote long-term business funds, while light blue shaded cells are umbrella or mutual funds.
Source: Ministry of Labour, Family, Social Affairs and Equal Opportunities.

A new pension plan manager may enter the market if it complies with the rules set forth by ZPIZ-2 and is granted a permit to operate a pension fund by the Insurance Supervisory Agency of Slovenia (ISA), or the Securities Market Agency (SMA), depending on the type of managing entity and chosen pension plan structure. The supervisory authority issues a permit or license to perform the activities of pension provision to the entity, and must also authorise each fund or sub-fund to operate.[5] The Ministry of Labour, Family, Social Affairs and Equal Opportunities establishes and updates a register of authorised pension plan managers and their pension funds. In order for its members to benefit from the income and corporate tax

relief for contributions to retirement savings plan, a pension plan manager must also be registered with the tax authority.

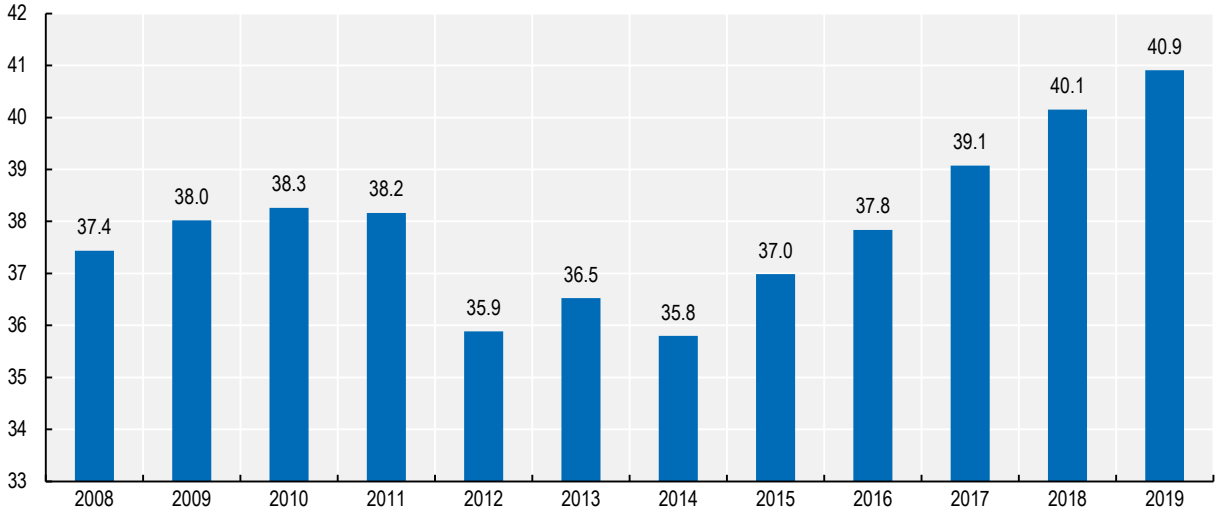
5.3. Coverage and contributions

5.3.1. Overall coverage and contributions

Overall, 40.9% of the Slovenian working-age population were covered by a supplementary retirement savings plan in 2019. The coverage rate has increased slightly over the past decade, from 37.4% of the working-age population in 2008 (Figure 5.1).

Figure 5.1. Coverage of the supplementary retirement savings system in Slovenia since 2008

As a percentage of the working-age population



Note: Total working-age population is made of individuals aged 15 to 64 years old.
Source: OECD Global Pensions Statistics.

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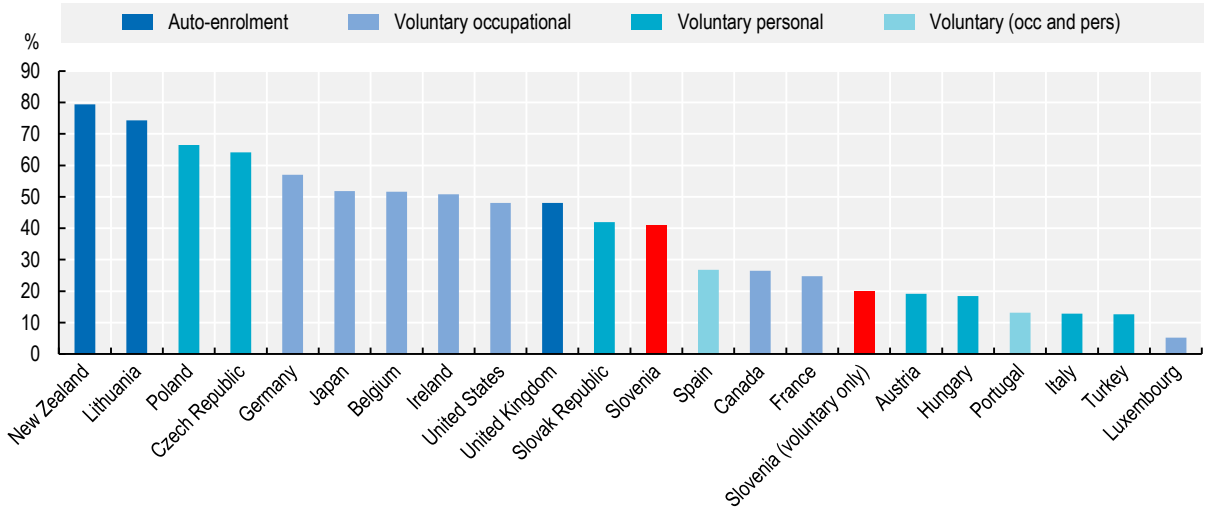
It is estimated that over 95% of those with a supplementary retirement savings plan hold a collective plan, i.e. a plan set up and managed through their employer. Coverage rates encompass both types of plans, occupational and personal, as disaggregated data could not be obtained.

Slovenia ranks among the middle to lower end of OECD countries with voluntary pension systems in terms of coverage. Figure 5.2 illustrates the coverage of retirement savings arrangements of Slovenia in comparison to other OECD countries where retirement savings arrangements are also voluntary. Coverage in this group of countries ranges from over 70% in countries with automatic enrolment schemes such as New Zealand and Lithuania, and over 60% for voluntary personal schemes in Poland and the Czech Republic, down to close to 12% in Italy and Turkey's voluntary personal schemes and 5.2% in Luxembourg's voluntary occupational scheme.

Figure 5.2. Coverage of retirement savings plans in OECD jurisdictions with voluntary arrangements, 2019 or latest year available

As a percentage of the working-age population



Note: Coverage rates are provided with respect to the total working-age population (i.e. individuals aged 15 to 64 years old), except for Germany (employees aged 25 to 64 subject to social insurance contributions) and Ireland (workers aged between 20 and 69). Data refer to 2019 or to the latest year available. Data refer to 2018 for Belgium and France, to 2017 for Portugal and Spain, to 2016 for Turkey, to 2015 for Germany and to 2014 for New Zealand. For Italy, the coverage rate that is shown under voluntary occupational plans also covers individuals automatically enrolled in a plan.
Source: OECD Pension Markets in Focus 2020.

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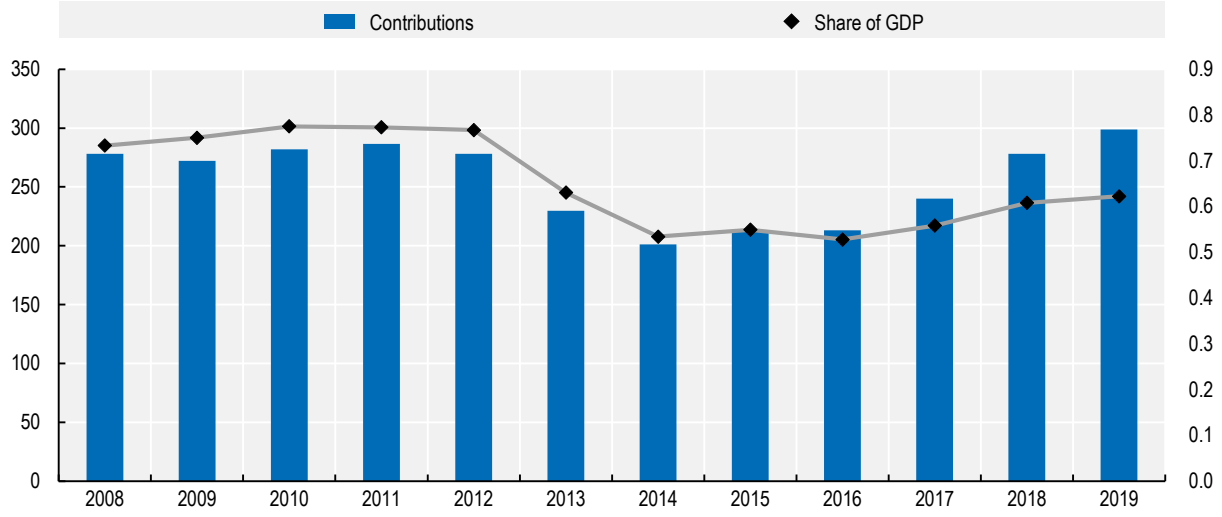
The supplementary retirement system in Slovenia cannot be considered as fully voluntary as a high proportion of members are included through the mandatory schemes for civil servants and workers in arduous and hazardous occupations. When removing all members covered by these mandatory schemes, the coverage of purely voluntary supplementary retirement savings arrangements in Slovenia falls to 19.9% of the working-age population (Figure 5.2).[6]

Total contributions to the supplementary pension system represented EUR 299 million in 2019, up 7% from 2018 (EUR 278 million). Over the past decade, total contributions have remained relatively stable around EUR 280 million between 2008 and 2012, declined sharply to EUR 230 million in 2013 and EUR 201 million in 2014, before increasing back starting in 2017 (Figure 5.3). The significant decline in total contributions coincides with austerity measures which came into force starting in June 2013 and affected mandatory employer contributions to the mandatory scheme for civil servants.

Contributions to the supplementary pension system are low in international comparison. In 2019, total contributions represented 0.6% of GDP in Slovenia. This is below the levels in voluntary systems in Canada, the United Kingdom, Portugal, and New Zealand (between 2% and 3% of GDP), but above those in Hungary, Germany, Luxembourg and Austria (0.2% to 0.3% of GDP) (Figure 5.4).

Figure 5.3. Total contributions into the supplementary pension system, by year

In EUR million (left-hand scale) and as a percentage of GDP (right-hand scale)



Source: OECD Pensions Markets in Focus 2020.

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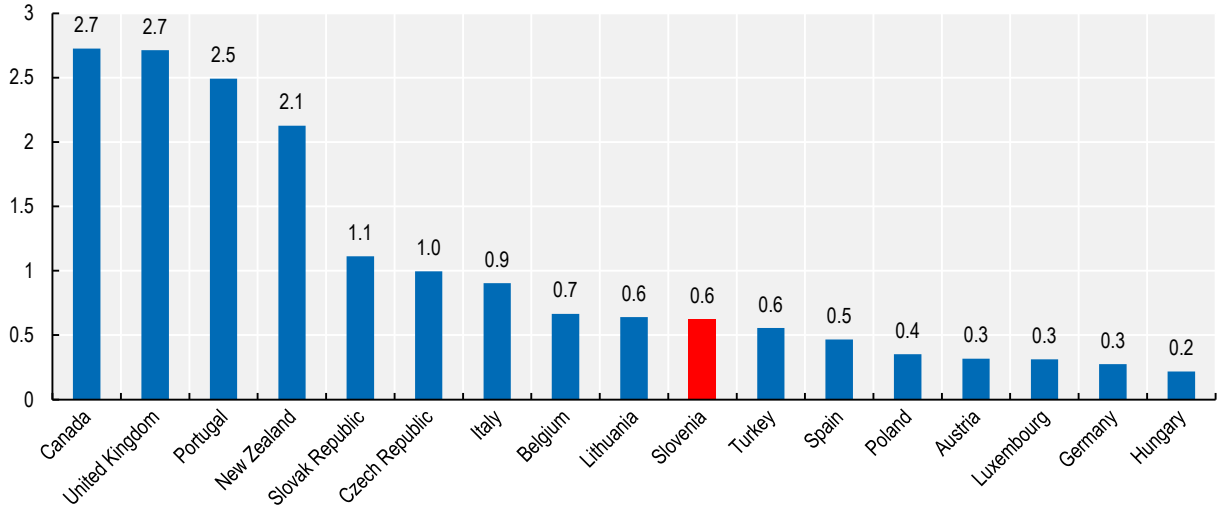
Figure 5.4. Total contributions into voluntary pension systems, in 2019

As a percentage of GDP



Note: Data for Austria refer to Pensionskassen only. Data for Belgium cover pension funds and individual pension savings. Data for Canada refer to trusteed pension funds only. Data for the Czech Republic includes employer, employee and state contributions. Data for Hungary refer to contributions paid into pension funds only. Data for New Zealand refer to employer, employee and state contributions into KiwiSaver plans for each financial year. Data for Portugal cover closed and open pension funds, personal retirement saving funds (established as pension funds or as collective investment schemes managed by investment companies), and personal plans offered by life insurance companies. Data for Slovenia covers contributions to both voluntary and mandatory supplementary pension plans. Data for Spain refer to contributions paid into pension funds and book reserves. Data for Turkey refer to personal plans only.
Source: OECD Pensions Markets in Focus 2020.

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5.3.2. Mandatory occupational funded schemes

Mandatory scheme for workers in arduous and hazardous occupations

The mandatory scheme for workers in arduous occupations covered approximately 48 300 people in 2019, of which slightly more than half were receiving contributions from their employer. Only 252 self-employed workers were covered by this scheme in 2019, of which 91 were making contributions.

Employer contributions are currently set at 9.25% of gross wages for all workers in arduous and hazardous occupations. When this compulsory supplementary pension scheme was introduced in 2001, the contribution rate was initially set at different levels according to the different groups of employment defined in the mandatory pay-as-you-go system, with rates varying from 4.20% to 12.60% of wages from the first to the fifth group respectively. The rate was uniformed over time, first at 10.55% of wages (except for the fifth group of employment, which remained with a contribution rate of 12.60%) between 2010 and 2014, and then at 9.25% of wages from 2014. A transitional rate of 8% applies between 2017 and December 2021 to workers already enrolled in the scheme. During maternity and parental leave, occupational insurance is dormant and the employer is not required to pay contributions.

Mandatory scheme for civil servants

The mandatory scheme for civil servants was introduced in 2003 and currently covers approximately 235 000 workers, of which around 72% are women, and over 80% were receiving contributions from their employer.[7] Civil servants covered by the scheme include employees of the central government, local authorities and other institutions and agencies governed by public law.[8]

All civil servants are covered by the scheme, from the date of their employment. There is no vesting period before joining the occupational scheme for civil servants in Slovenia, which is not the case for the scheme for civil servants in many OECD countries (OECD, 2016[1]). Even in countries where the occupational scheme for civil servants acts as a mandatory top-up on the public pension scheme, such as in Slovenia, civil servants must often have worked for a certain number of years before being fully eligible to the benefits of their specific occupational scheme. In Norway for instance, the vesting period for the civil service scheme is three years, while in Ireland it is two years. The absence of a vesting period guarantees that all civil servants in Slovenia are covered from the date they start employment in the public sector.

Contribution rates are not linked to wages, but rather depend on the date at which employees join the scheme. When the scheme was introduced on 1st August 2003, civil servants were allocated to a contribution class based on their total employment history at the time, with employment periods in both the public and private sector counting towards the total. Contribution classes were not updated after 2003, and members joining the public sector on or after 1st August 2003, are allocated to the lowest contribution class, including those who leave and later re-join the public sector. At end 2017, 57% of female civil servants and 55.6% of male civil servants therefore received the lowest employer contribution level. Employer contributions must be continued during maternity and parental leave.

The annual increase in the average salary of employees of legal entities in Slovenia over the period from January to October of the previous year determines the monthly contribution for the lowest contribution class.[9] In 2003, this monthly contribution was set at EUR 16.86, while from 1 January 2021, it is set at EUR 32.18. Between June 2013 and December 2017, this calculation rule was not applied due to austerity measures being implemented, and monthly contributions were not increased but rather significantly cut by a factor of up to almost ten, before being set back to levels close to those of May 2013 in January 2018. Table 5.3 details the range of monthly contributions received by civil servants in 2003, 2015 and 2021: from EUR 16.86 in 2003, EUR 2.68 in 2015 and EUR 32.18 in 2021 for the lowest contribution class, i.e. for civil servants joining the scheme with no prior employment history in 2003 or after 2003, to EUR 42.22 in

2003, EUR 5.62 in 2015 and EUR 61.62 in 2021 for those with 35 years of service or more prior to 1st August 2003.

Table 5.3. Monthly contributions received in 2003, 2015 and 2021 by members of the mandatory supplementary pension scheme for civil servants

According to their length of service when joining the scheme

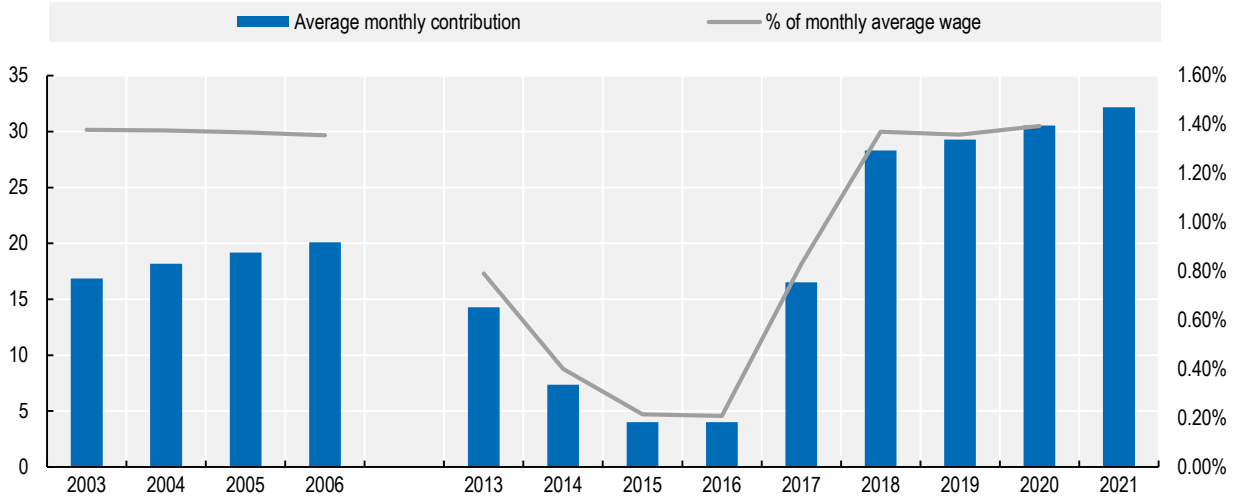
Contribution class, i.e. years of service when joining the scheme on 1 August 2003	Total monthly contribution between August and December 2003 (in EUR)	Total monthly contribution between January and June 2015 (in EUR)	Total monthly contribution received from 1 January 2021 (in EUR)
0	16.86	2.68	32.18
1	17.45	2.75	32.87
2	18.04	2.82	33.56
3	18.64	2.89	34.25
4	19.23	2.96	34.94
5	19.82	3.02	35.62
6	20.41	3.09	36.30
7	21.01	3.16	36.99
8	21.60	3.23	37.69
9	22.19	3.30	38.37
10	22.78	3.37	39.06
11	23.38	3.44	39.74
12	23.97	3.51	40.44
13	24.56	.3.57	41.10
14	25.15	3.64	41.80
15	25.75	3.71	42.50
16	26.34	3.78	43.18
17	26.93	3.85	43.87
18	27.52	3.92	44.56
19	28.12	3.99	45.25
20	28.78	4.07	46.03
21	29.45	4.14	46.80
22	30.12	4.22	47.58
23	30.87	4.31	48.44
24	31.62	4.39	49.31
25	32.37	4.48	50.18
26	33.21	4.58	51.15
27	34.04	4.68	52.13
28	34.88	4.77	53.08
29	35.84	4.88	54.19
30	36.80	5.00	55.33
31	37.76	5.11	56.43
32	38.84	5.23	57.70
33	39.93	5.36	58.94
34	41.01	5.48	60.21
35 or more	42.22	5.62	61.62

Source: Ministry of Labour, Family, Social Affairs and Equal Opportunities, IER analysis of the umbrella pension fund for civil servants, https://www.modra.si/wp-content/uploads/2021/01/Premije-JU-2021.pdf.

The monthly contribution received by most civil servants represented approximately 1.4% of the average monthly wage in Slovenia in 2020. Figure 5.5 shows the evolution of the lowest contribution received by civil servants, i.e. the contribution received by most civil servants, between 2003 and 2021, in EUR and as a percentage of the average monthly wage. This fraction of the average wage has remained constant over time, except between 2013 and 2017 when austerity measures were in place, and when the contribution received by the majority of civil servants represented between 0.2% and 0.8% of the average monthly wage.

Figure 5.5. Evolution of the monthly contribution received by most civil servants over time

In EUR (left hand-side scale) and as a percentage of the monthly average wage (right hand-side scale)



Note: Data on contributions unavailable between 2007 and 2012. The monthly contribution shown is the weighted average of contributions received during a given year. The average wage is expressed in EUR at current prices for the years considered.
Source: IER report on the umbrella pension fund for civil servants, https://www.modra.si/wp-content/uploads/2021/01/Premije-JU-2021.pdf and OECD estimates.

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5.3.3. Voluntary occupational and personal funded schemes

Coverage of voluntary retirement savings schemes

Voluntary pension schemes, either occupational or personal, represent approximately 310 000 pension contracts at the end of 2017. The coverage of supplementary retirement savings arrangements in Slovenia may include some minor double counting of members holding more than one pension contract with different pension providers. Based on data received from supplementary pension providers, the Institute of Economic Research (IER) estimates that 5% of individuals hold more than one voluntary retirement savings policy with one pension provider. No data could be obtained as to how many individuals hold pension contracts with more than one provider.

A majority of voluntary supplementary retirement savings contracts in Slovenia receive contributions from either members and/or their employers. According to IER data for 2017, 62% of voluntary policies received contributions at some point during the year 2017. The vast majority of voluntary plans with accruing contributions (around 70% in 2017) receive contributions only from employers. Around 18% accrue contributions from both employer and employee. Only about 10% of supplementary retirement savings

plans accruing contributions, or 6% of all policies, receive contributions only from individuals. This category includes voluntary occupational schemes where employers no longer contribute (about 2% of policies in 2017), for instance plans to which workers continue to contribute after having left the employer which set up the plan.

Men are more likely to have a voluntary supplementary pension savings account than women. Overall, 56.7% of voluntary supplementary retirement savings contracts which had a positive balance at the end of 2017 were held by men, and 43.3% by women, with only two pension management companies out of the eight surveyed having (slightly) over 50% female members. Similar results were found when analysing contracts which received contributions in 2017, indicating that men and women were as likely to contribute to their supplementary retirement plan during a given year.

Employer contributions to voluntary occupational schemes during maternity and parental leave are voluntary. Collective agreements and rules of pension contracts may include the continuation of employer contribution to voluntary occupational retirement schemes during maternity and parental leave. However there is no obligation for employers to pay contributions to the retirement accounts of employees during maternity and parental leave.

Stopped contributions to retirement savings plans during periods of maternity and parental leave are one of the sources of the gender gap in private pensions in many OECD countries (OECD, 2021[2]). This is especially true in countries where occupational arrangements are voluntary or based on automatic enrolment, such as Austria, Lithuania, New Zealand, and the United States. Belgium and Denmark have a similar setting to that of Slovenia, and plan rules dictate whether contributions continue or are halted during maternity and parental leave. Other countries with voluntary or quasi-mandatory occupational schemes such as Canada, Ireland, Japan, Korea, Luxembourg, the Netherlands, Poland, the Slovak Republic, Sweden, Switzerland and the United Kingdom mandate employer contributions to continue during periods of maternity and parental leave.

Coverage and contribution rules specific to voluntary occupational schemes

Once a voluntary occupational pension plan has been set up, all employees are included in the plan under the same conditions, with the ability to opt-out. A minimum tenure of employment of up to one year may be required by employers to enrol employees into the company pension plan.

Employer contributions to voluntary occupational plans are not determined by law, but are subject to collective bargaining between employers and employees. However, the Ministry of Labour, Family, Social Affairs and Equal Opportunities sets a minimum annual employer contribution amount, which is revised annually. This minimum contribution amount is set by law (currently at EUR 316.20) and is indexed by average salary growth.

Contributions to voluntary retirement savings schemes

Accounts to which both employer and employee contribute regularly have the highest average balance. The average balance of assets on voluntary retirement savings accounts was EUR 4 758 in 2017 and was higher for accounts which received a contribution during the year 2017. Dormant accounts in 2017 had an average balance of approximately EUR 2 900 for both occupational and personal plans. Accounts which received contributions from employers only in 2017 had an average balance of EUR 5 255 (10% higher than average), those receiving contributions from members only had an average balance of EUR 7 115 (50% higher), and those receiving contributions both from members and employers had an average balance of EUR 8 438 (77% higher) (Table 5.4).

Table 5.4. Balances and contributions to voluntary retirement savings plans by gender, 2017

For accounts showing a positive contribution in 2017, in EUR

	Average balance in account			Average annual contribution		
Contributions from	Overall	Men	Women	Overall	Men	Women
Employer only	5 255	5 668	4 731	727	776	666
Employer and member	8 438	8 590	8 149	1 172 (888 + 264)	1 228 (933+295)	1 067 (803+264)
Member only	7 115	7 459	6 782	639	700	581

Note: 2017 data for all voluntary pension providers, except Generali's Leon umbrella pension fund and Intesa's Moj umbrella pension fund.
Source: IER data.

Women who received contributions in 2017 had lower contributions and lower balances than men, particularly when receiving contributions from their employer only (Table 5.4). Account balances at the end of 2017 were 17% lower for women (EUR 4 731) than men (EUR 5 668), when contributions were made by employers only. The gender difference in account balances was 9% and 5% respectively when contributions were made by members only, and by members and their employers in 2017.

The gender pay gap has consequences on employer contributions received by women in voluntary pension arrangements. Outside of the public sector, employer contributions are generally set at a percentage of wages and may therefore be affected by salary differences between men and women. The amount of employer contributions was 14% lower for women than for men, both when contributions were paid only by employers (EUR 666 for women and EUR 776 for men) and when contributions were paid by employers and employees (EUR 803 for women and EUR 933 for men). This gender gap in employer contributions is higher than the gender wage gap, which according to data from Eurostat, was 8.4% in 2017.[10]

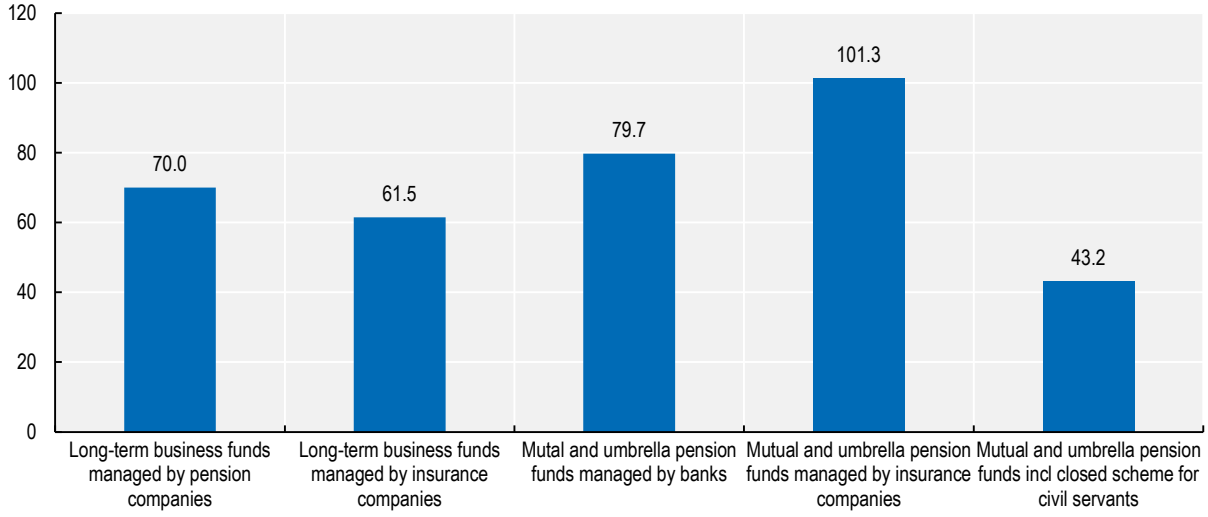
Gender differences also appear in the distribution of employer contributions by age cohorts. While both genders appear to receive comparable employer contributions as a percentage of their annual salary in middle ages, women younger than 26 and older than 58 receive lower contributions as a percentage of their annual salary than men of the same age groups, according to IER data. This suggests that women of younger and older age groups may be more represented than men in occupations or industries where employers pay lower contributions to voluntary pension plans.

Data from pension fund managers managing voluntary occupational and personal retirement savings plans indicate that for accounts with contributions paid in 2020, the average monthly contribution received was higher for mutual and umbrella pension funds than for long-term business funds. Mutual and umbrella funds managed by insurance companies had the highest average monthly contribution (EUR 101.3, or 4.7% of the monthly average wage in Slovenia), followed by those managed by a bank (EUR 79.7, or 3.7% of the monthly average wage). Long-term business funds received slightly lower average monthly contributions: EUR 70 (or 3.25% of the monthly average wage) for those managed by pension companies, and EUR 61.5 (i.e. 2.8% of the monthly average wage) for those managed by insurance companies (Figure 5.6). Given the weight of the scheme for civil servants, the average monthly contribution to mutual and umbrella pension funds managed by insurance companies falls to EUR 43.2 (i.e. 2% of the monthly average wage) in 2020 if contributions to this scheme are taken into account.

Table 5.5 presents a summary of coverage and contributions for the mandatory scheme for workers in arduous and hazardous occupations, for the mandatory scheme for civil servants, and for voluntary occupational and personal plans.

Figure 5.6. Average monthly contributions by retirement savings type, 2020

In EUR



Note: Average computed using data for accounts which received a contribution during the year 2020.
Source: Ministry of Labour, Family, Social Affairs and Equal Opportunities https://www.gov.si/teme/prostovoljno-dodatno-pokojninsko-zavarovanje/.

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Table 5.5. Summary of coverage and contributions by plan type

	Mandatory scheme for workers in arduous and hazardous occupations	Mandatory scheme for civil servants	Voluntary occupational and personal plans	Total
Number of members	48 300 people in 2019	235 000 people	310 000 pension contracts	40% of working age population in Slovenia
Percentage of policies which are active	Slightly more than half	About 80%	62% of policies	
Total contributions				EUR 299 million
Average personal contribution			Average annual contribution for plans where only the individual contributes = EUR 639	
Average employer contribution	9.25% of gross wages	Varies, but on average is around 1.4% of the average annual wage	Depends on terms of collective bargaining agreements, but with a minimum annual contribution currently set at EUR 316.20 Average annual contribution for plans where only the employer contributes = EUR 727 Average annual contribution for plans where both the employer and employee contribute = EUR 1 172	

Note: Blank cells represent data that is unavailable or not applicable. Data on voluntary plans cannot be separated into occupational and personal plans. Data on the mandatory the schemes for workers in arduous and hazardous occupations and civil servants refer to 2019 data. Data on voluntary plan providers refer to 2017 data, except Generali's Leon umbrella pension fund and Intesa's Moj umbrella pension fund. Data on total contributions refers to 2019 data. Data on voluntary plans refer to policies rather than people.
Source: IER data, Slovenian authorities.

5.4. Tax treatment of supplementary pension savings

Savings in supplementary retirement plans in Slovenia are taxed according to the exempt, exempt, taxed (EET) principle, where contributions and returns on investment are tax exempt under certain conditions, and benefits are taxed. This tax treatment of retirement savings is the most common across OECD countries, and is applied in 18 of the 37 member jurisdictions (OECD, 2018[3]).

5.4.1. Contributions

Employers and employees have a joint tax relief up to a ceiling. This relief is valid if the pension plan is approved by the Ministry of Labour, Family, Social Affairs and Equal Opportunities and entered into a special register kept by the competent tax authority.

Employer contributions are a deductible expense which is not subject to corporate income tax, and are not included in an employee's taxable income up to 5.844% of the employee's gross wage.[11] Since 2013, this cap cannot exceed EUR 2 819.09 per year.[12] Before the pension reform of 2013, employer contributions could only be tax deductible if at least 50% of employees participated in the occupational pension plan of a given employer.

Individual contributions to occupational and personal pension plans attracting a tax deduction are capped at the unused portion of employer contributions attracting tax relief. If both the employer and the employee pay contributions, and the total amount of contributions exceeds the maximum contribution entitled to tax relief, the employee may only receive tax relief on the difference between the contribution paid by the employer and the ceiling. Contributions above the set ceiling cannot be deducted from taxable income. However, there is an exemption that applies to civil servants, for whom contributions to supplementary pension insurance are uncapped.

Employer contributions above 5.844% of the employee's gross wage or above EUR 2 819.09 are subject to social contributions. Contributions within the ceiling are not subject to social contributions.

Employee contributions are made from income that has already been subject to social contributions.

There are no mechanisms such as subsidies or matching contributions to encourage participation and increase the contribution of individuals who pay low or no income tax. The OECD Roadmap for the Good Design of Defined Contribution Pension Plans (OECD, 2012[4]) recommends including financial subsidies or matching contributions for those individuals, in particular when participation to retirement savings arrangements is voluntary (OECD, 2018[3]).

According to 2018 data from the Ministry of Finance, 57 445 individual taxpayers claimed tax relief for contribution to their voluntary supplementary pension plan, of which 269 (i.e. less than 1%) claimed relief up to the ceiling of EUR 2 819.09.

5.4.2. Investment returns

Returns on investment in supplementary retirement savings plans are tax exempt.

5.4.3. Benefits

Supplementary pensions in payment are subject to taxation, but not to social contributions.

Pension savings withdrawn as annuities are subject to ordinary income tax rules, although only 50% of annuity payments are included in the income for tax calculation purposes.

Pension savings withdrawn as lump sums are subject to the Personal Income Tax Act. A 25% withholding tax, or advance payment of personal income tax is charged upon withdrawal. Withdrawn amounts are then

included in the annual taxable base for the assessment of personal income tax, which is paid according to progressive tax rates. The only exception to this rule is for redemption due to death where a beneficiary was stipulated in the policy, in which case the person inheriting the amount is subject to the Inheritance and Gifts Tax Act, and may therefore be exempt from tax on the inherited amount.

A double taxation would occur if income tax were to be paid both at the time that contributions are made and withdrawn. To avoid a double taxation of amounts saved in excess of the annual tax deductible contribution cap of EUR 2 819.09, from 1st January 2020 taxpayers demanding a lump sum withdrawal of their retirement savings may request that the portion corresponding to contributions in excess of the annual cap is excluded from the annual taxable base upon withdrawal.[13]

In addition, voluntary pension assets withdrawn during the first ten years of a pension contract attract an 8.5% Insurance Premium Tax, charged on the basis of the contributed amount, even if they are drawn down as an annuity.[14] This provision ensures that voluntary supplementary pension assets withdrawn early are treated similarly to other insurance savings instruments. The insurance premium tax does not apply to withdrawals from voluntary retirement savings plans caused by the death of the contributing member in the first ten years of the plan. After ten years, amounts saved in voluntary personal pension plans can be withdrawn without a penalty.

The Insurance Premium Tax does not apply to withdrawals of assets stemming from mandatory contributions, i.e. to employer contributions made to the plan for workers in hazardous and arduous occupations or to the supplementary scheme for civil servants. Assets from these plans may be withdrawn in cash during the first ten years of a contract if the plan was joined less than ten years before the retirement date of the member, and assets accumulated in the plan are eligible for a lump sum withdrawal (i.e. below a threshold of EUR 5 120 in total).

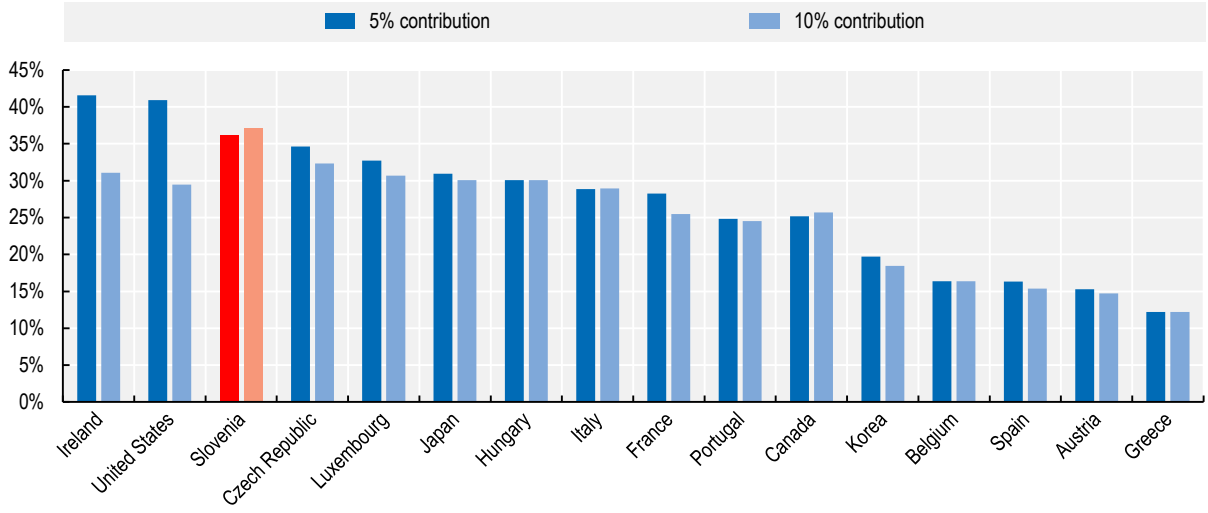
5.4.4. Tax advantage

The tax advantage in Slovenia ranks among the highest of OECD countries with voluntary retirement savings arrangements only, at 36% and 37% for contribution levels of 5% and 10% respectively. The tax advantage can be calculated as the amount of taxes saved over their lifetime by a hypothetical average earner by contributing to a retirement savings plan rather than to a traditional savings account (OECD, 2018[3]). Assuming members contribute 5% or 10% of their wages to either a retirement savings plan, or to a traditional savings account, Figure 5.7 illustrates the tax advantage, i.e. the present value of taxes saved as a percentage of the present value of contributions, in OECD countries with voluntary retirement savings arrangements only, in 2018. Values computed range from 12% in Greece for both contribution levels to 42% in Ireland for a 5% contribution.

In 15 of the 16 OECD countries considered with voluntary retirement savings plans only (i.e. all except for Hungary), the value of the overall tax advantage varies with the income level of the individual contributing (Figure 5.8). This is due to a combination of different tax regimes, plan specific limits on the amount of contributions attracting tax relief and the characteristics of the personal income tax system in different countries.

Figure 5.7. Overall tax advantage provided to an average earner by voluntary pension systems according to the assumed contribution rate, in 2018

Present value of taxes saved over a lifetime, as a percentage of the present value of contributions



Note: Calculations based on the 2018 tax treatment of contributions in countries with voluntary private pension systems only, assuming a contribution rate of 5% or 10%.
Source: OECD (2018[3]), *Financial Incentives and Retirement Savings*, https://dx.doi.org/10.1787/9789264306929-en.

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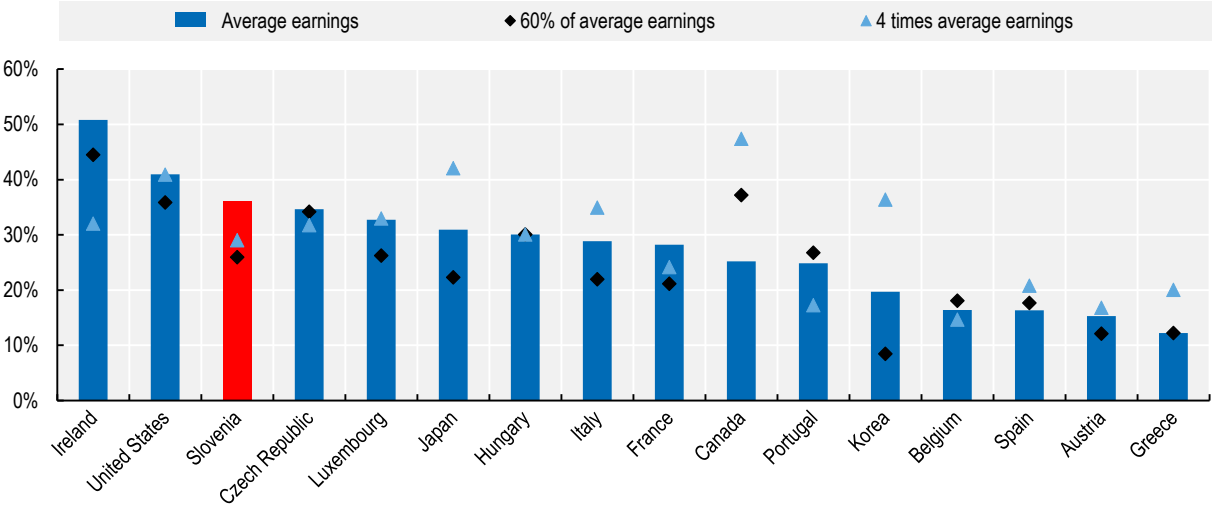
Figure 5.8. Overall tax advantage provided to individuals in OECD countries with voluntary pension systems, by income level

Present value of taxes saved over a lifetime, as a percentage of the present value of contributions



Note: Calculations based on the 2018 tax treatment of contributions in countries with voluntary private pension systems only, assuming a 5% contribution rate.
Source: OECD (2018[3]), *Financial Incentives and Retirement Savings*, https://dx.doi.org/10.1787/9789264306929-en.

StatLink https://stat.link/ae40ug

Average earners receive the highest tax advantage in Slovenia. High-income earners (earning four times average earnings) benefit from a higher overall tax advantage than average earners and low-income earners (earning 60% of average earnings) in seven of the 16 countries analysed, including Japan, Italy, Korea and Canada. In the United States and Luxembourg, high-income and average earners receive a similar tax advantage, which is higher than that received by low-income earners. On the other side of the spectrum, low-income earners receive a higher tax advantage in Portugal and Belgium. Slovenia is part of the group of four countries, also including Ireland, the Czech Republic and France, where average earners receive the highest tax advantage.

Low-income earners in Slovenia receive a lower tax advantage than average earners due to the progressive nature of the tax advantage, which is calculated as a percentage of contributions, i.e. of wages in the analysis. High-income earners do not benefit from the tax relief on contributions above the ceiling of EUR 2 819.09 and pay higher taxes upon withdrawal, hence they receive an overall lower tax advantage than average earners.

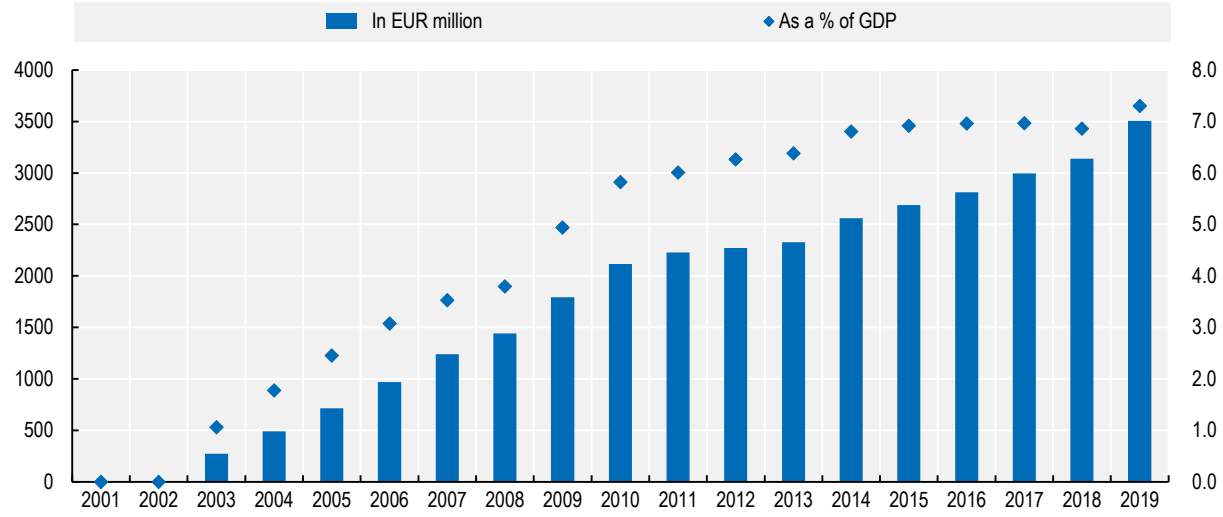
5.5. Assets and investment

5.5.1. Assets under management

Total assets managed in supplementary pension arrangements in 2019 amount to EUR 3.51 billion, or 7.3% of Slovenian GDP. Figure 5.9 shows the evolution of assets since the introduction of the supplementary pension system in 2003, when assets managed totalled EUR 272 million (1.1% of GDP).

Figure 5.9. Evolution of total assets in funded supplementary pension arrangements, since 2003

In EUR million (left-hand scale) and as a percentage of national GDP (right-hand scale)



Source: OECD Global Pension Statistics.

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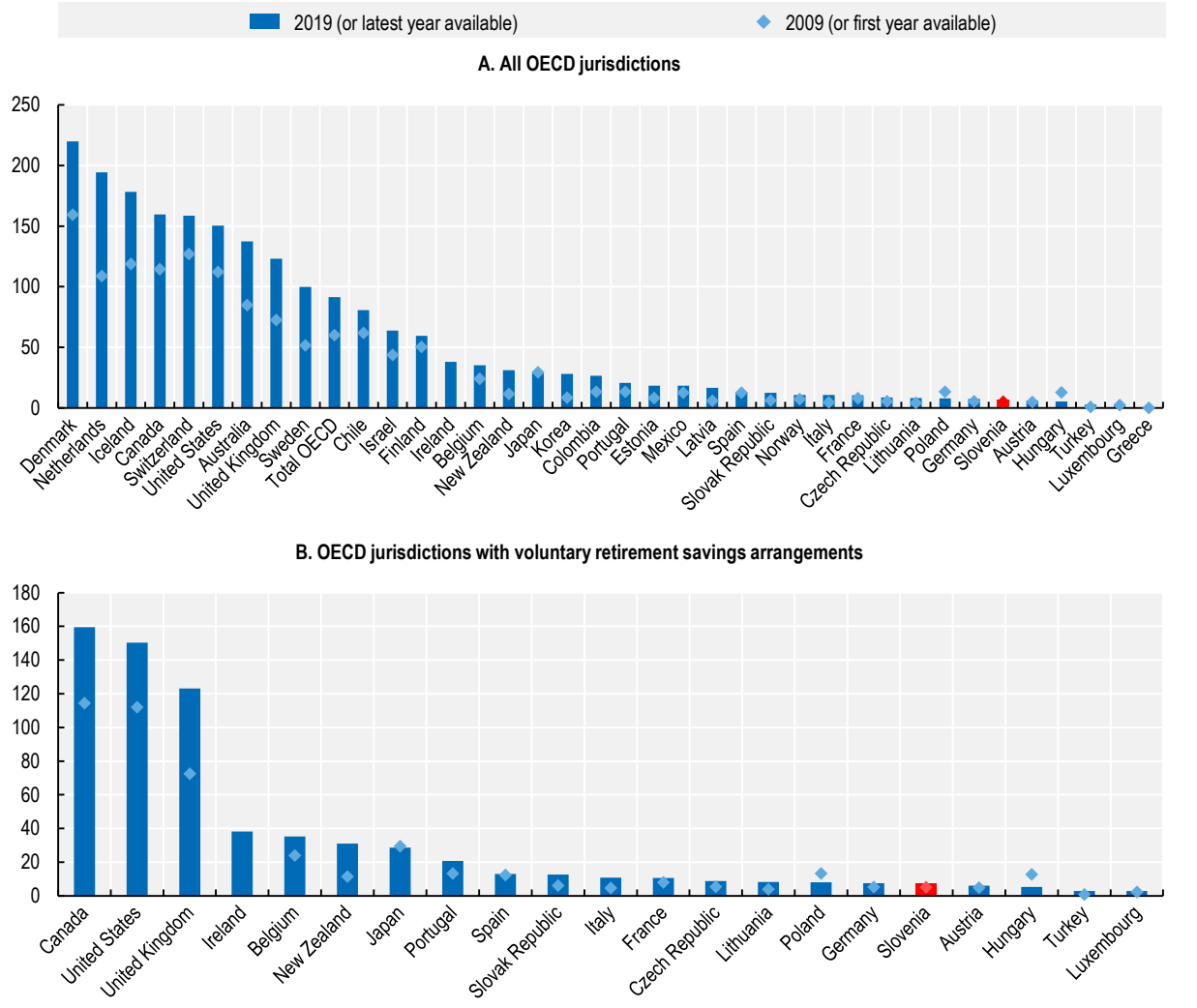
The weight of assets in supplementary pension arrangements in Slovenia is still low in international comparison, both when looking at all OECD jurisdictions and when focusing only on those with voluntary retirement savings arrangements. On average across all OECD countries, assets in retirement savings arrangements represented 91.5% of GDP in 2019, with wide disparities across countries, from around

200% in countries with mandatory schemes such as Denmark or the Netherlands, down to under 3% in Turkey, Luxembourg and Greece (Figure 5.10, Panel A). When comparing Slovenia (7.3%) only to countries with voluntary systems, the amount of assets in the retirement system is still relatively low, as only Austria, Hungary, Turkey and Luxembourg have assets representing less than 7% of national GDP for 2019, and some countries with mature supplementary pension markets such as Canada and the United States have over 150% of GDP in retirement savings assets (Figure 5.10, Panel B).

Figure 5.10. Total assets in funded and private pension arrangements, in 2009 (or first year available) and 2019 (or latest year available) in OECD countries

As a percentage of national GDP



Note: The charts show the evolution of assets in retirement savings plans between 2009 and 2019, except for Finland (2011-19), Lithuania (2010-19) and Switzerland (2013-19).
Source: OECD Global Pension Statistics.

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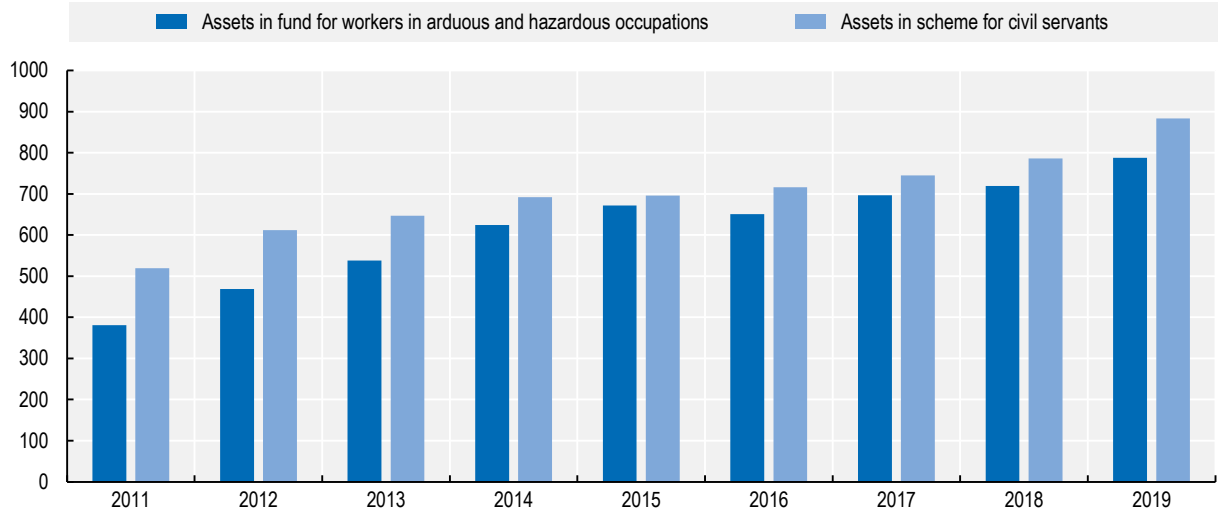
Assets in mandatory schemes increased by 86% between 2011 and 2019, from EUR 900 million to just under EUR 1.7 billion. The relative weight of assets in the scheme for civil servants as a proportion of assets in mandatory schemes decreased from 58% (EUR 520 million) in 2011 to 53% (EUR 883 million) in 2019, in favour of the scheme for workers in arduous and hazardous occupations which increased from 42% (EUR 381 million) in 2011 to 47% (EUR 788 million) in 2019 (Figure 5.11).

Figure 5.11. Evolution of assets in mandatory supplementary pension arrangements

In EUR millions



Source: Modra and Kapitalska Druzba annual reports from 2011 to 2019.

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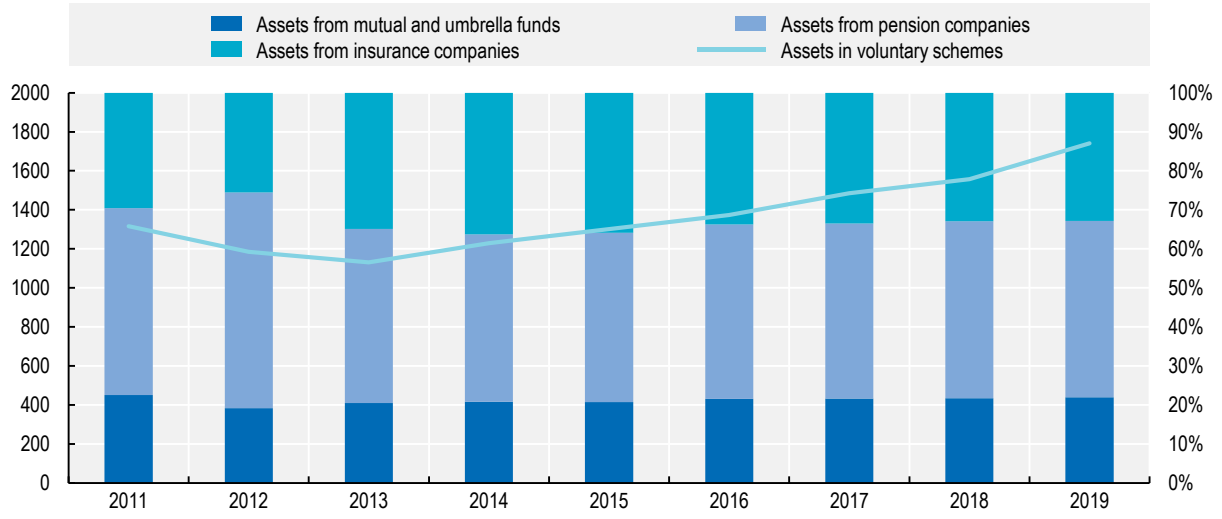
Assets in voluntary retirement savings arrangements increased by about 40% between 2010 and 2020, from EUR 1.3 billion to EUR 1.9 billion, after having dipped in 2012 and 2013 (Figure 5.12). The proportion of assets in voluntary schemes managed by each type of plan has remained relatively stable over time. Over the past few years, about half of assets have been managed by insurance companies, about 45% by pension companies, less than 5% by banks. In 2020, these percentages corresponded to around EUR 1 billion with insurance companies, around EUR 850 million with pension companies, and around EUR 5 million with banks.

Figure 5.12. Evolution of assets in voluntary retirement savings arrangements, by plan type

In EUR millions (left-hand scale) and as a percentage of the total (right-hand scale)



Source: Ministry of Labour, Family, Social Affairs and Equal Opportunities and OECD calculations.

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5.5.2. Investment strategies

Article 271 of the Second Pension and Disability Insurance Act stipulates that the investment strategy of pension funds must be done according to the prudent person principle, for the long-term benefit of members, and taking into account liquidity and security criteria. This is in line with the OECD Core Principles of Private Pension Regulation (OECD, 2016[5]) on investment and risk management. Diversification across instruments and issuers is required, and the law specifies that sustainability aspects and environmental, social and governance (ESG) factors may be taken into account as part of the analysis when selecting investments.

Supplementary pension providers in Slovenia must offer a life-cycle strategy or a guaranteed return on net contributions to members. The mandatory fund for workers in arduous and hazardous occupations only offers a minimum guaranteed return, while all other pension arrangements, including the scheme for civil servants, offer the life-cycle option to their members, with three sub-funds with different risk profiles designed for different age groups.

Mandatory plan for workers in arduous and hazardous occupations

Assets managed by Kapitalska Druzba in the plan for workers in arduous and hazardous occupations are subject to an annual minimum return. That return is conceptually similar to the minimum return in the guaranteed fund or sub-fund of other pension providers offering a life-cycle strategy, but that guaranteed return can be less than the minimum guarantee return set by the law. The objective of the fund is therefore to ensure at least the guaranteed minimum return, with minimal risk and taking into account liquidity criteria.

The minimum return on net contributions is calculated annually by the Ministry of Finance and corresponds to 40% of the average return on Slovenian Government bonds of a duration greater than one year.[15]

Kapitalska Druzba is responsible for delivering at least the guaranteed investment return on assets saved in the scheme. The difference between the actual net asset value and the guaranteed value of the fund's assets is computed monthly, and the pension fund manager is required to establish provisions or liabilities

corresponding to the unattained guaranteed value. While the guaranteed return ensures that assets saved for retirement do not fall below a set floor, it comes at a high cost (OECD, 2012[6]). Guarantees reduce the expected value of benefits from defined contribution plans relative to a situation where there are no guarantees, as assets are not invested in higher risk assets, which are expected to provide higher returns over the long run.

The plan for workers in arduous and hazardous occupations is also subject to solidarity reserves, which are meant to be allocated to a specific contract upon withdrawal to ensure the monthly stream of income reaches the minimum pension amount.

- Solidarity reserves are computed based on the guaranteed rate of return. For the minimum return to assets, Kapitalska Druzba applies a 60% factor instead of the mandatory 40% of the return on Slovenian Government bonds of a duration greater than one year, with the amount earned from the part between 40% and 60% being allocated to solidarity reserves. Any amount in excess of the return from the 60% factor is credited to members' personal accounts.
- Members retiring from the plan in compliance with early retirement rules receive a monthly stream of income which is computed based on their accumulated assets, but also subject to the minimum public pension to which a member would be entitled if they worked for 40 years. Solidarity reserves ensure that all members who qualify for early retirement receive this minimum pension, including those whose assets accumulated are insufficient at the time of early retirement.

The matching of the duration of assets with that of liabilities is encouraged. Upon early retirement, Kapitalska Druzba is also in charge of making monthly payments to members until they reach the statutory retirement age. Its investment policy continues to require the prudent management of its liabilities towards annuitants while monthly payments are being made.

Voluntary plans and closed scheme for civil servants

The life-cycle option was introduced by the 2012 Pension and Disability Insurance Act (ZPIZ-2) and requires offering three funds with different investment strategies and risk profiles, including one guaranteed fund. This is consistent with the recommendations from the OECD Roadmap for the Good Design of Defined Contribution Pension Plans (OECD, 2012[4]) on default investment strategies to protect people close to retirement against extreme negative outcomes. The first transfers from guaranteed to non-guaranteed funds occurred in 2016. Hence, before 2016, all pension funds could only offer a guaranteed return on contributions.

All voluntary plans, as well as the closed scheme for civil servants, offer a life-cycle investment strategy to their members, with different risk profiles and corresponding asset allocations. The three risk profiles are dynamic or high shares for younger savers, prudent, balanced or mixed for savers approaching retirement, and guaranteed for those close to retirement.

Different supplementary pension providers have designed different target age groups and consequently different rules for their risk profiles based on asset allocation, as shown in Table 5.6. Providers must disclose the authorised proportion of high-risk assets in each risk profile, together with a corresponding target age group. High-risk assets include equities, real estate, derivatives, private equity and other alternatives, and non-investment grade debt securities.

Table 5.6. Different target age groups offered by Slovenian supplementary pension providers

Age groups and characteristics of the three different risk profiles

Pension provider	Guaranteed risk profile		Prudent/Balanced/Mixed risk profile		Dynamic/High shares risk profile	
	Higher risk assets	Age groups	Higher risk assets	Age groups	Higher risk assets	Age groups
Modra Supplementary (voluntary and closed fund for civil servants)	Up to 30% 10% target	Over 60	40% to 80% 60% target	50 to 60	At least 70% 90% target	Under 50
Generali Insurance Leon	Up to 30% 15% target	Over 55	20% to 60% 40% target	45 to 55	40% to 80% 60% target	Under 45
Intesa Sanpaolo My Pillar	Up to 10% 7.5% target	Over 55	40% to 60% 50% target	40 to 55	At least 60% 75% target	Under 40
Triglav Supplementary	Up to 60% 50% target	Over 55	60% to 90% 80% target	45 to 55	At least 70% 90% target	Under 45

Source: Statements of investment policy for the Dynamic, Prudent and Guaranteed sub-funds of the Modra umbrella pension fund, of the Generali LEON pension plan, of the My Pillar Intesa Sanpaolo umbrella pension fund and for the Equity, Mixed and Guaranteed return bond funds of the Triglav pension fund; https://www.modra.si/obrazci-in-dokumenti/#dokumenti; https://www.generali.si/zavarovanje/pokojnina/leon-2#pogosta-vprasanja; https://www.intesasanpaolobank.si/prebivalstvo/vzajemni-skladi/krovni-pokojninski-sklad-moj-steber.html; https://www.triglavpokojnine.si/si/888/nalozbena-politika-in-skladi.aspx.

The latest available data corresponding to 2017 from the Institute for Economic Research shows that 85% of assets were managed in guaranteed funds or sub-funds. The guaranteed minimum return on net contributions is calculated annually by the Ministry of Finance and corresponds to 40% of the return on Slovenian Government bonds of a duration greater than 1 year.

Members may request to switch investment strategies once a year, but are forbidden from saving into a strategy meant for a younger age group. This may not be optimal for all savers, depending on their overall pension arrangements and savings. The OECD Roadmap for the Good Design of Defined Contribution Pension Plans (OECD, 2012[4]) emphasises the importance of the coherence between the different components of people's retirement income, and recommends allowing people to select the investment strategy best suited for them according to their risk profile and investment horizon. For example, individuals whose contributions to the public pension scheme already ensure them a relatively high retirement income may not need as much security from their supplementary pension arrangement, and could therefore enjoy a higher expected retirement income by allocating their retirement assets to a higher risk and higher return investment strategy than the one meant for their age group.

The process to choose an investment strategy for retirement savings depends on the provider. Providers should assign new members to the risk profile corresponding to their age group by default.[16] Members who started contributing to their retirement savings plan before the life-cycle option was introduced saved in the guaranteed investment strategy. Upon the introduction of the life-cycle option, some providers, such as Prva, chose to assign new contributions to the investment strategy corresponding to the member's age group by default.[17] Other providers chose to maintain existing members in their previous default investment strategy (i.e. the guaranteed fund). Members with previously accumulated assets could also request to have these assets transferred to the risk profile corresponding to their age group, or could choose to keep them in the guaranteed option.

Regulation requires that changes between investment strategies corresponding to a change of the member's age group are done at once rather than gradually. When members reach an age threshold to transition from one risk profile to another, their accumulated assets, and new contributions must be transferred to the investment strategy corresponding to their new (older) age group within three years. This one-off transfer puts a significant weight on the market conditions prevailing at the time of the transfer, and

therefore on the timing of the fund manager's transfer decision. If the transfer occurs at a time when market conditions deteriorate, selling higher-risk/growth assets may incur a loss for the member.

Pension annuity providers

Upon retirement, members of the supplementary pension system may purchase a pension annuity from the pension or insurance company of their choice. Pension annuity providers must set up a long-term business fund for the payment of pension annuities, and their investments are subject to rules defined in legislation.[18] Pension annuity providers must comply with insurance regulatory rules related to technical provisions and capital requirements based on their investments and liabilities.

5.5.3. Asset allocation

Overall in 2019, the asset allocation of retirement savings arrangements in Slovenia has a larger portion of fixed income assets (bills and bonds) and cash than the average OECD jurisdiction, a similar portion of units of collective investment schemes and a smaller allocation to equities and alternatives (Figure 5.13). Since 2009, the average allocation of Slovenian schemes to bills and bonds and to cash has decreased (from 69.4% and 19% to 57.5% and 9% respectively), while that to units of collective investment schemes has significantly increased (from 5.3% to 28.8%). No change was made to direct investments in equities (2.7% vs 2.8%) and a slight decrease was observed in alternatives (3.7% vs 1.9%) over the decade in Slovenia, contrary to a significant increase in average OECD allocations to equities (from 11.8% to 16.6%), and a slight increase in average allocations to alternatives and units of collective investment schemes (from 10.5% to 12.2% for alternatives).

The predominance of bills and bonds in the Slovenian asset allocation can be explained by the importance of guaranteed funds. Before 2016, guaranteed funds were the only investment option offered to individuals saving for retirement, and even though the life-cycle investment strategy was introduced in 2016, around 85% of assets remained invested in guaranteed funds in 2017, according to data from the Institute of Economic Research.

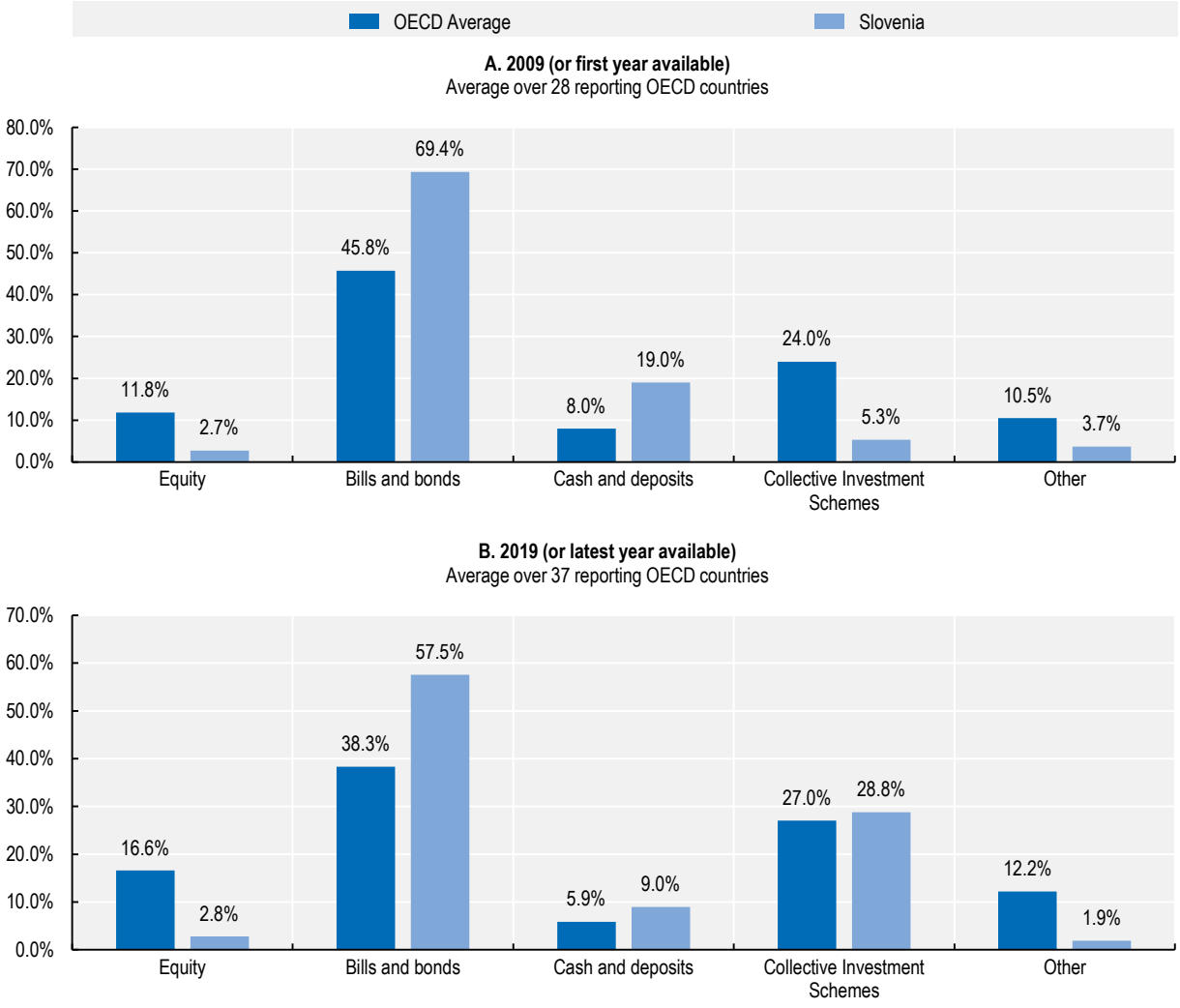
Investment in collective investment schemes is significant in Slovenia. In the absence of a look-through, it is impossible to say how much of this category of investment corresponds to units in equity or fixed income funds, although it is likely that these collective schemes also include a substantial portion of fixed income investments.

The share of assets in retirement savings plans invested abroad has increased over the decade in Slovenia, from 31.6% in 2009 to 65.2% in 2019 (OECD, 2020[7]).[19] This corresponds mostly to assets denominated in EUR and issued in other countries of the euro area, as only 5.4% of investments in Slovenian retirement plans are issued in foreign currencies in 2019, despite the absence of quantitative restrictions on foreign-denominated assets.

Several quantitative investment limits are defined in legislation, and apply to pension providers in Slovenia, mostly regarding investments into alternative assets.[20] Direct investments into real estate may not represent more than 20% of assets in any retirement plan, and private investment in venture capital funds may not represent more than 1% of assets. Pension providers may not invest in derivatives, except for hedging purposes. Concentration rules also apply to investments by retirement savings plan providers. While risk management principles call for a diversification of assets, quantitative investment limits may not always be the most appropriate solution to reduce risk according to international experience. The OECD carries out an annual survey of investment regulations of pension funds (OECD, 2019[8]). Prudential risk-based management principles and flexibility around thresholds may be more suitable to leave room for pension fund managers' analysis and avoid forcing pension funds to sell assets as soon as they reach a set threshold.

Figure 5.13.Average allocation of assets in retirement savings plans in selected asset classes and investment vehicles in the OECD area and in Slovenia, 2009 (or first year available) and 2019 (or latest year available)

As a percentage of total investment



Note: The average allocation for 2009 or first year available is an average over 28 reporting OECD countries. The average allocation for 2019 or latest year available is an average over 37 reporting OECD countries.
Source: OECD Global Pension Statistics.

StatLink https://stat.link/nfmecz

Mandatory scheme for workers in arduous and hazardous occupations

The mandatory scheme for workers in arduous and hazardous occupations offers a single investment strategy, with a guaranteed minimum return on net contributions.

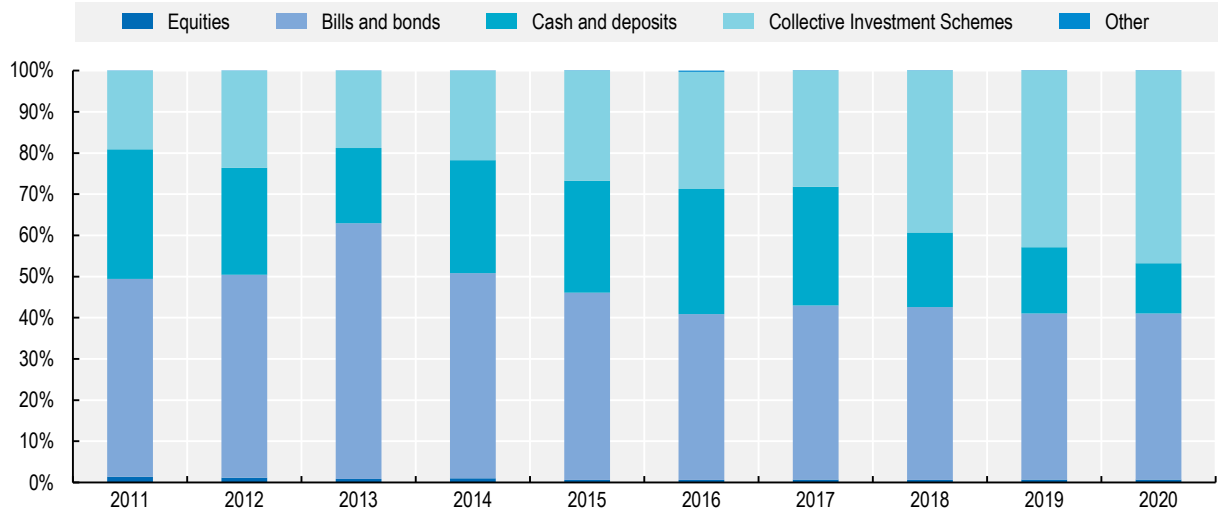
Due to the guaranteed nature of the investment return, the long-term target of the fund is to be invested mainly in low risk debt securities. The investment policy details the long-term target asset allocation as follows:

- 85% in investment grade fixed income securities,
- 10% equities, and
- 5% alternative investments.

Similar to the average trend in Slovenia (Figure 5.13), the asset allocation of the fund for workers in arduous and hazardous occupations has seen a decrease in the share of cash and deposits (from 31.4% in 2011 to 12.2% in 2020), and of direct investments in bills and bonds (from 48.1% in 2011 to 40.3% in 2020) in favour of units of collective investment schemes (Figure 5.14). This decrease in assets held in cash is unsurprising given the low – and even negative – rates paid on deposits in EUR over the period. Collective investment schemes may comprise fixed income as well as equity investments, and company information specifies that debt investments account for the highest proportion of assets.[21] However, more detailed information would be needed to assess whether the fund invests in line with its long-term target asset allocation.

Figure 5.14. Evolution of the asset allocation of the mandatory fund for workers in arduous and hazardous occupations, by year

In percentage of the total allocation



Source: Kapitalska Druzba annual reports from 2011 to 2020.

StatLink https://stat.link/l58xgu

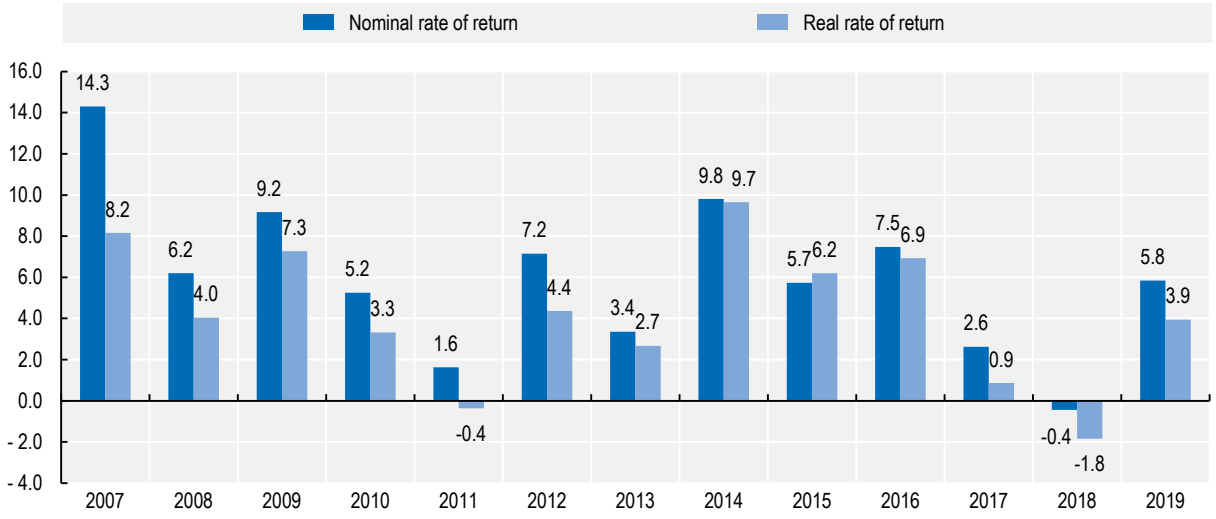
Other pension funds in Slovenia, including the mandatory scheme for civil servants, offer different sub-funds according to the life-cycle strategy and therefore have different asset allocations for each sub-fund, depending on its target risk and return profile.

5.5.4. Investment performance

Investment returns in Slovenian retirement savings arrangements have been mostly stable between 2007 and 2019 in nominal and real terms (Figure 5.15). Despite the high proportion of assets in guaranteed funds and the falling yields in euro denominated bonds (for instance the yield on EUR AAA 10-year government bonds declined from 3.9% in January 2007 to -0.2% in December 2019), real rates of return have only been slightly negative for two years (2011 and 2018) over the period.[22]

Figure 5.15. Nominal and real net investment returns achieved by pension funds, 2007-19

Percentage



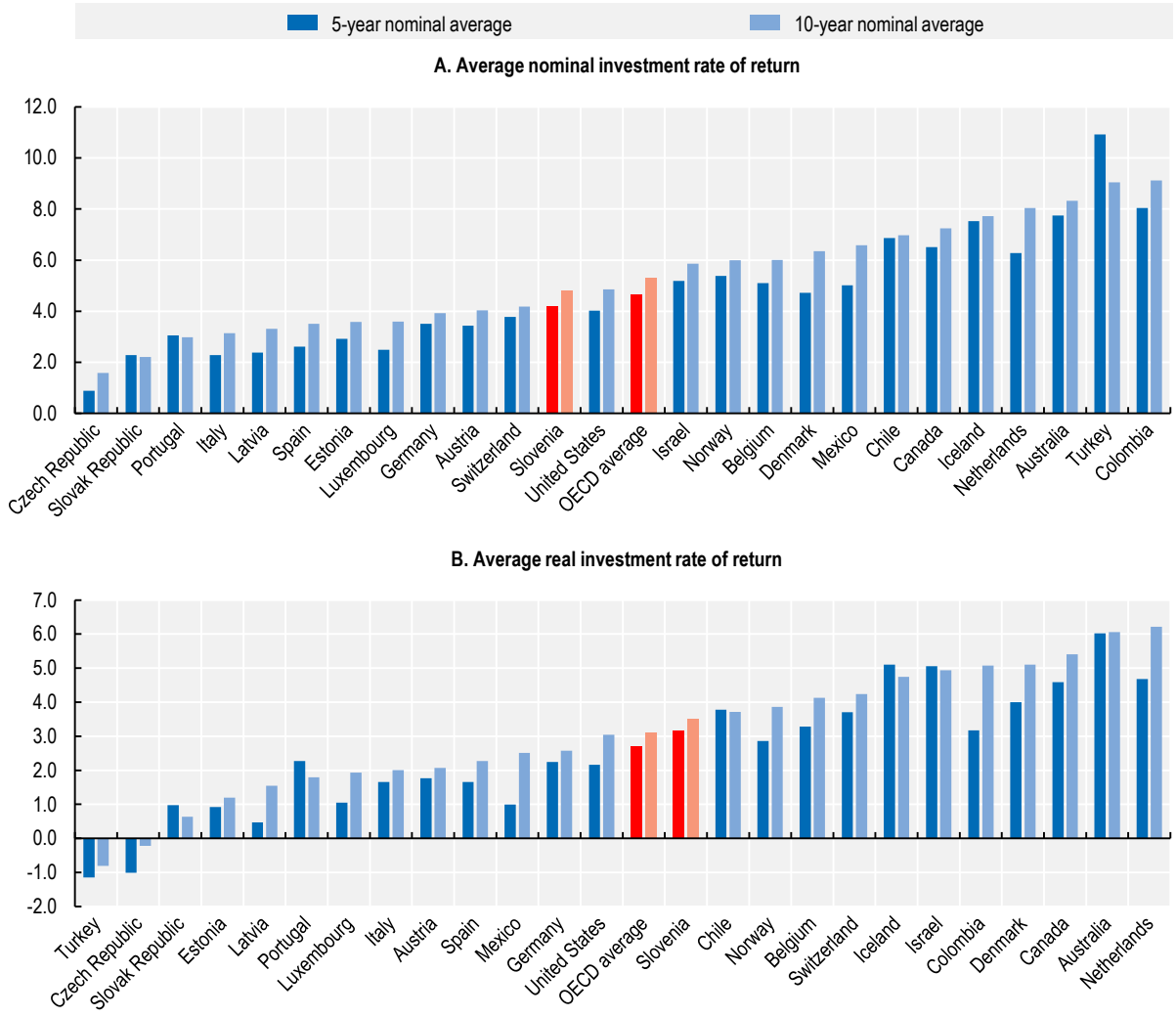
Note: Yearly returns calculated as the ratio between the investment income at the end of the year, net of investment expenses, and the average. level of assets during the year.
Source: OECD Global Pension Statistics and OECD (2020[7]), *"Pension Markets in Focus"*, https://www.oecd.org/pensions/private-pensions/pensionmarketsinfocus.htm.

StatLink https://stat.link/ex5u4l

In international comparison, the investment performance of retirement savings arrangements in Slovenia has been close to the OECD average both in nominal and real terms over the past five and ten years (Figure 5.16). The 5-year and 10-year nominal rates of return of Slovenian pension plans were respectively 4.2% and 4.8% (Figure 5.16, Panel A), compared to 4.7% and 5.3% for the OECD average. The real rate of return over five and ten years was 3.2% and 3.5% respectively (Figure 5.16, Panel B), compared to 2.7% and 3.1% for the OECD average. Compared to other euro area countries, Slovenian plans have performed rather well as only Belgium and the Netherlands have registered higher average performances (both nominal and real) on average over the two periods considered. This is especially noticeable given the low allocation to high risk and high return assets in Slovenian retirement savings arrangements overall, compared to other countries (for instance, allocation to equities in 2019 was 47.8% in Belgium and 30.7% in the Netherlands on average, compared to 2.8% in Slovenia).

Figure 5.16. Nominal and real geometric average annual investment rates of return of retirement savings plans over the last 5 and 10 years

Percentage



Note: 5-year averages refers to the returns from December 2014 to December 2019, and 10-year averages refer to returns from December 2009 to December 2019.
Source: OECD Global Pension Statistics.

StatLink https://stat.link/tuzfm9

5.6. Risk management and funding requirements

5.6.1. Risk management

Custody of pension assets must be delegated to an external custodian. In 2004, a requirement for all pension funds to use a custodian was introduced in order to increase supervision and public trust in the private pension sector. The custodian must be authorised to perform custody services under Directive 2011/61 / EU of the European Parliament and of the Council of 8 June 2011, or be a stockbroking

company with a registered office in Slovenia, and licenced by the Securities and Market Agency to provide custody services. The custodian is in charge of:

- the settlement of operations,
- the control of asset valuations, and
- the compliance of asset allocations with applicable rules and regulations.

Legislation requires all pension fund managers to prepare a comprehensive risk management policy, which is subject to review by the pension entity's supervisor.[23] All pension fund managers must report to their supervisor on the limits, methods and measures of risk at least once a year.

These provisions are in line with the OECD Core Principles of Private Pension Regulation (OECD, 2016[5]) relating to risk-based controls, custody and risk management.

5.6.2. Funding requirements at the management entity level

Solvency and capital requirements depend on the structure of the pension fund and its corresponding regulations, all of which comply with rules and directives set out by the European Union, and are consistent with the OECD Core Principles of Private Pension Regulation (OECD, 2016[5]) on the conditions for effective regulation and establishment of pension plans, pension funds and pension entities.

- Pension companies are subject to the Second Pension and Disability Insurance Act and Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs);
- Insurance companies are subject to the Insurance Act and Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II);
- Banks are subject to the Banking Act and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Each pension fund manager is obliged to report quarterly to its supervisor (i.e. the Securities Market Agency or the Insurance Supervision Agency) on the amount of the management company's capital.

In accordance with the provisions ZPIZ-2, the assets of a pension fund in the event of bankruptcy proceedings against a pension fund manager are considered to be members' assets and are not available to repay other creditors.

In addition, the pension fund manager and custodian shall ensure the separation of the pension fund's assets from:

- assets of other pension funds;
- the pension fund manager's property; and
- other assets managed by the pension fund manager.

In the event that a bankruptcy or liquidation proceeding has been instituted against the manager, the management of the mutual pension fund or the umbrella pension fund may be transferred to another manager. For the scheme for workers in arduous and hazardous occupations, the Republic of Slovenia is the ultimate guarantor to ensure that the guaranteed return continues to be paid should there be a transfer to another management company from Kapitalska Druzba.[24]

5.6.3. Funding requirements at the fund level

Pension funds or sub-funds which offer a guaranteed return on net contributions are subject to rules to ensure this guaranteed return is reached on an annual basis. This is in line with the OECD Core Principles of Private Pension Regulation (OECD, 2016[5]), which recommend that pension funds should be subject to minimum funding rules to ensure adequate funding of pension liabilities. In particular, the financial risk of offering a guaranteed rate of return should be borne by the pension entity, which should set aside capital to meet the promise.

For all pension funds, Article 313 of ZPIZ-2 stipulates that provisions must be set aside to cover any shortfall in investment return compared to the guaranteed return. Provisions may not exceed 20% of the capital of the pension fund manager, and a cash transfer for the value exceeding 20% of capital must be made within 15 working days of the breach between the provision account and the fund asset account. In case provisions are insufficient to compensate for the deficit, the pension fund manager's capital must be used to ensure the guaranteed asset value can be paid. The structure of the capital and that of provisions must be reported monthly by pension fund managers to their supervisor.

The mutual fund managed by Kapitalska Druzba for workers in arduous and hazardous occupations also has solidarity reserves, which were introduced in 2016 by ZPIZ-2, to ensure that workers eligible to retire early could receive the minimum pension amount even if assets in their account were insufficient.[25] At the end of 2019, the fund had EUR 4.82 million of solidarity reserves, of which EUR 4.81 million were unallocated.[26]

5.7. Pay-out phase

Members reaching the age of 58 in a given year, and members requesting this information, must be provided with information on their pay-out options and future rights arising from supplementary pension saving.[27]

Across retirement savings arrangements, annuitisation is either compulsory or encouraged through tax incentives. The OECD Roadmap for the Good Design of Defined Contribution Pension Plans (OECD, 2012[4]) recommends protecting individuals' overall retirement income against longevity risk. Annuitisation of assets in defined contribution retirement savings plans may be adequate for people whose income from the public pay-as-you-go system does not protect them sufficiently from longevity risk. However, it may not be optimal for individuals whose other sources of retirement income already protect them from longevity risk.

5.7.1. Occupational schemes

Annuities from the occupational supplementary pension system represent a small portion of retirement income. Based on the latest available data corresponding to 2017, the Institute for Economic Research estimates that annuities from occupational retirement savings schemes will represent between 9% and 16% of future retirees' public pension income. For members of occupational schemes currently aged between 25 and 35, and assuming their contribution pattern remains unchanged until retirement, annuities are expected to represent 9% and 10% of public pension income for women and men respectively when only employers contribute to the plan, and 14% and 16% for women and men respectively when both employer and employee contribute to the plan.

Scheme for workers in arduous and hazardous occupations

Specific rules apply to the scheme for workers in arduous and hazardous occupations.[28] Periods of contribution to the scheme are augmented by 25% for the purpose of assessing the eligibility to early retirement. Members are deemed entitled to an occupational pension from the scheme for workers in

arduous and hazardous occupations if they have sufficient assets in their account, and either 42.5 years of contribution, or 40 years of contribution and have reached a minimum age set between 52 and 60, depending on the categorisation of their occupation. Members fulfilling the criteria but with insufficient assets may be eligible to an occupational pension from the scheme if they have been contributing to it for at least 17 years, in which case solidarity reserves will be used to complement members' assets. An occupational pension can be received from the scheme for workers in arduous and hazardous occupations during a period which cannot exceed the 25% added contribution period nor extend beyond statutory retirement age.

Members choosing to retire early and complying with eligibility criteria must generally use their accumulated assets to purchase a monthly stream of income unless they fulfil certain conditions for a lump sum withdrawal. Lump sums may be requested by members eligible to retire early and who have accumulated less than EUR 5 120 in assets from their occupational scheme. Members of the Slovenian armed forces may also request a lump sum withdrawal if they have served for at least 10 years and their contract is not extended, or if their contract is terminated due to age restrictions. Members of the border police who have not concluded a new contract in an occupation covered by the scheme for workers in arduous and hazardous occupations in the six months after their contract is terminated may also request a lump sum. A lump sum payment may also be requested by the heirs of a member who dies before having retired from their occupation.

All other members choosing to retire early under the scheme must convert their assets into a monthly stream of income, which is managed and paid by Kapitalska Druzba. Members retiring under the scheme for workers in arduous and hazardous occupations receive a monthly stream of income based on their accumulated assets, and subject to their minimum and maximum old-age public pension for 40 years of contribution. Members with sufficient accumulated assets may choose the amount of the monthly income they receive between the minimum and maximum and therefore manage the timing of their pension payments if they wish so by deferring the payment of a portion of their assets to a later date. Solidarity reserves are used to ensure the minimum monthly income payment is paid during the period up to statutory retirement age for members with insufficient balances.

The calculation method to assess eligibility to the occupational scheme differs from that of the public pension scheme. Periods of contribution to the scheme for workers in arduous and hazardous occupations are increased by a factor of 1.25 when assessing the conditions to acquire the right to early retirement under the occupational scheme. However, the added period of pensionable service (corresponding to the increase by 1.25 times) is not taken into account when assessing the conditions for retirement under the public pension system. Members retiring early under the occupational scheme may therefore find that they do not have sufficient contribution periods under the public pension scheme to receive their full public pension after having received the early retirement payment under the occupational pension scheme. These members can however, voluntarily contribute to the public pension scheme, in order to ensure they can receive a full pension under the public scheme at the statutory retirement age. The cost for such additional purchase is calculated on 20% of the average annual salary in Slovenia. Alternatively, while individuals are receiving income from the occupational scheme, they can also pay voluntary contributions to the public pension once they retire early, in order to meet the 40-year minimum requirement. In this situation, they are subject to a more favourable basis for the payment of contributions, which is 20% of the last known average annual salary of employees in Slovenia. Currently this contribution for recipients of occupational pensions amounts to EUR 90.40 per month.

Those members who do not retire early and choose to continue working until statutory retirement age may keep their assets in the fund and transfer them upon retirement to purchase an annuity from an annuity provider. Similarly, members who have not used all of their assets for the purchase of an occupational pension during their early retirement may transfer them at a later stage to purchase an annuity and increase their retirement income. In 2019 for example, 740 members requested to withdraw their savings as a lump sum or to have them transferred to an annuity provider, for a total combined amount of EUR 16.6 million.

Very few members of the scheme for workers in arduous and hazardous occupations actually use this scheme to retire before statutory retirement age. In 2019 for instance, 213 members of the scheme retired, and a total of 286 retirees received an occupational pension on 31st December 2019 (for an annual amount of EUR 3.8 million in total), compared to the 48 356 members of the scheme at that date. Several factors may explain this situation. One reason is that the list of eligible jobs includes some that can be easily performed until workers attain the retirement age for the public pension. Those workers tend to view occupational insurance as a good source of additional income to complement the public pension, and many do not see it as a transitionary payment to enable retirement before the statutory retirement age. Another reason could be linked to the discrepancy between the calculation periods for the occupational and public pension schemes. Members of the occupational scheme who do not have sufficient contribution periods in the public pension system if retiring early, may not always be aware of the option to purchase or may not be able to afford the purchase of additional years necessary to ensure they will receive a full old-age pension at statutory retirement age, and consequently do not use their occupational scheme as a bridge to retirement, but rather to complement their retirement income once they receive their public pension.

Other occupational schemes

For savings accumulated in occupational schemes, either voluntary or mandatory, an annuity should be purchased from a life insurance or pension company of the member's choice, at retirement age. Withdrawal as a lump sum is authorised only if funds do not exceed a threshold defined by law, and which is set at EUR 5 120 for 2020, i.e. about 20% of the annual average wage. Before 2013, payments as lump sums could be requested regardless of the account balance, as long as the member was in the plan for at least 120 months.

The threshold of EUR 5 120 to request a lump sum applies to each contract separately, therefore individuals having saved in different occupational schemes, for instance those who have changed employers during their career, may request to withdraw their assets as lump sums even if the overall sum of their total assets from different contracts exceeds the threshold. This feature may prove ineffective especially for workers in non-standard forms of work such as temporary contractors or part-time workers, who may change jobs more frequently. It may also discourage members from consolidating their accounts when changing occupations, and therefore lead them to keep several accounts with low balances.

The Slovenian annuity market comprises several types of annuities, including standard, guaranteed and accelerated annuities, as detailed in Table 5.7. Guaranteed annuities respond to bequest demand from members given that they are inheritable during the guarantee period. In addition to being inheritable during the guarantee period, accelerated and partially accelerated annuities pay a significantly higher stream of income (from twice more for partially accelerated annuities up to 12 times more for accelerated annuities) during the guarantee period, and only pay a lower portion of lifetime income thereafter.

Table 5.7. Types of annuities available in Slovenia

Annuity type	Payment duration	Payment guarantee	Payment amount	Bequest
Standard annuity	Lifetime	None	Fixed	None
Guaranteed annuity	Lifetime	During the guarantee period (e.g. 10 years or 20 years)	Fixed	During the guarantee period
Annuity with increase	Lifetime	None	Increasing yearly (e.g. by 2% per annum)	None
Guaranteed annuity with increase	Lifetime	During the guarantee period (e.g. 10 years or 20 years)	Increasing yearly (e.g. by 2% per annum)	During the guarantee period
Accelerated guaranteed annuity	Lifetime	During the guarantee period (e.g. 3 years, 5 years or 8 years)	More than twice higher during the guarantee period	During the guarantee period
Partially accelerated guaranteed annuity	Lifetime	During the guarantee period (e.g. 3 years, 5 years or 8 years)	Twice higher during the guarantee period	During the guarantee period

Note: Accelerated guaranteed annuities are only available for purchase from assets which can be withdrawn as a lump sum or for assets accumulated after 1 January 2013 and lower than EUR 20 000. Partially accelerated guaranteed annuities may be purchased in all cases.
Source: Article 5 (4) of http://www.pisrs.si/Pis.web/pregledPredpisa?id=PRAV12019.

Annuity calculation

Regulations 110/13, 94/14, 21/16 and 68/19 define rules and minimum requirements for how annuity providers should compute annuities purchased with retirement savings.[29] Annuities should be computed based on the age of the member and their account balance. Any other personal circumstances, such as gender or health status, should not be taken into account when calculating the pension annuity. All annuity providers must therefore use unisex tables for pricing annuities.

Different rules apply to pension companies and insurance companies with respect to the mortality tables they use for reserving. Pension companies must use gendered mortality tables defined by regulation for reserving. Ahead of 2016, there were no official mortality tables based on the Slovenian population, hence for contracts written before 1st October 2016, pension companies must use German mortality tables DAV 1994R for reserving. For contracts written after that date, Slovenian mortality tables SIA65 from 2010 must be used by pension companies to this aim. Insurance companies may choose the mortality tables to use for reserving – which can be, but do not have to be, unisex – as long as they produce technical provisions at least as high as those produced using the German DAV 1994R and Slovenian SIA65 2010 tables.[30]

The Slovenian SIA65 mortality tables take into account expected mortality improvements as well as the selection effect leading pensioners and annuitants to have lower mortality than the general population. The mortality improvements derived for the tables are, appropriately, based on the historical experience of the Slovenian population. However, the selection effect to adjust the level of the general population mortality to the level of pensioner mortality is based on earlier experience of annuitants in the United Kingdom (when annuitisation was mandatory), making some adjustments to reflect the experience of annuitants in Germany, where the annuitisation for personal pension products such as Riester is also mandatory. Both countries demonstrate similar selection factors, and it is likely to be a reasonable estimate of the selection experienced in Slovenia. In Slovenia, around 40% of the population have occupational plans requiring that they annuitise, compared to around 50% of the United Kingdom working population having an occupational pension plan, prior to the introduction of automatic enrolment. Nevertheless, the appropriateness of this assumption for the Slovenian population could be further investigated.

While the SIA65 tables do account for mortality improvements, the fully generational tables are not used in practice. Rather, the tables are reduced to a one dimensional table using the age-shift method, which could result in an inaccurate estimate of technical reserves needed to cover pension and annuity liabilities.

Given current technological capabilities and advancement over the years, it no longer seems impractical to apply the full two-dimensional generational tables rather than the one-dimensional approximation.

Profit sharing is required at a rate of 90%. Any profit stemming from investment returns or mortality experience must be distributed to annuitants. Profit is computed annually, and 50% of shared profits must be used to increase annuity amounts, while the remaining 50% of shared profits is set as reserves.

Annuity payments should be made monthly, except if lower than EUR 30, in which case they can be made quarterly, semi-annually or even annually.

The discount rate used for annuity calculations must be no less than 0.5% per annum, and no more than 4.00% per annum. Regardless of actual interest rates levels, annuity calculations must be done with a rate included in the 0.5% to 4.00% range. This may not be optimal as it may lack flexibility, and having rules to define the annuity rate may prove more effective than setting numerical boundaries.

The cost of providing an annuity may not exceed 12% of the purchase amount of the annuity that will be paid to the insured. Legislation also mandates that the long-term business fund for the payment of pension annuities may, in addition to the costs taken into account in the calculation of the pension annuity, be charged only by the operating costs of this fund specified in the pension plan for the payment of pension annuities.

5.7.2. Personal schemes

For voluntary personal plans, there are no conditions to request the payment of funds accumulated, and a lump sum may be requested at any time, before or after the statutory retirement age.[31] Table 5.8 details the number of withdrawals as well as the amounts withdrawn from personal retirement savings plans between 2011 and 2018. There is generally a downward trend in both the number of withdrawals and the total amounts of assets withdrawn, with 2 549 withdrawals for a total of EUR 8.8 million worth of assets in 2011, compared to 491 and EUR 2.2 million in 2018. This is likely linked to the different tax treatments of personal savings depending on their duration and withdrawal method. Savings maintained in a pension account for at least ten years do not attract the Insurance Premium Tax of 8.5%. Withdrawals as annuities enjoy a preferred tax treatment compared to lump sums, and therefore encourage individuals to withdraw only once to annuitise, rather than several times during the life of the pension contract.

Table 5.8. Number and amounts of withdrawals from personal pension plans, by year

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of withdrawals	2 549	2 346	1 625	1 453	857	628	978	528	471
Amounts withdrawn (in EUR million)	8.8	7.6	6.0	7.1	3.1	5.9	3.5	2.4	2.0

Source: Ministry of Labour, Family, Social Affairs and Equal Opportunities.

Overall, data suggests that an increasing portion of assets saved for retirement in occupational and personal schemes is being used to purchase annuities (Table 5.9). Whilst in 2015, over EUR 39 million of assets were transferred to annuity providers, this amount increased to EUR 42.5 million in 2017 and to close to EUR 59 million in 2018. In contrast, withdrawals as lump sums decreased from close to EUR 57 million in 2015 to EUR 46 million in 2017 and down to just under EUR 26 million in 2018.

Table 5.9. Amounts of occupational and personal retirement saving assets used to purchase annuities and withdrawn as lump sums, by year

In EUR million

	2015	2016	2017	2018	2019
Amount of funds transferred for the payment of pension annuities	39.15	26.91	42.59	58.72	76.18
Amount of lump sum payments	56.6	58.43	46.41	34,84	33.23

Source: Ministry of Labour, Family, Social Affairs and Equal Opportunities.

5.8. Fees and relationship with members

5.8.1. Fees and costs

According to legislation, asset management fees are capped at 1% per annum, entry fees are capped at 3% of contributions, exit fees at 1% of accumulated assets and switching fees are capped at EUR 15 per switch.[32] Entry fees correspond to fees charged on contributions. Exit fees are charged by the provider when assets are withdrawn. Switching fees are charged when a member transfers their assets from one pension fund manager to another. Entry, switching and exit costs do not apply when transferring assets between different funds of the same manager. Entry and exist costs do not apply either when transferring assets from one pension fund manager to another. Only the cost of switching, capped at EUR 15, may be charged by the pension fund manager from which assets are being transferred. This cost may not be charged from the pension assets, but must be borne by the member who has requested the switch.

Costs related to the management of pension fund assets may be charged directly from the assets, and are not subject to a cap. These cost include for example transaction costs and the cost of ownership registration for real estate assets. The costs charged must be recorded and published in the annual financial report of the pension fund.

A pension fund manager offering several funds or sub-funds may determine the level of the fees charged for each of the funds or sub-funds, within the limits set by legislation.

Different pension providers may charge different fees, subject to the applicable caps. For example, Pokojninska druzba A charges entry fees of 3%, exit fees of 1% and an annual management fee of 0.55% per annum for the guaranteed fund and a 1% per annum management fee for its other two funds. The mandatory scheme for workers in arduous and hazardous occupations charges 2% entry fees and 0.5% exit fees. It has also set annual management fees according to the size of its assets under management, between 0.75% and 0.88% as shown in Table 5.10.

Table 5.10. Annual management fee structure of the mandatory scheme for workers in arduous and hazardous occupations

Net asset value (in EUR million)	Annual management fee (in percentage)
Up to 900	0.88
Above 900 up to 1 050	0.85
Above 1 050 up to 1 200	0.80
Over 1 200	0.75

Source: http://www.kapitalska-druzba.si/posamezniki/sodpz/stroski.

Accessing information on costs and fees is not straightforward for several pension plan providers. The OECD Roadmap for the Good Design of Defined Contribution Pension Plans (OECD, 2012[4]) recommends that members should have free and ready access to comparative information about costs and performance of different providers in order to facilitate comparison. Slovenian providers' websites do not easily allow to access information on the level of fees charged on each of the funds they offer, which may make comparing options difficult for members willing to set up a personal retirement savings plan. For occupational pensions, this may be less of an issue as more time may be devoted to finding information on the different plans available (possibly through a tender or the use of a brokerage company).

5.8.2. Member engagement and switching

In occupational supplementary pension arrangements, employees are enrolled into the plan selected by their employer. Employees cannot change pension fund managers during their employment, unless a new scheme is selected at the employer level. Occupational pension plans are usually selected with no specified time horizon. A single employer may also offer more than one plan for employees to choose from. If a new provider is selected by an employer, all individuals currently enrolled in the plan must choose to switch their accumulated assets and future contributions to the new provider in order for the employer to terminate its contract with the initial provider. However, a transfer of assets to the new pension fund is not mandatory, although future contributions would be made to the new pension fund.

There are no rules defining how a pension provider should be selected for an occupational plan. Employers may choose to have an auction process to determine the best candidate, although this may only be feasible for larger employers. Brokerage companies may also be used by employers to assist in the selection process. Brokerage companies may be in a better position than an individual employer to negotiate tailor-made conditions or other advantages, however the remuneration structure of brokerage firms may not always be in the best interest of members. If brokerage companies are remunerated on an ongoing basis from the management fees paid by members, and given that the 1% cap on annual fees has led all providers to charge 1% for the management of pension funds, pension providers may end up providing a lower level of service to members of occupational plans which were selected through a broker.

When changing employers, members may change pension fund managers although regulation may not encourage the consolidation of accounts. The OECD Core Principles of Private Pension Regulation (OECD, 2016[5]) recommends that the portability and possibility to consolidate accumulations from different occupational accounts should be facilitated. In practice, upon leaving an employer, members of an occupational plan may transfer their balance of accumulated assets to a new occupational pension plan. However, the threshold to request a lump sum withdrawal of accumulated assets is set at the contract level. Hence members may prefer to keep several occupational accounts with a balance below the threshold, rather than to consolidate all of their funds into one occupational plan. This may also have an effect on member engagement as individuals may be less likely to actively monitor and engage with their retirement savings if they have several small accounts to manage.

In personal supplementary pension arrangements, individuals are free to choose and replace their pension fund manager if and when they deem appropriate.

5.8.3. Communication with members

Legislation does not require individuals to receive personal financial advice in order to take out a supplementary pension. Personal financial advice may be useful to assist individuals in their financial decisions with respect to retirement savings, but mandatory advice could limit the ability to increase the coverage of the supplementary pension system. All providers must offer a guaranteed return on net contributions, or life-cycle investment strategy which is approved by the relevant supervisor. Also, members saving under the life-cycle option cannot save in a fund meant for a younger age cohort, i.e. a

fund with a higher portion of high risk assets. Therefore mandating personal financial advice does not appear necessary if the objective is to ensure people do not take excessive investment risk.

Supplementary pension providers must communicate at least annually with their members on accumulated assets, any guarantees, and retirement income projections.[33] The OECD Roadmap for the Good Design of Defined Contribution Pension Plans (OECD, 2012[4]) endorses providing regular individualised benefit statements to members as a requirement to ensure effective communication. Pension providers in Slovenia must prepare a statement for their members by the end of January each year, detailing their position and rights at the end of December the previous year. This statement must include:

- administrative information, such as the name, legal address, statutory retirement age and tax number of the member;
- information on the pension fund and its manager;
- the annual investment return, including any guaranteed return;
- the assets accumulated, including any guarantee if applicable;
- pension projections based on the statutory retirement age of the member, with a disclaimer informing the member that the actual retirement income may differ from those projections;
- costs and fees paid by the member from contributions and from assets during the previous year;
- contributions made during the previous year, split if applicable between the employer and the member;
- how to find further information on the projections made (including the interest rate applied and the mortality tables used), on the different investment options available, and on the annual report of the pension fund.

The assumptions used to compute pension projections must be set according to rules defined by the Ministry of Labour, Family, Social Affairs and Equal Opportunities in co-operation with the Insurance Supervision Agency.[34] The Ministry of Labour, Family, Social Affairs and Equal Opportunities is currently working on setting these rules in order to unify the assumptions for the projections shown by different pension providers in the annual statement of benefits, but also in calculators available on providers' websites. Using a consistent set of assumptions is key to improving the comparability between providers, but also in increasing the understanding and trust of members in the supplementary pension system.

5.8.4. Understanding and financial knowledge of members

The Slovenian pension system is overall perceived as complex. As part of the "My work, my pension" campaign, the Ministry of Labour, Family, Social Affairs and Equal Opportunities carried out a survey on the understanding of Slovenians of their pension system and factors influencing their pension.[35] Only 21% of respondents stated that they believe they know the pension system well, 13% agree that the system is simple, 22% that they are given enough information to make relevant decisions.

People believe they should save for retirement but do not necessarily understand the impact of retirement savings on future retirement income. 75% of respondents agree that saving for retirement is necessary to ensure a good living standard in retirement, although 24% believe that having additional savings does not affect the amount of income in retirement at all, and 25% only believe it can affect it slightly.

People mostly get their information on pension from the media. When asked where they get their information on the pension system and retirement process, respondents cited the media as the first source (66% of respondents). It is therefore crucial to take into account the media and its different components in order to communicate on pension reforms and to increase the understanding of people.

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Notes

[1] Article 199 of the Second Pension and Disability Insurance Act (ZPIZ-2), http://pisrs.si/Pis.web/pregledPredpisa?id=ZAKO6280.

[2] https://www.gov.si/assets/ministrstva/MDDSZ/Dokumenti/Sektor-za-pokojnine-in-pravice-iz-dela/SEZNAM.xlsx.

[3] Article 201(6) of ZPIZ-2.

[4] At the same time, it took over the Capital Mutual Pension Fund, the First Pension Fund of the Republic of Slovenia and the PPS Guarantee Fund.

[5] Articles 256.a, 299 and 333 of ZPIZ-2.

[6] Using data from the 2019 annual report of Modra for the mandatory scheme for civil servants in Slovenia, and data provided by the Securities Market Agency for the mandatory scheme for workers in arduous and hazardous occupations, according to the OECD Global Pension Statistics definition of coverage.

[7] When introduced in 2003, the scheme covered 144 216 persons, of which 100 181 (i.e. 69%) were women. Members with no contributions accruing include those who have left the public sector and therefore have accumulated assets but no longer contribute to the scheme.

[8] Article 3 of the law on collective supplementary pension insurance for public employees (ZKDPZJU). http://pisrs.si/Pis.web/pregledPredpisa?id=ZAKO3784.

[9] For example, from 1 January 2020, the amount of the minimum premium for collective supplementary pension insurance for civil servants was adjusted to the growth coefficient of the average salary paid to employees of legal entities in the period from January to October 2019, compared to the average salary paid to employees of legal entities between January and October 2018. This coefficient was 1 043, so that the amount of the minimum premium of the collective supplementary pension insurance for civil servants was EUR 30.53.

[10] https://www.stat.si/Pages/en/goals/goal-5.-achieve-gender-equality-and-empower-all-women-and-girls/5.1-gender-pay-gap.

[11] This percentage is obtained by applying 24% on the employer and employee contributions into the mandatory public pension and disability insurance scheme: 0.24×0.2435=5.844%.

[12] Since 2014, this monetary amount must be updated by the Ministry of Finance if the coefficient of growth of consumer prices in Slovenia for the month of August of the current year, as compared to August of the previous year, exceeds 1.03, according to the Statistical Office of the Republic of Slovenia. Prior to 2014, the monetary amount was updated annually based on the yearly variation of the consumer price index in Slovenia, as observed in November each year.

[13] According to the Supreme Court decision X Ips 225/2016, of 17 October 2018.

[14] According to the Insurance Premium Tax Act.

[15] Article 217(2) of ZPIZ-2.

[16] Article 240(4) of ZPIZ-2.

[17] Prva sent their members a letter asking them whether they wanted to invest new contributions in the life-cycle strategy corresponding to their age group, or in the guaranteed fund, and informing them that in the absence of a response, the life-cycle strategy would be applied.

[18] Articles 332.h to 332k of ZPIZ-2. The Insurance Supervision Agency may also determine other types of suitable investments and limits for funds managing the provision of pension annuities.

[19] OECD Global Pension Statistics (http://www.oecd.org/finance/financial-markets/globalpensionstatistics.htm).

[20] Articles 272 to 275 of ZPIZ-2.

[21] http://www.kapitalska-druzba.si/_files/5058/LP%20KAD%20angl%20V4_net.pdf.

[22] Source : ECB, https://sdw.ecb.europa.eu/quickview.do;jsessionid=3C345FCCD767A5395B958CCBA96B87AA?SERIES_KEY=165.YC.B.U2.EUR.4F.G_N_A.SV_C_YM.SR_10Y&resetBtn=+Reset+Settings&start=&end=&trans=N.

[23] Article 284 of ZPIZ-2.

[24] Article 207 of ZPIZ-2.

[25] Article 213.b (2) of ZPIZ-2.

[26] Unallocated solidarity reserves may not exceed 1.8% of the net asset value of the plan, according to Article 213.3 (1) of ZPIZ-2.

[27] Article 251 (6) of ZPIZ-2.

[28] Article 204 of ZPIZ-2.

[29] http://www.pisrs.si/Pis.web/pregledPredpisa?id=PRAV12019.

[30] At least one insurance company has confirmed to the OECD that they use the same unisex mortality tables for both pricing and reserving.

[31] Subject to the tax rules defined in Section 5.3.3, i.e. withdrawals as lump sums are subject to ordinary income tax rules and an advance payment or withholding tax of 25%, an additional 8.5% Insurance Premium Tax is required for withdrawals made before ten years, and 50% of annuity payments are included in income for income tax calculations.

[32] Article 260 of ZPIZ-2.

[33] Article 251 of ZPIZ-2.

[34] Article 251(7) of ZPIZ-2.

[35] Sample size 2 660 members, data collected online between June and September 2019.

6 Reform options for the supplementary pension schemes

This chapter proposes policy options to address the different challenges to the Slovenian supplementary pension system identified in Chapter 5, building on the experience from other countries having faced similar challenges and adapting it to the national context of Slovenia.

6.1. Introduction

This chapter presents the main challenges identified during the review of the supplementary pension system and proposes policy options to address each of these challenges, based on international experience, and taking into account the particularities of the Slovenian pension system. These challenges are linked to the design, regulation and outcomes from the supplementary pension system and include several aspects such as coverage and contributions, the tax treatment of retirement savings, gender disparities, investment strategies, and communication.

The chapter first covers reform options linked to coverage and contributions to the supplementary pension system. The second section relates to the scheme for workers in arduous and hazardous occupations. The third section discusses reform options linked to member engagement and outcomes from the supplementary pension system. The fourth covers policy options aimed at improving transparency and disclosure, and the fifth section suggests possible regulatory changes.

Each section starts by summarising a challenge, and then proposes one or several policy options to tackle this challenge, with the expected outcome of such policy options based on comparable cases in other OECD countries, or on modelling in the Slovenian context.

These policy options may be complementary to one another, or different possibilities to overcome one – or several – issue(s) the Slovenian supplementary pension system is currently facing. This chapter clarifies in each of the options discussed whenever it requires a preliminary action to be taken and can only work as a combination of several of the policy options presented. The chapter contains a number of recommendations around communication, which should be considered alongside a standalone policy option which is concerned specifically with communication and is covered in Chapter 7.

The policy options discussed in this chapter aim to improve the complementarity of the public PAYG and private funded pension systems. Currently, income received from savings in the supplementary pension system represent a limited portion of the total retirement income received by pensioners in Slovenia. Modelling by the Institute for Economic Research (IER) estimates that annuities will only represent between 9% and 16% of the public pension income received by those with a supplementary pension plan when they retire. Coverage is not yet universal either. The policy options provide ways to improve coverage, boost income from supplementary pensions, and strengthen the system for supplementary pension provision.

Setting an objective for supplementary pensions is the first step to improving the complementarity between the public and supplementary pension components, in line with Core Principle 1 of the OECD Core Principles of Private Pension Regulation (OECD, 2016[1]). This means articulating what policy makers expect from supplementary pensions and how they will contribute to the objectives of the overall pension system. A pension system can have many objectives, which can include adequacy, fiscal sustainability, inter- or intra- generational equity, high coverage, and so on. Slovenian policy makers have a role in deciding what their overall objectives should be and how to balance any competing objectives.[1] Doing so would be a good starting point to inform their view about the role of supplementary schemes within the pension system. Considering objectives is also important because, inevitably, greater reliance on the supplementary system will involve a greater cost of retirement income provision to employers or employees. But accepting this cost will mean greater retirement income security for the population.

6.2. Improving coverage and contributions

This section covers challenges related to the coverage of and contributions to retirement savings schemes. First, the coverage of the Slovenian supplementary system and contributions to retirement savings schemes are low in international comparison. Second, the tax incentives to save in a retirement savings

schemes rather than in a traditional savings account do not seem to achieve their objective. The third challenge comes from the fact that supervisors of the supplementary pension system in Slovenia cannot precisely assess the overall coverage of the population, and may double count some members. Fourth, women in Slovenia are less likely to have an occupational pension plan than men, and tend to have lower balances in their accounts. Finally, participation in the voluntary personal pension system is very low, as over 95% of accounts are occupational, i.e. linked to an employer.

6.2.1. Coverage and contributions to retirement savings are relatively low…

The supplementary retirement saving scheme covered 40.9% of the working-age population in Slovenia in 2019, and 19.9% when considering only the voluntary component of the pension system. This places Slovenia towards the lower end of OECD countries with comparable retirement savings systems.

In addition, total contributions to retirement savings plans amount to 0.6% of GDP in 2019, which is less than the level in comparable European countries such as the Czech Republic (1.0%), the Slovak Republic (1.1%) and Portugal (2.5%).

Positive elements of the supplementary scheme include the mandatory scheme for civil servants which represents a high portion of individuals covered by occupational plans. However, contributions received by civil servants in their supplementary occupational scheme are rather low and are not wage dependent.

The policy options below suggest two alternatives to address low supplementary plan coverage: introducing compulsory enrolment or automatic enrolment of occupational schemes. According to the OECD Roadmap for the Good Design of Defined Contribution Pension Plans, where mandatory enrolment is not considered opportune, mechanisms such as automatic enrolment are useful in improving coverage (OECD, 2012[2]).[2]

Policy option: Introduce compulsory enrolment to an occupational pension arrangement for all workers

Mandatory enrolment is the most effective way to increase coverage. Ensuring that all workers have access to an occupational plan through their employer ensures a full coverage of the workforce. For the system to be inclusive, workers in non-standard forms of work, such as part-time workers and the self-employed, should also be covered.

One way of ensuring all workers are covered, including those with non-standard contracts, is to make enrolment mandatory with no minimum working hours or contract duration.[3] This is because conditions based on contract duration and minimum thresholds based on working hours or wages received imply that a portion of the working population is effectively excluded from mandatory coverage.

The use of industry-wide pension arrangements can facilitate the process of setting up mandatory enrolment for employers. Industry-wide arrangements, or arrangements by occupations, remove the need for each employer to select and set up a supplementary pension arrangement for its employees and can lead to more efficient schemes.

Setting the appropriate default contribution rate from employer and employee is also essential to ensure not only that individuals are covered, but that they can expect to obtain an adequate replacement rate from their defined contribution pension plan. However, a too high default rate can create other problems (OECD, 2018[3]).

Policy option: Introduce automatic enrolment for occupational pension schemes

If introducing mandatory enrolment is not opportune, the OECD Roadmap for the Good Design of Defined Contribution Pension Plans (OECD, 2012[2]) proposes introducing automatic enrolment in order to increase

the coverage of occupational plans, with the possibility for individuals to opt out. The Institute of Economic Research (IER) has analysed the effect of introducing automatic enrolment for all workers in the public and private sector on the expected replacement rate and portion of retirement income generated from annuities for different categories of workers.[4] Details of the analysis are available at Annex 6.A. The analysis showed that automatic enrolment was likely to boost retirement income outcomes across the board, including for workers who already have access to an occupational retirement plan to which only their employer contributes, those with an occupational plan to which both employer and employee contribute, and those currently not covered by an occupational plan. Like for mandatory enrolment, setting the appropriate contribution rate for employers and employees is essential to ensure adequacy.

6.2.2. …despite a high tax advantage to save in a pension instrument rather than in a traditional savings account

The tax advantage granted to Slovenians saving for retirement compared to a traditional savings account is high in international comparison (OECD, 2018[4]). The present value of taxes saved as a percentage of the present value of contributions is higher in Slovenia (36% for an individual saving 5% of their income) than in the Czech Republic (35%) and Portugal (25%), both countries having higher coverage rates. Notwithstanding, take-up and contributions are low, suggesting more can be done to encourage greater use of supplementary pension arrangements. Additionally, according to data from the Ministry of Finance, less than 1% of individuals contributing to a pension plan contribute enough to benefit from the full tax relief available (EUR 2 819.09 for 2020). As such, there seems to be a discrepancy between the intention of the government to encourage contributions, and the willingness or capacity of individuals to actually contribute to a supplementary pension plan.

The following policy option provides guidance on how to improve the incentives for lower income earners to contribute to supplementary schemes. Slovenian policy makers may wish to consider such reforms alongside those which improve the coverage of retirement savings arrangements (such as mandatory or auto-enrolment). Doing so can help deliver a package of consistent reforms to supplementary arrangements.

Policy option: Introduce matching contributions or fixed nominal subsidies to encourage lower income earners to contribute

Matching contributions or government subsidies are an effective way to encourage participation and increase contributions, especially for those individuals who pay no or little income tax and therefore cannot fully benefit from the income tax relief currently offered (OECD, 2018[4]). Evidence from the United States and Australia suggest that matching contributions increase participation in retirement savings plans. In Germany, the Riester plan, which includes a fixed nominal subsidy, was found to have a positive effect on coverage and distribution of voluntary plans among income brackets, compared to other voluntary retirement savings plans offering no government subsidies, which had a much higher take-up rate among high-income earners.

The Ministry of Finance analysed the possibility of introducing matching contributions to replace the current tax relief for contributions to personal supplementary accounts in 2017. The match rate used in the analysis was 50%, i.e. the state budget would have added 50% to any personal contribution, up to a maximum of 5.844% of salary or EUR 2 819.09. This analysis was based on a suggestion from the Insurance Association of Slovenia to set up separate and additional financial incentives for people to open and contribute to a personal account, as currently only about 4% of accounts in the supplementary pension system are personal.

The Ministry of Finance concluded that matching contributions could act as disincentives for people to contribute, as they would replace the current income tax relief and therefore be accompanied by an

increase in the income tax paid by individuals. The current tax relief decreases the income base from which income tax is computed. Hence replacing this relief by matching contributions would in parallel increase the income tax bill for individuals contributing to a personal pension plan. Individuals with a marginal income tax rate lower than 50% would benefit from the matching contribution incentive more than from the current tax relief. Individuals with a marginal income tax rate of 50% would be indifferent between the two schemes, and those with a marginal tax rate higher than 50% would be penalised by the matching contribution scheme as compared to the current tax relief.

International experience and research do not support the claim that introducing matching contributions should act as a disincentive for people to contribute to their supplementary pension savings account. Evidence from countries that have implemented financial incentives indicates that individuals are usually more sensitive to the immediate effect of an incentive (i.e. an increase in their pension account in the case of matching contributions) than to longer-term effects (i.e. the increase in their income tax bill). In Turkey for example, participation to the personal pension system increased when matching contributions were introduced instead of a tax relief. This is also supported by behavioural studies on the present bias, which suggest that people value short-term benefits more than longer-term negative consequences (OECD, 2018[3]).

The choice of a match rate can affect which population sub-group is further encouraged to participate and contribute. The fiscal cost of a matching contribution depends on how this match rate compares to the marginal income tax rate. Choosing a match rate below the higher marginal income tax rate can encourage low-income earners to contribute and decrease the incentive for the high earners.

Tax credits may also be suitable solutions to incentivise low to medium-income earners to contribute to a pension plan, as long as they are refundable. Refundable tax credits allow individuals who pay little or no income tax to benefit from the tax incentive, as opposed to the current income tax relief which only applies to income taxpayers. Refundable tax credits are similar to matching contributions, although the latter may be easier to understand by most people and therefore may have a higher effect on contributions.

Matching contributions or tax credits could replace the current income tax relief to encourage all individuals, including the low-income earners, to participate and contribute to the supplementary pension system. In the analysis performed by the Ministry of Finance, matching contributions were introduced *in addition* to the current tax relief, in order to encourage contributions to personal plans. To keep the fiscal cost manageable while improving the effect and fairness of financial incentives on coverage and participation, especially for the low earners, matching contributions or tax credits could be introduced *instead* of the current income tax relief, and up to a similar maximum amount.

Fixed nominal subsidies may also be an effective way to promote saving for retirement, especially for low-income earners. Fixed subsidies are paid from the government directly into the retirement savings account of eligible individuals who save for retirement and do not depend on people's tax rate. As such, they represent a higher share of low earners' income and can be effective tools to encourage those who do not save at all or enough compared to their retirement savings needs. Fixed nominal subsidies are used in several OECD countries to boost retirement savings, including in Chile, Germany, Lithuania, Mexico, and Turkey (OECD, 2018[4]).

Providing incentives to lower income earners to contribute to supplementary schemes can help reduce dependence on old age safety net benefits. Providing appropriate tax and non-tax incentives such as matching contributions and fixed nominal subsidies is in line with the OECD Roadmap for the Good Design of Defined Contribution Pension Plans (OECD, 2012[2]).[5]

6.2.3. The coverage of the supplementary pension system cannot be precisely evaluated

Supervisors receive coverage information from providers in the form of the number of pension contracts granted, and the number of members. Members holding more than one account with a single provider can

therefore be estimated by supervisory authorities. However double counting may occur if individuals hold pension accounts with more than one provider.

Policy option: Set up a central register of all members of occupational and personal pension plans

The tax authority in Slovenia has access to information on individuals in order to ensure they pay the correct amount of tax when contributing to a retirement plan and withdrawing their retirement savings. Supervisors receive information from pension providers on the amounts and number of members in each of their plans, but no information is passed on the identity of account holders, which prevents consolidating information at the individual level for people holding accounts with more than one provider.

A central register would allow to effectively assess the coverage of supplementary pension arrangements, both occupational and personal and eliminate any double counting. Countries such as Denmark have set up such a register based on the social security number of individuals, which is included in all pension documents. Such centralisation can subsequently be useful to implement other policy changes, such as to encourage the consolidation of various accounts to avoid having dormant accounts with low balances, or to enforce consolidated retirement income projections from all sources (for instance via a dashboard recapping all elements from public pay-as-you-go pension, to occupational plans and voluntary personal plans as in the case in Denmark). A centralised register could rely on confidentialised unit records, to help alleviate any privacy concerns individuals may have.

6.2.4. Women are less likely to have an occupational retirement savings account and have lower balances in their accounts

56.7% of voluntary supplementary retirement savings contracts which had a positive balance at the end of 2017 were held by men, and 43.3% by women. Women with active accounts in 2017 had lower contributions and lower balances than men, particularly when receiving contributions from their employer only. The amount of employer contributions was 14% lower for women than for men, both when contributions were paid only by employers and when contributions were paid by employers and employees and this gender gap in contributions is higher than the gender wage gap which stood at 8.4% for 2017. Additionally, women younger than 26 and older than 58 received lower contributions as a percentage of their annual salary than men of the same age groups.

Policy option: Make employer contributions to occupational pension schemes mandatory during maternity and parental leave

Contribution breaks to retirement savings plans during periods of maternity and parental leave are one of the sources of the gender gap in private pensions in many OECD countries (OECD, 2021[5]). There is currently no obligation for employers in Slovenia to pay contributions to the voluntary occupational retirement accounts of employees during maternity and parental leave. The choice of whether to contribute to employees' accounts during maternity and parental leave is left to collective bargaining and/or pension plan rules.

Mandating employers to continue contributing to their employees' retirement savings accounts during maternal and parental leave should be done in legislation, in order to ensure fairness of treatment of men and women. Another option chosen in some OECD countries is to have the government or social security institute subsidise contributions on behalf of employers during leave periods. However, this may need to be contingent on more universal access to such plans to avoid the perception of significant redistribution from people without occupational pensions to people who have them.

Ensuring that the earnings base on which contributions are computed is maintained is also an important design feature for the pension system to treat members, and in particular women, fairly during periods of

maternity and parental leave. While it is important for contributions to continue, they should also be maintained at the same level as before the leave in order to avoid any penalties in retirement savings stemming from maternity and parental leave, which contribute to the gender pension gap.

Policy option: Build specific communication campaigns to raise women's awareness about retirement savings

Communication may be targeted towards women in order to increase their understanding and engagement vis-à-vis retirement savings. Communication and financial education initiatives can be effective in increasing the participation of women in retirement savings plans and to increase their contributions (OECD, 2021[5]).

Communicating on the gender gap in pensions, and on the effect of maternity leave on future retirement income may be useful to help women take action to improve their retirement readiness. In Finland for example, individuals are encouraged to use a calculator to assess the impact of different lengths of parental leave on their future pension income.

Communication at the provider and employer level may also prove effective to raise women's awareness of pension-related issues and to encourage participation in the supplementary pension system. In Italy, a private pension fund (Laborfonds) has managed to increase participation among women by setting up a variety of communication initiatives including special events and periodic communication using new channels such as social media. In the United States, the EMPOWER financial education campaign designed to improve the participation of women in a supplementary occupational pension plan set up for non-school public agencies workers in Wisconsin included webinars and live events, and was successful in closing the gender gap in participation by more than half (Anderson and Collins, 2017[6]).

Policy option: Automatically split pension assets in divorce settlements

Pension rights and assets are not split equally upon divorce in a minority of OECD countries, including in Slovenia. They are however usually considered as joint property during marriage or partnership. When the split upon divorce is not automatic, pension rights and assets may be overlooked in court settlements. This may prove especially detrimental to women, who often have lower pension entitlements.

Several options are available to split pension rights and assets between former spouses (OECD, 2021[5]). Countries may choose to allow pension assets to be offset against other assets (financial, but also real estate for instance) when couples divorce. They may also divide pension assets at the time of separation and allocate each member of the former couple their share in the pension arrangement (pension sharing order). Another option is to legally request the pension provider to pay a portion of retirement income to the former spouse when pension rights come into payment (pension attachment order).

Pension sharing orders are the most straightforward option to split pension assets upon divorce and should therefore be favoured by policy makers. Countries such as the United Kingdom offer all three options to couples when divorcing, however both offsetting and pension attachment orders may have disadvantages for one of the parties. Offsetting may prove inequitable upon retirement if different asset classes (for instance the home and retirement savings) have changed in value in different proportions. Pension attachment orders require the ex-spouse to wait until their former partner retires to start receiving income, and pension payments cease upon the death of the former partner. They therefore cannot be treated as a reliable source of retirement income by the receiving member.

6.2.5. Participation in the voluntary personal pension system is very low

It is estimated that over 95% of supplementary pension plans are held through an occupational plan, and that personal plans therefore only form a small portion of the retirement savings system.

The best way to boost coverage of retirement savings arrangements is through compulsory or automatic enrolment into occupational plans, but if doing so is not feasible, another way to boost savings is to encourage greater use of personal plans. However, encouraging personal plans is certainly less effective since individuals tend to be relatively disengaged about their retirements. Still, there are ways to improve awareness and increase the attractiveness of such plans.

Policy option: Improve incentives to contribute to voluntary personal pension schemes

The current tax advantage available to individuals who save for retirement is relatively high in international comparison (OECD, 2018[4]). However, voluntary savings are rather low, as is often the case in voluntary pension systems around the world, since people are generally disengaged about their retirements.

If the Slovenian authorities do not choose the option of making occupational plans mandatory for all workers, introducing matching contributions for those members who do not benefit from an occupational plan could be a way to boost savings.

Policy option: Allow for riskier investment options

The current life-cycle investment framework requires offering three sub-funds designed for specific target age groups. While this is appropriate to ensure that members approaching retirement are protected from a severe downturn in financial markets, this may not be appropriate for those individuals who have a higher risk tolerance and would like to increase their potential retirement income. In particular, individuals saving personally for retirement may choose to save in vehicles offering a wider range of risk and return options, and therefore not save in retirement savings plans but rather in other types of vehicles.

Allowing retirement savings arrangements to offer a broader range of risk and return options may make saving for retirement more attractive, when compared to traditional savings vehicles. Furthermore, voluntary personal retirement savings act as a complement to the main sources of retirement income (the public scheme and occupational schemes). Therefore, individuals can often accept greater risk from these investments without exceeding their overall risk appetite.

In order for riskier options to be offered to individuals saving for retirement, it is crucial that a consistent and well-defined framework to communicate on the potential risks and rewards associated with different investment strategies is established (see Policy option: Communicate on the potential risks and rewards of different investment strategies).

Policy option: Communicate on the effect of retirement savings on future retirement income

Increasing awareness of the supplementary pension system is important to secure greater take-up of voluntary personal pension products. Awareness-raising can form a part of any ongoing national pension communication campaign aimed at educating the public about retirement and the effects of financial decisions. Providing tools that help people understand the impact of financial decisions on future retirement income can also be useful to encourage people to participate and contribute to a voluntary pension plan. This can be done through targeted tools such as calculators and dashboards. Furthermore, the authorities can make available information about how contributions have improved people's retirement incomes in the past, such as by publishing historical replacement rates and projections. This can make the benefits seem more tangible to encourage greater use of personal pension plans.

Comparison tools that make it possible for people to compare historical returns from different investment vehicles or products can also help people choose the right strategy for them, given their risk appetite. Authorities can make available tools such as these which report historical performance as well as comparisons to benchmarks, as an example.

6.3. Reforming the scheme for workers in arduous and hazardous occupations

This section discusses reform options for the retirement savings scheme for workers in arduous and hazardous occupations. The main challenge faced by this scheme is that it does not appear to achieve the objective it was designed for.

6.3.1. The scheme for workers in arduous and hazardous occupations does not appear to achieve its objective

The scheme was designed to act as a bridge between employment and the old-age pension, for workers deemed unable to perform their occupation until the statutory retirement age. However, very few members actually use their assets accumulated in the scheme to retire early. Rather, most members use these assets as other supplementary retirement savings, i.e. to increase their retirement income after reaching the statutory retirement age.

Financial constraints and a poorly targeted list of eligible jobs explain why many members do not use the scheme to retire early. Members fulfilling the conditions to retire early from the scheme often need to purchase additional contribution years in order to obtain their full pension upon reaching the statutory retirement age. The need to purchase additional years, albeit at a more favourable contribution base, is one reason why people continue working and use their assets accumulated in the mandatory scheme for workers in arduous and hazardous occupations to increase their retirement income in retirement, rather than to retire early. However, incentives to contribute to the public scheme and purchase these additional years already exist. Another reason why members do not retire early is that the list of eligible jobs includes those that can be easily performed until workers attain the retirement age for the public pension. Workers in these jobs tend to view occupational insurance as a good source of additional income to complement the public pension, and many do not see it as a transitionary payment to enable retirement before the statutory retirement age.

Policy option: Clarify the objective(s) of the scheme

First, the policy objective of the scheme for workers in arduous and hazardous occupations should be clarified. Is this scheme indeed meant to act as a bridge between employment and old-age pension? Are the lists of occupations and criteria to be enrolled in the scheme up-to-date? If so, changes should be made so that the scheme can actually meet its objective to allow people to retire early from occupations that they cannot pursue until the statutory retirement age. If not, then the scheme may also need to be reformed in line with its new stated objective. For example, if policy makers believe that workers covered by the scheme are able to and should perform other (less physically demanding) occupations once they reach the early retirement age, then this should be acknowledged in the objective and mission statement of the scheme. In this case, the scheme may be meant to provide additional retirement income to compensate workers for the difficult conditions under which they worked during a part of their career.

Policy option: Assess the list of occupations and the criteria to retire early

Verifying that the criteria to be part of and retire early from the scheme are in line with the set objective is essential. Once the objective has been reaffirmed, a review of the occupations on the list will need to be carried out in co-ordination with social partners to ensure they indeed correspond to activities which cannot be performed after a certain age. For each of these occupations, setting the criteria, and in particular the age at which workers need to retire early, will also be important to ensure fairness and consistency between individuals and occupation groups.

6.4. Increasing member engagement and outcomes

This section covers challenges linked to member engagement and outcomes from the supplementary pension system. Firstly, members of retirement savings plans invest their assets in very conservative investment options. Second, the features of the system do not encourage people to consolidate their retirement savings accounts if they have more than one, which may lead to disengagement from supplementary pension. Finally, the retirement savings system is perceived as complex and people often do not understand the impact of their decisions on future retirement income.

6.4.1. People mostly save into very conservative investment options

According to 2017 data from the Institute of Economic Research, despite the introduction of the life-cycle investment strategy in 2016, 85% of assets saved in supplementary pension plans (excluding assets in the scheme for workers in arduous and hazardous occupations) were saved in funds with a guaranteed minimum return.

The OECD Roadmap for the Good Design of Defined Contribution Pension Plans states that people should be allowed to choose the investment strategy best suited for them according to their risk profile and their level of risk tolerance, as well as their different overall pension arrangements. There should also be default strategies for people unwilling or unable to choose investments (OECD, 2012[2]). Currently, the Slovenian supplementary arrangements only have two potential investment strategies for people to choose from. Furthermore, people saving in a fund with a life-cycle strategy are only able to choose to remain in the investment strategy meant for their age group or to opt for a more conservative one. These rules may not provide people with enough choice to adjust investments according to their own risk profiles. There is also no default investment strategy in place for people unwilling or unable to choose investments.

Policy option: Communicate on the potential risks and rewards of different investment strategies

A framework to communicate on investment strategies in a consistent way is useful to increase people's comprehension of the potential risks and rewards of different options (OECD, 2020[7]). Communication can be designed to help people understand the link between the potential risks and rewards of different strategies. Various OECD jurisdictions use scales or ratings based on metrics for risks and returns in order to communicate on the risk and return profile of different investment strategies. Metrics such as the historical volatility or the Value-at-Risk of returns may be used to assess the risk profile, while the average historical return is often used to assess the return profile of investment strategies.

Communication about investment strategies should be simple and in plain language (OECD, 2020[8]). Jargon and complex mathematical terms such as probabilities should be avoided when communicating about the potential risks and rewards of investment strategies. Perceived complexity may deter individuals from engaging with their pension savings (Gentile et al., 2015[9]).

Policy option: Help people assess their personal risk profile and investment horizon

Individuals saving for retirement should realise that while saving in a low risk investment strategy may be appropriate for those with a very low risk appetite and a short investment horizon, it may not be the case for every saver.

Policy makers can set up questionnaires to help people assess what their risk tolerance and saving horizon are, which can be useful in order to help people choose an appropriate investment strategy for their retirement savings. For example, the Irish Pensions Authority has designed a risk profiler helping individuals assess their personal risk profile, based on five questions. Results are shown with a speedometer visual and a scale of 0 to 10, with 0 being the most risk averse profile.[6]

Using a similar approach could allow Slovenian savers to assess the appropriate risk profile for their retirement savings. It is then important to have a mapping of those results to the risk and return categories of existing investment strategies, so that people can easily identify the investment strategy that is appropriate for them, given their personal risk profile.

Policy option: Consider allowing individuals to save in an investment strategy meant for a lower age group

Members of pension schemes that offer a life-cycle strategy are currently not allowed to save in a strategy that is meant for younger savers, i.e. a less conservative investment strategy. While it is appropriate for a life-cycle strategy to assign members to the risk profile corresponding to their age group by default, the OECD Roadmap for the Good Design of Defined Contribution Pension Plans (OECD, 2012[2]) recommends giving people choice between different risk profiles to suit people's individual preferences and circumstances.

Allowing individuals to stay in the investment strategy meant for the age group below theirs after having reached an age threshold for instance, and possibly through the provision of financial advice, could be appropriate for members of supplementary schemes with a high risk appetite, a longer than average investment horizon or depending on their personal financial circumstances.

Policy option: Allow for a gradual shift of assets from one investment strategy to the next

In the current life-cycle investment strategy, retirement assets must be saved in a sub-fund designed for a target age group. Assets of individuals reaching the age threshold (e.g. individuals turning 50) of an investment sub-fund must be transferred to the sub-fund meant for the older age group (e.g. 50 to 60).

Article 311(4) of ZPIZ-2 requires that fund managers transfer the assets of individuals to the older age group sub-fund within three years of individuals reaching the age threshold of a target age group, and as a lump sum. This one-off transfer puts a significant weight on the market conditions prevailing at the time of the transfer, and therefore on the timing of the fund manager's transfer decision. If the transfer occurs at a time when market conditions deteriorate, selling higher-risk/growth assets may incur a loss for the saver.

Allowing for a gradual shift of retirement assets from one sub-fund to another could decrease the effect of the manager's decision and timing for transfer, and ensure that individuals are protected against a severe drop in market values just before the transfer date. Countries such as Chile for instance implement gradual transfers from one life-cycle fund to the next in order to mitigate the impact of the transfer date on the value of retirement assets.

Policy option: Introduce a default investment strategy for people unwilling or unable to choose their investments

Default options are a useful mechanism to help ensure people have a suitable investment strategy for their savings. Various issues are relevant to designing default options. These include age, the weight of the DC pension relative to the overall pension, the possibility of major consumption needs in old-age (such as health and long-term care), the expected contribution and retirement period, and the structure of the payout phase of DC pension plans.

It is currently up to providers in Slovenia to decide on the default investment strategy that contributions from members will be allocated to. While rules stipulate that members should be offered a guaranteed investment strategy, or a life-cycle option, providers are free to decide to allocate contributions from members who do not actively select their investment strategy to the guaranteed fund.

Policy makers in Slovenia should consider the best default investment strategy for their system. There is no consensus around the design of the default investment strategy. However, in line with the recommendation in the OECD Roadmap for the Good Design of Defined Contribution Pension Plans, several countries use life-cycle investment strategies for the default option, reducing the risk exposure as the individual gets closer to retirement (OECD, 2012[2]). This is a potential option for Slovenia, since life cycle investment strategies are already widely available. However, life-cycle investment strategies are not a panacea, as a number of glide paths are available and the reduction of the share of risky assets also reduces expected returns and thereby expected retirement income. As such, policy makers should consider further analysing the different default investment strategy options that may allow them to maximise retirement income.[7]

6.4.2. The existing rules do not encourage consolidation of various accounts

There are no rules in Slovenia to ensure that members consolidate their different retirement savings accounts, for instance when changing jobs. While any double counting may be an obstacle to accurately assessing the coverage of supplementary retirement savings arrangements, individuals holding multiple accounts may also disengage from their retirement savings. Individuals are more likely to have dormant accounts if they have several retirement savings plans. Fees may erode the pots of dormant accounts, especially fixed fees, which do not depend on the account balance.

Additionally, withdrawing retirement assets saved in an occupational scheme as a lump sum is only authorised if they do not exceed a threshold set at EUR 5 120. This threshold is assessed at the contract level, hence there could be an incentive for members changing jobs to keep previously accumulated assets of under EUR 5 120 in a dormant plan instead of consolidating all assets under their new employer's occupational scheme (if available), in order to be able to withdraw their assets as a lump sum upon retirement.

Policy option: Define the lump sum threshold at the individual level, rather than at the account level

The threshold to withdraw retirement savings as a lump sum is meant to ensure that individuals with low balances in their accounts are not obliged to purchase an annuity which would pay a very little regular stream of income in retirement. While lump sums are typically discouraged as a form of benefit pay-out, they can be justified for small DC accounts.[8] In Slovenia, the threshold to withdraw lump sums is currently assessed at the contract level. There could be an incentive for members of occupational plans to keep low balance accounts if they are below the threshold, in order to be able to withdraw these amounts as lump sums upon retirement. A person changing employers several times during their career could even find themselves having savings of EUR 30 000 in six different accounts with the different pension providers, all just below the threshold, and would be eligible to withdraw all of their savings as lump sums. Defining the threshold at the level of the individual rather than at the level of the account would remove this incentive. It would also ensure that lump sums can be requested only by people with low retirement savings, for whom purchasing an annuity would not necessarily be appropriate given the high administrative and fixed costs to manage such a low stream of lifetime income.

A central register of all accounts would be required to ensure the threshold applies at the individual level (by the tax authority) rather than at the contract level (by the pension provider). This register should include information on account holders, but also on account balances, and should be updated whenever there is a material change to an account (such as the opening of a new account, or the closing of an existing account), and upon request from the tax authority. Upon receiving a request for a lump sum withdrawal, pension providers would be required to seek approval from the tax authority. The tax authority would in turn mandate all providers with which the holder has an account to update their information on account balances and types of funds held, in order to confirm to the requesting provider whether the member

complies with the rules to withdraw their savings as a lump sum, depending on the total amount of assets held in various occupational accounts in the name of the member. The provider would then, depending on the answer from the tax authority, transfer the lump sum to the individual.

Policy option: Ensure occupational accounts follow when members change employers

Accounts with low balances often perform more poorly and foster disengagement from retirement savings. Low balance accounts often are left dormant as people are less likely to engage and actively look into their account, its investment strategy and performance, and fees and costs. Low balance accounts may also attract higher fees as some costs are fixed for pension fund managers and may therefore represent a higher share of assets when balances are low. It is therefore important to avoid having multiple low balance accounts if possible, and to encourage people to consolidate their accounts when they open a new one, for example when they change employers.

Australia's "Protecting your Super Package" in 2019 was an effort by the government to protect members of retirement savings schemes from the negative effects of having several low balance accounts. As part of the package, accounts with balances below AUD 6 000 are deemed inactive if they received no contribution and have not attracted any changes (to investments or beneficiaries) during a period of 16 months. In this case, pension providers must transfer the account and its full balance to the tax authority (the Australian Taxation Office), who will in turn transfer this account to another active account in the name of the member. Australia's funded occupational pension system is mandatory, hence all workers have at least an active account. Additionally, as part of the Australian Government's "Your Future, Your Super" reforms, an occupational plan is 'stapled' to a members, so that when they change jobs so their new employer would, by default, contribute to an existing plan rather than open a new one for the employee.

In the case of Slovenia, a similar consolidation could be encouraged by making it automatic for an occupational account to follow its member when a new account is opened in their name. This would require centralising all accounts held in the name of an individual in a register.

Policy option: Set up a central register of all supplementary pension savings accounts

The tax authority in Slovenia has access to information on individuals in order to ensure they pay the correct amount of tax when contributing to a retirement plan and withdrawing their retirement savings. Supervisors receive information from pension providers on the amounts and number of members in each of their plans, but no information is passed on the identity of account holders, which prevents consolidating information at the individual level for people holding accounts with more than one provider.

A central register of all supplementary pension savings accounts would enable supervisors and tax authorities in Slovenia to have a full picture of the holdings of pension accounts by individuals. In particular, such a register would allow to adequately assess the coverage of supplementary pensions, by eliminating any double counting of members holding more than one account.

A central register should be based on a unique identification code such as an individual's social security or tax number, or a combination of their name, date of birth, and other personal details. In Denmark for instance, central registers facilitate the management of pensions and other benefits. All pension-related information, from public as well as private sources, is linked to each person's unique social security number. Providers must therefore convey information to the tax authorities on accounts and assets held by, as well as benefits paid to individuals, by referencing their social security number. Supervisory and tax authorities therefore have a detailed picture of the situation of individuals with respect to public and private pensions.

Using a unique identification number for a central register may facilitate the management of supplementary pensions as well as other services. Thanks to central registers, the same identification number is used in Denmark for several public and private services in addition to those related to pensions. People are

required to regularly update the personal and bank account details linked to their social security number. The central registers are then used by the central administration for the payment of benefits, and to access the land registry, but the social security number is also the personal login for online banking and private insurance accounts. While setting up a central register may facilitate the management of supplementary pensions in Slovenia, it may also facilitate the management of other public services later on if the Slovenian authorities wish to expand this model to other services.

This central register would also be required to implement a pension dashboard as discussed in Chapter 7.

Policy option: Encourage sector-wide occupational schemes

Workers in non-standard forms of work, such as those working part-time for several employers at the same time, may be more prone to having several low-balance accounts if their various employers offer retirement savings plans with different providers. One solution would be to encourage occupation or sector-wide arrangements, such as those existing in the Netherlands for instance, where all employees in a specific sector or occupation are covered by a similar plan (e.g. the plan for farmers, for butchers, for workers in the construction industry). In this case, part-time workers working for different employers within the same industry or occupation, would have only one occupational plan, which could follow them throughout their career. Industry-wide occupational plans also facilitate the process for employers to offer a retirement savings plan to their employees, and can therefore increase the coverage of workers in these industries.

Policy option: Communicate to encourage consolidating personal accounts

For individual accounts, the rule defining lump sum withdrawals does not apply, so communicating on the effects of having several low balance accounts may be useful to ensure that people are aware of the impact of fees and disengagement on their retirement savings, and that they know how to consolidate several low balance accounts into one. Communication needs to be co-ordinated with pension providers, to ensure it is simple, unbiased and coherent. Over time, public awareness campaigns on consolidating low balance accounts could be complemented by tools such as dashboards which make it possible to easily consolidate the accounts in a single platform.

6.4.3. People find the system complex and do not clearly understand the impact of their decisions on future retirement income

Surveys indicate that members of the public find the overall pension system complex, and do not necessarily understand how individual decisions – such as whether and how much to save for retirement or when to retire – may have on the income they will receive in retirement.

Policy option: Raise awareness of the supplementary pension system

Increasing the public's awareness of the system, and of the impact of individual financial decisions on future retirement income may prove effective to encourage people to participate and contribute to a voluntary pension plan. A small proportion of people participate in the voluntary personal pension system. This may be due to several reasons, including the lack of saving capability. For those who could save, even small and irregular amounts, knowing that the system exists, how it works, and understanding how it can be relevant for them can encourage them to save for retirement.

Unlike mandatory public and supplementary schemes, people need to have the awareness, knowledge, attitudes and skills to make voluntary contributions to the supplementary pension system (OECD, 2016[10]). This is especially true for individuals who are not covered by an occupational plan, and would need to also make the active decision of opening a pension account, and therefore to choose a pension provider.

Communication and awareness campaigns may improve the understanding of the pension system, but also help increase the long-term orientation of people and ultimately their skills to help them make decisions such as to save for retirement (OECD, 2016[10]).

International experience to address the specific needs of workers in non-standard forms of work also shows that flexibility in the frequency and amounts saved, and using nudges such as reminders can be effective to increase contributions to voluntary retirement savings plans (OECD, 2020[7]).

Policy option: Improve public understanding and confidence in the pension system

Members of the public find the system complex. It is important to make sure communication on the pension system does not increase this perceived complexity. To avoid creating confusion, communication should focus on clear messages, and be co-ordinated between different stakeholders such as public authorities and private pension providers, in order to avoid multiple messages.

Communication campaigns should have a clear objective. If several elements need to be communicated to the public, this should be in stages so that one communication campaign has one clear objective and one main message.

Communication effectiveness should also be assessed and adjusted if necessary. It is important to assess any communication effort by surveys and consumer testing, in order to identify whether objectives have been met and if not, adjust campaigns accordingly.

Policy option: Ensure people can get the information they need from the different media channels they use

The general public uses the media as their main source of information about pensions. Sixty-six percent respondents to the survey organised for the “My work my pension” project cited the media as their first source of information. The media should therefore be an integral part of the communication plan for any reform.

Different categories of the population may use different media channels. It is important to tailor communication campaigns to their target audience, and to account for the different media used by sub-groups of the population such as younger age groups or women.

6.5. Initiatives to improve transparency and disclosure

This section presents challenges linked to transparency and disclosure. It first proposes ways to address the fact that comparing the fees and costs charged by supplementary pension providers may be challenging for individuals. It then covers the problem posed by the absence of a framework to present retirement income projections across providers.

6.5.1. Comparisons of fees and costs charged are not readily available

Information on fees charged is not easy to find on several pension providers’ websites and cannot be found on the regulator’s website, which can impede comparability, especially for individuals willing to open a personal plan to save for retirement.

Policy option: Define a framework for communicating on fees and costs

Transparency on the fees and costs charged is important to improve the trust of the public in their private pension system, and to foster competition between providers.

Legislation requires transparency on costs and fees charged for members of the supplementary pension systems. The annual benefit statement should detail all the fees and costs charged during the last year of operation. This is important for existing members of a scheme to assess the overall performance of their pension provider in terms of investment return and fees charged.

Defining a framework for disclosing fees in marketing and communication material may assist new and existing members to form an opinion on the value-for-money different providers offer, in line with Core Principle 5 of the OECD Core Principles of Private Pension Regulation (OECD, 2016[1]). For new clients or members contemplating to start saving with a pension provider, finding the information on fees and costs may not be straightforward. A template or framework to disclose fees and charges could assist individuals in assessing the potential risks, rewards and levels of service offered by different pension providers. This assessment can help people compare their options and choose the appropriate provider and investment strategy for their retirement savings, depending on their needs and personal circumstances.

6.5.2. No framework currently exists to harmonise retirement income projections

Pension providers are required to communicate at least annually with their members on several aspects of their retirement savings, including on projections of future retirement income. Assumptions are currently not harmonised and providers may therefore use different ones to compute projections, which may be difficult for members to understand and compare across providers.

Policy option: Define a framework and rules to compute retirement income projections

Retirement income projections are important communication tools to encourage people to save more or for longer. Personalised information can act as a powerful call to action for individuals to engage with their retirement savings.

It is important that retirement income projections are based on sound assumptions, and that these assumptions and computation methods are harmonised and consistent across providers. People may receive projections from several sources, for instance if they have several occupational and/or personal retirement savings accounts.

People need to understand what their total income in retirement is likely to be, and what factors may affect these projections. Ideally, an overall income projection including all sources of income from public and private sources, such as with the Danish dashboard, can be very useful for people to assess the adequacy of their expected retirement income with their projected standard of living.

If an overall projection of total retirement income is not currently feasible due to administrative complexities, different providers should still use coherent assumptions and methods when offering income projections, so that individuals can compare them and rely on them when evaluating their potential income in retirement.

Harmonised assumptions should be used in pension benefit statements, but also in pension calculators. Pension providers are required by law to send an annual benefit statement including projections of retirement income to members at least once a year. Several providers also offer pension calculators on their website, for people to assess their potential retirement income in between annual benefit statements, or for them to make changes to some of the calculation assumptions. For instance, people may use calculators to assess the effect of increasing their contribution rate, or of delaying retirement, on future retirement income.

It is important that the main assumptions used in calculators and benefit statements are consistent, so that projections can be meaningful and trusted by members. The Slovenian authorities can therefore consider developing or encouraging industry associations of providers to develop standardised methodology and

assumptions for use by providers. The authorities should also consider whether it is appropriate to issue guidelines on pension projections. The guidelines would indicate methodology, assumptions and, if relevant, required information disclosure and forms in which projected results are presented to users. The framework should also define how the default parameters are set for calculators, and what parameters can be changed by individuals.

6.6. Other regulatory changes

This section discusses challenges posed by some of the current regulations of supplementary pension schemes in Slovenia. It first covers issues related to mortality tables used to compute annuities, and then by rules set in legislation, which should rather be covered by regulation.

6.6.1. Fully generational mortality tables are not used for annuity reserving

The mortality tables used by pension companies offering annuities are prescribed by regulation (SIA65) for the reserving account for mortality improvements. However a simplified one-dimensional version using the age-shift method is currently used. This could lead to inaccuracies in the assessment of technical reserves.

Policy option: Generalise the use of fully generational mortality tables for annuity reserving

The impact of the mortality tables used for reserving is significant. SIA65 mortality tables are used by pension companies for annuity reserving, as required by regulation. These tables include mortality improvements. The tables used by insurance companies may differ, but should not lead to technical provisions lower than those that would have been computed using the SIA65 tables.

However instead of using fully generational two-dimensional mortality tables defining future projected years by age for each cohort, a simpler version is used in practice. A one-dimensional table is used, i.e. a table for a specific cohort, from which all other cohorts' mortality improvements are inferred via an age shift.

Such a simplified method no longer seems appropriate, given technological capabilities. While this simplification could have been useful to provide estimates of mortality improvements when technological advancement was limited, it now appears to be unnecessary, given the potential risk of underestimating the technical reserves needed to cover pension and annuity liabilities.

6.6.2. Legislation lacks flexibility on several detailed aspects

Legislation stipulates very detailed aspects related to the provision of retirement savings arrangements and retirement income. For instance, legislation sets that the interest rate used to compute annuities must be between 0.5% and 4.00% per annum. While having a robust framework is important for the pension system to continue developing, flexibility may be useful to account for actual and future market developments, and may not necessarily be easy to achieve if changes in legislation are required. In general, policy settings that make it possible for rules to automatically adjust to changes in market movements are preferable to fixed rules.

Policy option: Separate the legislation for supplementary pension from that of the public pension system

The Second Pension and Disability Insurance Act (ZPIZ-2) currently covers all legislation regarding public pay-as-you-go and private supplementary pensions, either occupational or personal. While having all articles of law regarding pensions in one singe act may prove useful for comprehensiveness and consistency, it implies that the act is very long, complex, and covers very different sets of provisions.

The White Paper on Pensions (MLFSAEO, 2016[11]) suggested separating the act covering supplementary pensions from that covering public pensions. Regulating supplementary pensions in a separate act would not necessarily go against increasing the complementarity between the public and supplementary components of the pension system. Rather, it could help to set a framework for all supplementary pension schemes (either mandatory or voluntary), clarify the rules applicable to this segment of the pension system, and simplify the monitoring of supplementary pension providers.

Policy option: Avoid including in legislation what can be covered by regulations

Legislation should avoid setting hard quantitative rules to the extent possible. The OECD Core Principles of Private Pension Regulation (OECD, 2016[1]) recommends using a risk-based approach rather than rules-based standards, and to allow scope for operators within the private pension market to adapt to evolution in the environment in which they operate. For instance, quantitative rules setting the interest rate which should be used for the pricing of annuities may need to be changed from time to time, to account for the level of actual long-term interest rate in financial markets. A risk-based approach setting the framework for the computation of such interest rates may be more adequate, to allow pension companies and pension funds to adapt to existing market conditions.

Legislation may be harder to modify if needed than regulations. If strict quantitative parameters are deemed more appropriate, they may be better suited to regulations, in order to allow supervisory authorities to make changes to such rules if need be, without the need to pass a new law.

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Annex 6.A. Potential effects of introducing auto-enrolment to occupational pensions

In 2020, the IER analysed the impacts of introducing auto-enrolment on Slovenia's occupational pension system. In the IER analysis, the contribution rate is assumed to be 6% of gross salary, split equally between employers and employees. For employers and employees who do not currently contribute in such proportions to an occupational pension plan, a transitional period of five years is assumed for the contribution rate to reach such level, according to the schedule presented in Annex Table 6.A.1. Employers and employees currently contributing more than the mandatory rate are assumed to continue to do so in the same proportion.

Annex Table 6.A.1. Contribution schedule during the transitional period in the IER analysis

As a percentage of gross salary

Year	Total contribution	Employer contribution	Employee contribution
1	2.0	1.0	1.0
2	3.0	1.5	1.5
3	4.0	2.0	2.0
4	5.0	2.5	2.5
5	5.0	3.0	3.0

Source: IER analysis of the second pillar pension.

The IER analysis showed that income from occupational pension plans could represent a sizeable share of pension income for all workers with a mandatory contribution rate of 6%. For workers currently covered with only employer contributions, income from annuities is expected to represent up to 17.8% and 17.1% of their public pension income for men and women respectively from currently about 10% and 9%. For workers currently covered by an occupational scheme where both employer and employee contribute, this share is projected to increase up to 20% and 18.3% for men and women respectively from currently about 16% and 14%. For those currently not covered by an occupational scheme, income from the scheme is projected to represent up to 16.8% and 16.4% of the public pension income for men and women respectively.

Income from occupational pension plans would represent a higher share of pension income for younger workers. The analysis projects the share of retirement income stemming from their occupational pension plan for men and women of different age groups. Younger age groups are expected to benefit most from automatic enrolment as they will accumulate contributions and therefore assets during longer periods of time than older workers who are closer to retirement.

The impact of automatic enrolment on coverage depends to a great extent on the observed opt-out rate, i.e. the number of workers who actively request to be excluded from the scheme. Procrastination and the power of inertia imply that many workers who may not have taken part in a voluntary retirement savings arrangements would not opt-out of an automatic enrolment scheme. The United Kingdom introduced automatic enrolment for workplace pension schemes in 2012, starting with the largest employers and gradually including smaller ones. Government data show that in 2019, 87% of eligible employees were

contributing to a workplace pension scheme, up from 55% in 2012 (Department for Work and Pensions, 2020[12]).

The estimated budgetary cost of this policy proposal depends on the observed opt-out rate, and on some of the fiscal parameters chosen. Annex Table 6.A.2 illustrates the cost for the state budget of introducing automatic enrolment for contribution rates between 2% and 6% (split equally between employer and employee), and for various opt-out rates. Assuming all employees choose to remain in the scheme and contribute (i.e. no opt-out), the budgetary cost of a mandatory contribution rate of 6% is estimated to be EUR 258.1 million. The IER analysis assumes the following:

- mandatory contributions from employers are deductible from corporate tax;
- mandatory contributions from employees are deductible from personal income tax; and
- the current tax relief of up to EUR 2 819.09 applies to any contributions made in excess of the default contribution rate.

Annex Table 6.A.2. Aggregate effect of automatic enrolment on state budget, for different default contribution and opt-out rates

In EUR million

Opt-out rate	2.0% contribution (1% + 1%)	3.0% contribution (1.5% + 1.5%)	4.0% contribution (2.0% + 2.0%)	5.0% contribution (2.5% + 2.5%)	6.0% contribution (3.0% + 3.0%)
95%	-4.3	-6.5	-8.6	-10.8	-12.9
90%	-8.6	-12.9	-17.2	-21.5	-25.8
80%	-17.3	-25.9	-34.5	-43.1	-51.6
70%	-25.9	-38.8	-51.7	-64.6	-77.4
60%	-34.5	-51.7	-69.0	-86.1	-103.2
50%	-43.2	-64.7	-86.2	-107.6	-129.0
40%	-51.8	-77.6	-103.4	-129.2	-154.8
30%	-60.4	-90.6	-120.7	-150.7	-180.6
20%	-69.1	-103.5	-137.9	-172.2	-206.5
10%	-77.7	-116.4	-155.2	-193.7	-232.3
0%	-86.4	-129.4	-172.4	-215.3	-258.1

Note: The effect of contributions in excess of the default contribution rate are not accounted for in this table, as they are assumed to remain equal to the current situation.
Source: IER analysis of the second pillar pension.

Notes

[1] The OECD has published work on the principal objectives that pension systems may aim to meet and the various risks that individuals face in saving for retirement (see OECD (2018[13]). It has also published a framework to assess the adequacy of retirement income systems, which includes a discussion about different adequacy objectives, targets, and ways to assess the adequacy of retirement incomes individuals potentially will receive (see OECD (2020[7])).

[2] *The OECD Roadmap for the Good Design of Defined Contribution Pension Plans* is currently under review and was recently the subject of public consultation. Notwithstanding, this important message will be preserved in the revised version of the roadmap.

[3] This is discussed in detail in Chapter 3 of the *OECD Pensions Outlook 2020* (OECD, 2020[7]).

[4] The mandatory schemes for civil servants and for workers in arduous and hazardous occupations were not included in this analysis and are assumed to continue existing under their current rules.

[5] The *OECD Roadmap for the Good Design of Defined Contribution Pension Plans* is currently under review and was recently the subject of public consultation. Notwithstanding, this important message will be preserved in the revised version of the roadmap. The revised roadmap will make reference to low income earners being more responsive to matching contributions and fixed nominal subsidies.

[6] https://www.pensionsauthority.ie/en/lifecycle/useful-resources/investment_risk_profiler/.

[7] Chapter 4 of the *OECD Pensions Outlook 2020* describes how a stochastic model can be used to assess investment strategies and discusses the key parameters of the stochastic model that need to be considered. It also provides guidance to assist countries in using the framework (OECD, 2020[7]).

[8] See *The OECD Roadmap for the Good Design of Defined Contribution Pension Plans* (OECD, 2012[2]).

7 Pension communication

This chapter discusses possible ways to improve communication about pensions. Looking at past communication efforts in Slovenia as well as good practices from other OECD countries, it highlights some of the challenges and possible solutions to increase the understanding of the pension system and garner support for reform.

Communication about pensions is a key policy issue in Slovenia. To date, communication to raise awareness about pensions and reforms has generally failed to raise the public's level of financial knowledge or gain support for much-needed reforms. However, pension reform is more important than ever. As outlined in the previous chapters, there are many actions the Slovenian authorities can take to improve the design of pension systems. However, achieving reform depends on communicating a strong case for that reform, so that key stakeholders support it. This calls for carefully planned communication campaigns with clear objectives that make use of innovative communication techniques and tools, as well as co-operation with key stakeholders.

While communication about reforms is important, it is also important to remember that communication should be an ongoing priority. Throughout life, individuals need to make many decisions that will affect their financial security in retirement. Decisions such as whether or not to take a job, divorce one's partner, participate in an offered retirement savings arrangement – and if so, how much to save or contribute, which provider to choose, how to invest their savings, and how to allocate the assets accumulated to obtain a stream of income when retiring (OECD, 2018[1]). However, most people lack knowledge on the pension system and on even the most basic financial concepts such as interest rates or inflation (together referred to here as 'financial knowledge') to make those decisions in their best interest. Moreover, they may not have received the appropriate information from policy makers, regulators, supervisors, providers, employers, social partners or the media to assist them in making those decisions in their best interest. For this reason, ensuring ongoing communication with people about their potential retirement outcomes and choices should be an ongoing exercise that draws on key relationships, and communication tools.

This chapter outlines ways the Slovenian authorities can better communicate with key stakeholders and the public on the functioning of the pension system in general and the need for reform. The first section summarises the findings from an independent review commissioned by the OECD to look into how information about retirement and pensions has been produced and communicated over the years in Slovenia.[1] The second section discusses the main challenges regarding pension communication. Based on the experiences of different OECD countries, it also provides examples of the initiatives, tools, and techniques that different stakeholders can use to communicate effectively with the public. The final section concludes with policy messages that draw on these examples applied to the Slovenian context.

7.1. Summary of findings from the review of the Slovenian communication framework

This section summarises the findings from an independent review commissioned by the OECD to look into how information about retirement and pensions has been produced and communicated over the years in Slovenia.[2] The review was carried out in 2020-21 and assessed the strengths and weaknesses of past communication efforts, with a view to identify potential improvements.[3] This review was based on focused interviews with high-profile experts in the country as well as desk research on the topic.

7.1.1. Government communication on pension policies lacks a vision, strategy and resources

Pension communication by the government seems, to date, not to have been supported by a clear strategy. As such, much of the communication has been sporadic and responsive. The Slovenian authorities also have not had sufficient in-house communication expertise to appropriately manage communication campaigns.

The pension communication effort failed in 2011 when the government attempted unsuccessfully to pass reforms proposed in the 2009 white paper. The reforms failed due to a number of reasons. The proposed pension reforms were not seen as a priority compared to other changes that were underway at the same

time. The reforms got less political backing than expected and ultimately became the subject of a public referendum. The government had too little time to design a communication strategy on measures that raised discontent. It eventually hired a private communication agency, who crafted an advertising campaign that was ill-conceived, and whose content was viewed to be offensive. In addition to that campaign, there were press releases, news conferences, interviews, two printed brochures, two websites (but none dedicated solely to the pension campaign), a generic email address for questions, and a free telephone number. Notwithstanding, the lack of a clear communication strategy from the outset contributed to the public not voting for the law and the reform was rejected.

The lack of a strategy for pension reforms in Slovenia has been exacerbated by a paucity of resources among the civil service. For instance, during the pension reforms in 2011, the communication strategy was left to a single communication officer in the Ministry of Labour, Family, and Social Affairs. When a campaign to support the referendum became essential, there were not enough communication resources in the government, necessitating help from an external communication agency.

7.1.2. There are some positive examples of communication…

Some examples of active stakeholder engagement include two public education campaigns by the Slovenian Government, the communication efforts by the Pension and Disability Insurance Institute of Slovenia (ZPIZ) and some efforts by private providers such as Modra zavarovalnia.

The Slovenian Government runs an awareness campaign designed to address the 15% gender pension gap. The “My Work. My Pension” campaign is run jointly by the Ministry of Labour, Family, Social Affairs and Equal Opportunities and ZPIZ. The campaign’s communication focuses on the general public and women in four age groups. Its key message is that people should think about the future. The campaign has a website featuring an online quiz aimed at women, an e-assistant to help with questions, and YouTube videos. The campaign also involves promotional videos, Facebook posts, events, a pension calculator, and press releases.

The second public education campaign is “ASI – Active Ageing of Workforce”, which is concerned with the problem of population ageing. It aims to combat the main challenges and low labour force participation of older people, including discrimination.

ZPIZ has a modern website with a simple system to navigate the content. The language is understandable, well laid out, and the website provides a pension calculator for people to find out their approximate public pension at retirement. The calculator requires information on age, a prospective retirement date and duration of periods resulting in pension build-up, such as employment or purchased periods. ZPIZ also has a public relations office that manages media engagements.

Private providers engage actively with members. Modra zavarovalnica, the pension provider for employees of the public sector, similarly has a website but has much fewer unique visitors per month than the ZPIZ site. Modra’s website has a calculator for supplementary pension entitlement as well as a calculator that provides information of potential tax savings due to contributions to the supplementary pension scheme. Other private providers also operate professional websites and communicate with clients, but they tend not to run active marketing campaigns, preferring to communicate via businesses to deliver workplace pensions and disseminate information to employees.

7.1.3. …but a lack of sufficient communication in some key areas

The independent review highlighted some areas where a lack of stakeholder communication continues to lead to communication gaps and missed opportunities for communication about pensions. These include engagement with the media, young people, and non-standard workers.

The independent review found that the media does report on pension issues. The press writes many articles about pensions each year. It tends to discuss the big issues around pensions, including the need for systemic reforms and the dependence of further economic growth on a more efficient use of labour. The media also often cites recommendations and reports from the European Commission and the OECD that warn of structural problems in the pension system. The press was particularly active in reporting about pension reforms throughout the 2011 pension reform campaign, criticising a number of key areas:

- Mismatches between wage growth and pension reforms;
- Workers' inabilities to work until 65 in labour-intensive industries;
- Perceived privatisation of the pension system;
- Risk to younger people's employment if older workers are in the workforce for longer;
- Equal treatment of men and women.

Leveraging the press is a key way for policy makers to guide the public debate on pensions. This can be via both the traditional media and through the digital media, which is becoming more prominent as a source of information. However, there is little by way of communication between policy makers and key figures in the press.

Young people are a key group that is not being reached. This is particularly worrying since the review of pension communication found near consensus among interviewees that young people have been losing trust in the system and do not expect to be able to live off their pensions when they retire.[4] This is particularly the case for the young workers in the shadow economy and the young sole self-employed who work for one client, who are defined by the Slovenian Statistical Office (SORS) as precarious workers. Policy makers in Slovenia may not be doing enough to combat this area of concern. Pension communication is geared more toward traditional media and less in media with which younger people tend to engage, like social media. The language of pension communication also tends to be too complicated for the younger population and does not grab their attention.

Many self-employed workers and owners and employees of small businesses save little for their voluntary pensions and little is done to attract them to saving. Employees of the shadow economy are also excluded from the pension system. The review links this with their low levels of income and their low trust in the political system in general, and in the pension system in particular. Again, little is being done to engage such individuals and encourage them to prepare actively for retirement.

Finally, it is important to note that a criticism of previous reform processes highlighted by the review of pension communication is that the government did not engage with or take into account the views of key stakeholders. This has accelerated the demise of many reform efforts.

7.1.4. The public has low levels of trust in the Slovenian Government

Public opinion polls and surveys reveal low levels of trust in government in Slovenia. A poll conducted by Valicon, called the "Slovene mirror", reports trust in institutions and occupations in Slovenia. It showed that the public distrusts politicians, government ministers, and public officials more than any other occupation. These trends have persisted over many years. Furthermore, according to a recent Eurobarometer survey by the European Parliament, most Slovenes perceive that the country is going in the wrong direction and are among the most pessimistic European country in this regard (European Parliament, 2020[2]).

7.1.5. Recommendations from the review of pension communication

Based on the reform attempts from 2009-12, one could learn the following lessons:

- When undertaking reforms, the government should carefully consider whether pension reforms should be packaged with other reforms or undertaken individually.

- Early communication on pension reform is essential to raise public awareness, and this should be recognised by senior government officials.
- The government and civil service should dedicate the time and resources to set up successful communication campaigns, and should undertake training to prepare them for this role.
- There is a need for a proper organisation, sufficient staff, and a dedicated budget for a public information and education campaign.
- The process of building consensus on the case for pension reform should start early. This would include engagement across the political spectrum and with social partners.

Six major areas of policy change for pension communication follow through from the analysis:

- Pension communication must be seen as a key element of pension policy. It should account for the knowledge, attitudes, and behaviours of the population and should reflect a long-term process.
- Pension communication must have a vision and strategy.
- Pension communication must start with listening and should be evidence based. Financial literacy programs, national pension communication campaigns, and initiatives targeted a specific groups should be based on comprehensive research on pension communication.
- Pension communication should reflect different possible pathways (government directly to citizens, government to citizens via businesses, businesses to customers, etc.).
- Pension communication must become continuous. Building trust in authorities and developing financial literacy takes time and requires a long-term initiative that communicates with people at different stages of life.
- Pension communication must get a mandate, organisation and resources. A centralised communication entity employing communication professionals should be established. That entity should build a portal for people to view their contributions and potential benefits. That entity should also develop and co-ordinate national financial public education campaigns and other communication initiatives.

7.2. Applying the international experience of pension communication to Slovenian stakeholders

This section outlines the needs of different key stakeholders that the analysis from past communication experiences in Slovenia and international experiences suggest. As highlighted in Section 7.1, the Slovenian authorities face a number of ongoing communication challenges. To date, they have lacked the skills, resources, and strategies to run effective pension communication campaigns and have therefore failed to gain public support for pension reforms. Furthermore, not enough is being done to raise awareness about the pension system, people's future retirement incomes, and the consequences of different choices.

All the stakeholders in the pension system play a role in communication, from policy makers, administrations, regulators, supervisors, and international organisations like the OECD, to providers of retirement savings plans, employers and other social partners, the media, as well as academics and experts. Different stakeholders have different roles. This section explores the different communication options for some of the key stakeholders in Slovenia, based on international experience.

7.2.1. Stakeholders and their role in communication

This section explores the communication role of key stakeholders. These are policy makers, pension providers, employers and social partners, the media, and members of the public.

- Policy makers, including administrations as well as regulators and supervisors of private pension funds, need to ensure that individuals are informed about pension systems and reforms. They also need to ensure that people receive the right information about their prospective retirement incomes, and that those people will take action in response to the information they receive. As such, policy makers can have a role in communicating directly with the public, which can be through initiatives such as national pension communication campaigns or by making available tools such as pension statements, calculators, and dashboards. Policy makers also have a role in regulating the communication and tools that pension providers use, which can overlap with those that policy makers can make available.
- Like policy makers, private pension providers' needs are to inform members of their pension rights and to encourage them to engage further with their pensions. They may sometimes face conflicts of interest as their interest may not coincide with those of members, especially when members can change providers. Regulators and supervisors need to make sure that potential conflicts of interest do come out.
- Employers and social partners have a role in providing employees with direct financial advice that is tailored to members' needs, and they can be involved in decisions to offer supplementary pensions. There is therefore scope for greater collaboration between social partners and policy makers to secure better retirement outcomes for individuals.
- The media is a key stakeholder with a need to disseminate important information to the public, and policy makers should aim to better influence the public communication on retirement through better engagement with the media.
- Members of the public have specific communication needs that policy makers and pension providers should bear in mind. Namely, they are generally disengaged from retirement decisions and special care needs to be taken to reach them and get them to engage with their pensions. Furthermore, how information is presented can have a bearing on whether people understand messages and take action in response to them. It is also important to bear in mind the key groups who have specific needs when planning for retirement, and to tailor communications to them.

Policy makers

Policy makers are the main stakeholder when it comes to communicating on pension policies and reforms. They have a role in ensuring that information on existing pension policies is available to the public, that the information provided is clear and understandable, and that individuals take action in response to the information. This is an important issue in Slovenia, since the research shows that very few people understand the pension system.[5] Communication with people on their potential retirement outcomes, as well as how they can boost future retirement incomes is increasingly important to allow people to prepare for their retirement. Policy makers also play a role in disseminating information on potential pension reforms. This is similarly a key issue in Slovenia, where recent attempts at reform have failed because the communication was haphazard and poorly targeted, as discussed in Section 7.1.

This section outlines the initiatives and tools available to policy makers to communicate on pension policies and reforms, drawing on experiences of other OECD countries. National pension campaigns encompass the main initiatives policy makers can adopt to disseminate information about pension policies and reforms. Key tools include those that provide pension projections. The term 'pension projections' encompasses a range of means to help people understand the most probable value of their future retirement income or their future accumulated savings. Pension projections can be part of pension benefit statements, pension calculators, dashboards, etc. This section will explore some these tools and outline examples of their use from OECD countries.

National pension campaigns

National pension communication campaigns (NPCCs) are useful initiatives to explain how the pension system works and any reforms that may be underway. Communication campaigns should be part of an overall national strategy for financial education aimed at improving the financial awareness and literacy of the population, as recommended in the OECD/INFE High-level Principles on National Strategy for Financial Education endorsed by G20 leaders (OECD, 2012[3]) and in the OECD Recommendation of the Council on Financial Literacy (OECD, 2020[4]). However, in addition to NPCCs that are used on an ongoing basis, major events, such as pension reforms and crises, call for specific NPCCs to explain proposed policies clearly. Policy makers face a major public policy challenge to ensure that people are adequately informed about changes in the pension system, the impact of those changes on their pension benefits, and the options they face to improve their financial well-being in retirement. The period around a reform is also an opportune time to improve individuals' knowledge about a pension system and influence their individual behaviour, as it often coincides with heighted public demand for pension information.

OECD research has shown that national pension communication campaigns are effective when designed according to clearly set and measurable objectives (OECD, 2014[5]). These objectives may be defined by governments, pension supervisory authorities or other public entities, possibly in consultation with stakeholders. Objectives may be to build consensus around the need for reform, to raise public awareness about pensions, to strengthen public trust in pension institutions, to improve people's understanding and knowledge about pensions or to influence individual behaviours with respect to pensions. They can be linked to systemic pension reforms (e.g. increasing retirement ages or the introduction of automatic enrolment) or have one-off (e.g. gaining public support for parametric changes) or ongoing (e.g. improving knowledge about the pension system or promoting personal savings) objectives. They may also cover the pension system as a whole, or only a specific component (e.g. the voluntary funded system).

Campaigns are frequently divided into stages, according to the objectives, the date the reform is implemented, and when the new system begins to pay benefits, among others. For example, in the case of Estonia and Sweden, the purpose of a first NPCC was to raise awareness of the reform in advance of its implementation and to build trust in the new system. Closer to the implementation date, a follow-up NPCC was used to remind those affected by the reform about their new responsibilities and to explain their choices, for example in relation to the provider and the investment choice, where relevant (OECD, 2014[5]).

There is a range of potential distribution channels for use in NPCCs, and those potential channels are extensive and evolving.

- Traditional media: Including television, radio, newspapers / journals (independent articles, placed articles and advertorials), and press releases.
- The Internet: Public authorities may devote a section of their own website or have a dedicated website to communicate information about the pensions system. In some cases this will be the result of collaboration between public authorities and private providers. The site communicates information and might also encourage member engagement through the provision of a pension calculator, among other tools. Information may also be disseminated through banner advertisements, pop-ups, video-clips and other web-based applications placed on other websites, and through social media such as Twitter and Facebook, for example.
- Printed material: This includes leaflets, guides, and wall posters, for example, which may be disseminated in a range of ways, including as billboard advertising, on public transport or in public places: Libraries and citizens' advice bureaux, among others. Box 7.1 provides examples of campaigns that relied on printed materials in Finland and Norway.
- Mobile phones: A more recent addition and considered useful during holiday periods and also to reach younger people.

- Education establishments: University/school events and courses run within a curriculum are a growing trend. These may be provided within a national financial literacy strategy.
- Outreach events: including workplace events, public seminars, workshops and roadshows (OECD, 2014[5]). International examples of outreach programmes are presented in Box 7.2.

Box 7.1. International examples of printed material explaining pension reforms and their outcomes

Finland

Before the 2017 pension reform, the Finnish Centre for Pensions produced an information booklet on the reform. The booklet briefly presented the main components of the reform (changes in accrual rates, increasing retirement age and link to life expectancy, the introduction of the partial pension, and of an early retirement scheme in case of long-term arduous employment). It also explained why these reforms are needed, arguing that it is supposed to secure the ability to pay pensions also in the future with increasing life expectancy. Third, the booklet also clarified the objective of the reform: extending working lives and improving intergenerational fairness. The booklet was tested via a survey experiment ahead of the campaign launch (Kangas et al., 2021[6]). The experiment showed people who received the booklet had the *feeling* they had a better understanding of the reform, and perceived the reform as fairer than people who had not received the booklet. Yet people who read the booklet did not perform better on the knowledge questions about the reform. This suggests that most people had already picked up information on the main components of the reform through other channels, such as media reports. The feeling of knowledge about the reform was lowest among people who said they had received the booklet, but had not read it – although they performed equally well on the knowledge questions as others. This indicates the existence of a group of people who are hard to reach through information campaigns.

Norway

At the end of 2010, the Norwegian Labour and Welfare Service sent out a brochure on the pension reform taking effect on 1 January 2011 to all people who would become entitled to a pension after that date. The brochure explained the most important aspects of the reform: the introduction of flexible retirement with pension benefits being adjusted to life expectancy and when one starts drawing a pension. It also presented the wider pension system and gave a brief overview of both the old and the new regulations. Further, the brochure explained where to find more information and how to reach out with questions, invited people to access the online pension dashboard to check their pension build-up and provided information on how to do so. In 2012, a survey experiment was set up to measure the impact of the brochure in which a random selection of people again received the same brochure they had already received two years earlier. As such, the experiment measured the impact of receiving a reminder. People who received the brochure in the experiment (i.e. received the brochure for the second time) had better knowledge about the reform, although they did not change their retirement expectations (Finseraas and Jakobsson, 2014[7]). They were also more likely to think that the reform made the pension system easier to understand, which was one of the main objectives of the reform (Finseraas and Jakobsson, 2014[8]). A follow-up study, however, showed that the effect of the brochure on knowledge about and ease of understanding of the pension system had disappeared four months later (Finseraas, Jakobsson and Svensson, 2015[9]).

Box 7.2. International examples of outreach programmes

Outreach communications exercises are distinguished from passive channels, such as poster, radio and television, because they engage directly with the public and facilitate a two-way dialogue. An NPCC carried out in Singapore, for example, included 90 outreach events (road shows, public talks, and "meet the people" sessions) staffed by representatives trained to answer member queries. Similarly, an Estonian NPCC included a call centre, investment fairs, and road shows. The 2007-8 NPCC in Hungary launched an internet debate about the reform (using civic platforms), which aimed to ensure communications exercises in order to avoid misunderstandings. In Mexico the NPCC organiser's agents visited employers, universities, trade unions, and associations; while at "fairs" the pension authorities, AFORES (private pension providers) and other pension-related institutions gave information to employees on the pension system (OECD, 2014[5]).

National pension campaigns could be organised by the responsible administration, or by an independent body monitoring the pension system. For instance, in both Finland (Finnish Centre for Pensions) and France (*Conseil d'Orientation des Retraites*), the independent body that is responsible for monitoring pension developments, including the financial sustainability of the pension system, is also tasked with informing the wider public about the pension system. Assigning the responsibility to inform the public to these independent bodies may help generate more trust in the information communicated, particularly in a context where debates on pension reforms are highly politicised.

Communication campaigns have a broad reach by nature but governments may also target them at specific audiences. This could be the case for pension reforms affecting only a portion of the population, or could be a design feature of the communication campaign to address population sub-groups differently in order to achieve better outcomes. In this context, it is relevant to bear in mind that some groups are likely to face specific challenges in planning for retirement, so they may need special attention in campaigns to build their financial literacy skills. These include young people, women, pre-retirees, and the self-employed (as discussed in the section on Key groups typically experiencing information gaps).

Information should be disseminated in a co-ordinated fashion when several stakeholders are involved in a campaign, and phased campaigns may be useful to avoid the confusion created by multiple messages. Focused campaigns are more likely to achieve their goals. When private providers or employers are involved in a national campaign, public authorities need to co-ordinate the dissemination of information to avoid creating confusion. In this context, it may also be relevant to delay private pension providers' sales campaigns while a pension communication campaign is in progress, to ensure that marketing campaigns of private operators do not overshadow government information (Atkinson et al., 2012[10]).

A robust evaluation process should form part of the communication campaign to analyse the effectiveness (impact) of the campaign and its efficiency (cost-benefit analysis). The evaluation process should include pre-campaign research and regular monitoring of the campaign via both quantitative and qualitative tools.

Pension statements

Pension statements are summary documents of pension savings or entitlements, designed to inform people of their entitlements and potentially how to improve their financial situation in retirement. Pension statements provide basic accounting information such as an individual's current pension balance, contributions paid, fees deducted, asset allocation, along with general information about the pension plan. Some may also provide projections of what people will receive at retirement based on current assumptions. Box 7.3 presents an overview of pension statements and their content in several OECD countries. Providing those projections is aimed at improving pension planning, which can entail an adjustment of

retirement expectations or a change in people's behaviours, such as increasing voluntary savings or labour market participation.

The role of policy makers in pension statements can be either to send out the pension statement itself, or to influence or regulate what providers include in the pension statements they send, such as the methodologies or assumptions used for pension projections. When policy makers send out pension statements, they should ideally aim to combine all pension information relevant to the individual, incorporating information from all pension sources (OECD, 2014[5]). Examples of countries in which the government directly sends pensions statements to individuals are outlined in Box 7.3.

Box 7.3. International examples of pension statements

Mexico

In Mexico, the pension supervisor, CONSAR, sends the pension statement. The statement includes three examples of amounts that would have to be contributed on a monthly basis until retirement to meet different monthly retirement income levels. The statement includes encouraging text such as "You can improve your future today" and "The solution is in your hands" to entice people to take action. It also includes a simple form for people to make additional voluntary savings and presents methods for additional savings such as using a dedicated website and at some convenience stores.

Sweden

Sweden sends out a yearly pension statement known as the 'Orange Envelope' to all insured persons and pensioners, although its format has changed over the years. Currently, insured persons receive a two-page statement with the first page giving the value of the NDC pension and the personal pension (DC) before last year, their evolution over the last year and their current value. It also provides information on the performance and administrative fees of a person's personal pension funds and of the average pension fund in Sweden. The second page gives information on pension contributions made over the last year. In a previous version, the Orange Envelope also included benefit projections at different retirement ages, but this is now replaced by an online dashboard. According to a survey conducted by the Swedish Pensions Agency, four out of five recipients opened the Orange Envelope and considered the information provided as sufficient; three out of five said that the contents of pension statements were easy to understand (Kritzer and Smith, 2016[11]).

Germany

All people aged 27+ with at least five years of contributions, a requirement to qualify for a pension, receive a yearly pension statement in Germany. On the first page, the statement gives the date from which one can start drawing a pension, as well as three monthly pension amounts: the amount of the disability pension one would receive if one were to become fully incapacitated at the moment of receiving the statement, the amount of old-age pension one would receive if not making any more contributions, and the old-age pension one would receive if one continues to work as before. Further, the statement also shows the amount if pension benefits were to be uprated by 1% and by 2% per year, and includes a note on inflation. The second page gives an overview of the points-based pension system and notes that retiring earlier or later impacts the pension benefit. Furthermore, it shows the amount of employee and employer contributions that have been made and the number of points the individual accumulated. The person is warned that benefits can change depending on demographic developments, and that inflation would result in lower purchasing power for the same benefit level.

Canada

The Canada Pension Plan benefit statement is available online or upon request. A two-page document, the first page gives an overview of contributions paid and pensionable earnings for each year, as well as a series of estimated monthly pension benefits. For old-age pensions, it presents the amount of pension accrued until now, as well as the estimated pension if one were to work until age 65, 60 and 70, respectively. It also contains information on estimated disability and survivor's benefits in case of incapacity or death, respectively. The second page contains instructions on what to do in case any information on the first page is missing or incorrect.

The United States

The Social Security Statement is available for everyone to view online, and is sent every year by mail to workers over 60 who do not have an account on My Social Security, three months before each birthday. There are three types of statements: one for 'young workers', one for 'mid-career workers' and one for 'workers near retirement age'. Young workers are workers who have not collected the 40 credits necessary to open an entitlement to an old-age pension yet. They receive a note saying 40 credits are necessary for an old-age pension, and the amount of credits they have collected so far. Mid-career workers and workers nearing the retirement age receive pension estimates if they continue working at the current earnings rate until age 67, 62 and 70, respectively. The statement shows expected disability and survivor benefits. The statement also gives an overview of how the estimates are made, of contribution records by year, contact information of the Social Security Administration in case any information is missing or incorrect, and some general information on Social Security. Finally, for young workers, the statement includes a supplement detailing why they should already start thinking about retirement, and why Social Security is important to them. It stresses that they are already protected against disability and death, and repeats the promise of an old-age pension under the header 'Promise of security': 'It is true that Social Security faces financial problems, and action is needed soon to make sure the system can continue to pay approximately the same level of benefits. Social Security has been a contract between generations since 1935, and America has always kept the promise of security for workers and their families.' For workers nearing retirement, the statement contains a supplement with more information on how early and delayed retirement impact benefit levels, some data on life expectancy at age 65, and information on combining work and pensions.

While directly sending pension statements to people is a good way for policy makers to centralise pension communication and control the messaging, in many cases policy makers tend to be more involved in setting standards for the statements sent by pension providers. This is the case in Slovenia, where the assumptions used to compute pension projections must be set following rules defined by the relevant government agencies. Notwithstanding, the government does not provide guidance regarding the design and content of those pension statements. Indeed, such matters can be crucial to prompting engagement with pensions. As discussed in Section 7.2.2, how information is presented can have real consequences for whether individuals take action in response to that information.

Notwithstanding whether policy makers or pension providers send the pension statement, it is important to follow key principles. To be most impactful, the statement should present a clear and simple summary of key facts on the first page. Policy makers should avoid information provided purely for the purpose of regulatory "accountability" and "transparency", as this does not readily translate into member empowerment. The most important figure to highlight is projected monthly income, although other information such as projected fund value at retirement can also be presented (OECD, 2014[5]). The statement should also include information about how individuals can improve their retirement income situation, in a way that is easy to understand and implement.

Still, there is a lack of consistency across the OECD when it comes to pension statements, and there have been recent efforts to better influence the design of pension benefit statements. For example, the International Organisation of Pension Supervisors (IOPS) has developed draft Good Practices for designing, presenting and supervising pension projections, which were recently the subject of a public consultation process.[6] Similarly, the European Insurance and Occupational Pensions Authority (EIOPA) has created two model Pension Benefit Statements to provide practical guidance on how to implement the annual information document that IORPs are required to send to their members following the implementation of the IORP II Directive. The model statements intend to show how to provide clear information to members on their pension pot to help them to make more informed decision about their retirement savings.

Policy makers can also require that pension statements follow guidelines that are more general. OECD research has shown that organisers of pension statements should set clear and measurable objectives, and the statement should provide clear and simple information about key facts. Moreover, the pension statement should be more than a passive document that delivers information; it should aim to engage people and encourage them to take active steps to improve retirement income adequacy by, for example, postponing retirement or increasing contributions. Whether the pension statement should provide pension projections is an open issue as policy makers need to evaluate the trade-off between simplicity and encouraging members to take active steps to improve their retirement income (OECD, 2014[5]).

Calculators

Personal information available online at all times are a good alternative to pension statements, although they serve a different target audience: those who are seeking out information on their pensions. Unsolicited information in the form of statements can prompt people to become more informed and act, but online information available on demand allows people to explore their retirement situation at their convenience (OECD, 2016[12]).

Calculators are one such online tool that provides pension projections, which can be used to inform people about their pensions, help manage their expectations, and influence their behaviour with regard to retirement planning. Like for pension statements, calculators are mostly provided by pension schemes or funds, but can also be offered by supervisors, government institutions, industry bodies, or non-government sites (Stańko, 2019[13]). Projections provided by calculators should aim to educate people about realistic values of their future retirement income and on the effects that certain employment and retirement decisions (e.g. the retirement age, contribution rate, length of saving time, level of risk) can have. Input variables are often pre-filled (as default variables) and can be changed by users. Examples of countries that have public pension calculators include Chile, France, Iceland, Lithuania, Mexico, Poland, the Netherlands, Sweden and Turkey.[7]

The calculators available in OECD countries are most commonly deterministic, individualised, and based on a single scenario. In many OECD countries, such as in Mexico, users of the calculators can change several assumptions, such as the discount rate, retirement age, fees, and so on. Calculators typically also provide estimates of monthly pensions and replacement rates (as a percentage of a worker's current salary), as well as accumulated balances over time and generated returns. Some make it possible for users to investigate whether their current pattern of pension build-up and retirement saving will deliver on their retirement goals. If not, the calculator can provide information on extra monthly contributions they might need to reach a particular level of pension.

Few jurisdictions show different scenarios, while a stochastic approach is very rare. Such projections are used in the Chilean pension simulator created by the supervisor. In Chile, the stochastic simulator was developed by the Superintendence of Pensions (SP) and is available on the website of the Chilean pension authority (Stańko, 2019[13]). The Pension Simulator provides a customised projection of expected future pension (amount in real values). It incorporates a risk dimension through a stochastic process for pension

fund returns and the annuity discount rate. The scenarios shown correspond to the percentile 5, mean and percentile 95 of a series of 2000 simulated draws of the pension funds returns and the annuity discount rate. It also allows members to change different parameters such as age of retirement, future voluntary savings, contribution density, taxable income, investment path, etc. to see the effect of such behavioural changes on their pensions. The returns data horizon used for the simulations begins in 1996 (the multi fund system started in 2002). The assumption is that the retirement product is a life annuity and its cost is incorporated in the annuity rate. The Pension Simulator is an interactive tool, so members can see the effects of applying different values. The user is informed about the expected pension at retirement and the risk associated with this forecast, including the probability of reaching their desired pension as well as the measures the user can take to improve the forecast such as postponing retirement, increasing voluntary savings, increasing consistency of contributions.

Most jurisdictions show pension projections from a single pillar at a time, but countries are increasingly providing combined pension projections. Countries such as Australia, Canada, Chile, Colombia, Denmark, Ireland, the Netherlands and Sweden make it possible to see projections of more than one retirement income pillar, so users can get a more complete idea of their potential retirement income. One of the most comprehensive projections are available on the Netherlands' My Pension Overview (MPO), which collects pension projections on occupational benefits from different pension providers and adds the first pillar state (unfunded) pension to show the consolidated overview of both pillars.

Developing a pension calculator can be challenging in a fragmented pension landscape as information has to be provided by several entities and rules about accumulated pension entitlements may differ between schemes. The calculator on the Italian My Future Pension was launched in 2015 and covered all private sector workers by 2018, after which also public sector schemes began to be included. The French calculator M@rel (Ma Retraite en Ligne) was launched in 2017 and covered 97% of the insured by the end of 2019, with data from smaller pension funds still to be added.

The international experience can provide lessons for the Slovenian context. While in Slovenia, ZPIZ provides a pension calculator on its website, that calculator only makes it possible for people to approximate their public pension at the time of retirement. There does not appear to be a tool available to calculate potential benefits from supplementary plans. Furthermore, as discussed in Section 7.1.2 private providers do not tend to make these tools available either, leaving individuals without this important retirement planning and provider comparison tool. As such, there appears to be a communication gap that the Slovenians authorities can aim to fill. The launch of a pension calculator could potentially coincide with a national pension communication campaign designed around any upcoming pension reform packages.

Dashboards

A pensions dashboard provides a one-stop shop for individuals to see comprehensive details of their pensions. Depending on how the dashboard is designed, individuals may be able to see their public and private pension entitlements, compare different private schemes, enter personal information (such as a change of address) just once for transmission to multiple providers, receive regulatory and marketing communications, compare different pay-out options, and consolidate small pots. It may also facilitate obtaining comprehensive income projections from different sources.

A few OECD jurisdictions already provide comprehensive dashboards set up by the regulator or supervisor:

- The Australian Tax Office portal provides up-to-date valuations of all an individual's private DC pension accounts (superannuation) and of any unclaimed money in "lost" accounts. Individuals can trigger the process of consolidating multiple accounts simply and easily through the portal.
- In the Netherlands, the government set up the My Pension Overview website, https://www.mijnpensioenoverzicht.nl/, in 2011 to increase engagement and awareness of pension entitlements. It calculates projections of potential monthly income from both state and occupational

pension rights on both a gross and net of tax basis. The projections consolidate potential income from occupational pensions from different providers and as well as projections of the state pension and presents one monthly potential retirement income figure. The dashboard does not yet provide information on personal pension plans, although the government is doing work to examine the feasibility of doing so.

- The Swedish minpension site, https://www.minpension.se/, was established in 2004 and has evolved to provide real-time information about NDC and personal pensions. It automatically collects pension information from a number of different pension companies. It shows the user the current value of pension entitlements, a projection of potential retirement income and a simulator to model changes in the projection at different retirement ages. Around half of eligible users are registered with the site and data suggests that people are most likely to use the site as they get close to retirement age. The dashboard is also available through a mobile application. Minpension also has Facebook, Twitter, and Instagram accounts, which it uses to draw attention to key pension issues and to entice followers to engage with the dashboard. The dashboard site also has a blog and a podcast (minPensionsPodden) where experts talk about issues affecting people's pensions.
- Denmark has a pension dashboard called PensionsInfo, https://www.pensionsinfo.dk/. Like the Swedish dashboard, it shows individuals' potential income from public and private sources. The dashboard has a tool that allows users to modify parameters such as their retirement age and monthly salary. Based on the inputs, it then provides an estimate of retirement incomes from different sources. Users are able to click through the information to get more and detail on the projections.
- The Belgian My Pension dashboard presents an overview of the individual's career so far, with a detailed overview of periods of employment as well as periods of non-employment rendering pension benefits. It also presents the earliest possible date when the individual can retire with the monthly public pension benefit one is expected to receive if one retires at that moment, as well as the retirement date and the expected monthly pension benefit if one were to retire at the statutory retirement age. The platform also allows for a more detailed view of retirement ages and pension benefits. Further, it includes information on accumulated occupational pension entitlements for employees and the self-employed, as well as on how much one can still voluntarily contribute to their occupational pension.

Designing and launching a dashboard takes time and requires public authorities to collect comprehensive data from a range of sources. When Italy launched My Future Pension in 2015, 19 million people could access the tool consisting of a dashboard and calculator, particularly young people as they have had shorter careers. To launch the tool, 5.6 million of these people received an e-mail to invite them to access their dashboard upon and another 4 million people who were not previously registered on the Italian Social Security Institute's website received a pension statement on paper with an invitation to register and access the dashboard. Over the course of three years, coverage of the dashboard was systematically expanded by adding information from different pension funds until virtually all employees and self-employed could assess the tool. Over this period, more than 3 million people logged into the website to check their pension, on average making 4.5 simulations per person. Since 2018, the dashboard has also been expanding to include civil servants, but the fragmented nature of civil servants' social security funds makes this a slow process, particularly for more mobile workers (Boeri, Cozzolino and Di Porto, 2019[14]).

Setting up a pensions dashboard would be particularly useful in the Slovenian context, as many individuals find the system complex, inaccessible, and do not tend to understand or appreciate how supplementary pensions fit in with their broader retirement income entitlements. Furthermore, many people have multiple accounts. A dashboard could be a good way to alert people to those accounts and prompt them to consolidate them. However, as outlined in Chapter 5, the Slovenian supervisor does not collect comprehensive data from providers that would allow them to consolidate individuals' entitlements. As such, the short-term goal for the Slovenian authorities may need to be data collection and consolidation, with the view to providing a dashboard in the longer term, once the data is available and a pension calculator has already been trialed.

Private pension providers

Private pension providers are responsible for disseminating information to their members, and as discussed, their roles can overlap with those of policy makers. In the experience of OECD countries, pension providers can provide pension statements and make calculators available, as can public authorities.

Pension providers in Slovenia are required to send their members annual statements, but it is not clear whether those statements are effective in encouraging individuals to take action to improve their retirement situation where relevant. The statements are required to provide information on accumulated assets, any guarantees, and retirement income projections. However, there is no guidance from the authorities regarding how best to present such information. It would therefore be worthwhile for providers to have access to guidance such as that discussed in the section on Pension statements.

In Slovenia, most pension providers seem to do little in terms of communicating with members of the public and making available tools like calculators. An example of one which does have a pension calculator on its website is Modra zavarovalnica.[8] The calculator makes it possible for users to select the level of monthly premium, retirement age, and existing savings to determine their potential monthly retirement income. Modra's website also has a calculator that allows users to calculate the tax they might save by contributing to the private pension account.[9] While other pension and insurance companies provide general information on supplementary pensions, the information is relatively basic and many of their websites do not make available an interactive tool such as a calculator. A situation where few pension providers make available a calculator further reinforces the case for the Slovenian authorities to make one available for the public, to fill this key communication gap.

Slovenian pension providers do not appear to actively promote plans to members nor do they have easy steps to access pension plans. The review of Slovenia's experience with pension communication flagged that pension and insurance companies view margins for supplementary insurance as low, so they prefer instead business-to-business communication. On pension providers' websites, users interested in opening a pension account are invited to contact a representative from the company, which is not the best way to encourage take-up of voluntary pension products. Steps such as having to make phone calls may deter users from pursuing voluntary personal retirement savings, since individuals prefer simple steps such as online forms.

Not actively promoting pension products is a departure from common practices around the OECD, where pension providers tend to be more active in soliciting new business. Many run aggressive marketing campaigns to encourage individuals to save or to switch providers. For instance, Australian superannuation funds commonly run television advertisements as well as online videos from industry experts and financial planners. Similarly, many pension providers in OECD countries make interactive tools available to the public.

While it is difficult to create the incentives for private operators to market to individuals, this may change if the Slovenian authorities take steps to encourage greater take-up of personal pension plans, as outlined in Chapter 6.

Employers and social partners

When it comes to pension provision, social partners and employers can play a role in providing employees with financial education and advice about their retirement savings. The benefit of communicating through employers and social partners is that they tend to have a more intimate understanding of their workforce's needs, financial situation, and financial literacy levels. As such, they can be well positioned to tailor retirement information and advice to their employees and members. They can also engage members more directly, through seminars, workplace financial advice services, conferences, and so on.

Since supplementary occupational pensions are voluntary in Slovenia, communication via employers can be a key way to boost complementary plan coverage. As outlined in Chapter 5, the relevant trade union decides whether a pension plan should be included in employees' contracts, and if no union exists, the workers council decides. Therefore, social partners and employers are well placed to initiate discussions around retirement preparedness. Communicating with members about their potential retirement situations, as well as steps the social partners can take to improve future retirement adequacy, can help garner public support for supplementary occupational pensions, leading to genuine improvements in retirement outcomes.

In this regard, policy makers have a role in collaborating with social partners and employers to highlight the importance of such workplace initiatives. Policy makers can incorporate these initiatives into national pension communication campaigns. Such campaigns can involve issuing educational material directly to employers and social partners to explain the benefits of supporting their employees' and members' retirement preparedness. Policy makers can also host training seminars tailored specifically at educating and eliciting support from employers and social partners.

The media

The review of past pension communication suggests that the Slovenian media is interested in pensions and publishes regular articles on the topic, but to date the Slovenian authorities have not engaged actively with media players to guide the public discourse. The media is a key stakeholder in this regard, and its needs and role are to disseminate information to the public. It is important for the Slovenian authorities to engage key players in the media whenever it undertakes significant policy reforms or launches initiatives such as national pension communication campaigns and tools such as calculators or dashboards. That engagement with the media can include carefully tailored press releases written in a simple journalistic style that journalists can easily adapt to their audiences. Information sessions designed specifically to present key information to the media and answer their questions can also be a good way to communicate about reforms and raise awareness about policy makers' initiatives.

7.2.2. Communication to members of the public

Members of the public have key communication needs when it comes to engaging with their pensions. Since they tend not to actively plan for retirement, extra efforts are often needed to reach them. Furthermore, communicating with individuals calls for simplicity, personalisation, and other methods that draw on an understanding of behavioural biases. Communication is also most effective when it succeeds in prompting people to take action with respect to their retirement savings. Finally, this section outlines which groups of people may require particular attention with respect to pension communication.

Reaching people

A key challenge when it comes to communicating with individuals is that people tend not to be open to communication about retirement, and do not wish to engage in retirement income planning. This is because people tend to have a present bias, and prefer not to think about retirement. As such, it is hard to get people's attention in the first place.

Some theories suggest that attempting to communicate with people at times when people are thinking about the future may help get people's attention (teachable moments). For instance, sending prompts on "round number" birthdays may be effective (Behavioural Insights Team, 2018[15]). Alternatively, life events, such as a new job, marriage, the birth of a child, divorce, the loss of a spouse etc., can represent the moments when people are more open to behavioural change vis-à-vis their pensions (Blakstad, Bruggen and Post, 2017[16]). However, a key challenge for parties trying to reach individuals at the right time is knowing about these life events and communicating with individuals at that time.

Alternatively, governments or pension providers can better reach people by making communication distinct. An example is the Swedish 'orange envelope' which the Swedish Pensions Agency sends annually to individuals and contains an overview of the entitlements individuals have earned so far from pension sources such as the national public pension and the premium pension. The envelope is distinct in that it is bright orange. It also contains large text on the front, which tells individuals that the contents allow them to see how they are doing with respect to pensions. The envelope is a cornerstone of communication to participants about the pension system, since the colour is eye catching the annual envelope has become well-known after 20 years of use.

Such findings that draw on behavioural studies can provide important lessons for the Slovenian context, since the research in the communication review has shown that most members of the public are uninterested and disengaged with their retirements, and more can be done to reach them.

Presenting information

Communication with individuals requires accounting for behavioural biases and techniques that aim to increase members' engagement. Lessons from research in this area suggest the following important findings when it comes to presenting information to individuals.

- It is important to convey messages to individuals in a simple way. For instance, one focus group study found that many people preferred to be informed of their expected pension in absolute monetary terms – for example "your pension may be EUR 1 200 a month" rather than "your pension may be 36% of your last salary" (Antolin and Fuentes, 2012[17]). Technical jargon and complex concepts should be avoided because they can have a counteractive effect of deterring people from engaging with their retirement savings decisions. NEST also provides a useful guide to words and phrases that represent a jargon-free approach, which it updates as it better understands its target audience. The guidebook offers alternatives to jargon terms that should be avoided. For instance, it suggests using "building your retirement pot" to replace "accumulation" (NEST Corporation, 2018[18]).
- People prefer certainty and more personalised advice. Many people discount advice they perceive to be general, or assume that it does not apply to them. This is why respondents tend to prefer point estimates over ranges or confidence intervals. Using specific numbers seems more real, personal, and easier to remember. This is also why respondents prefer deterministic scenarios to stochastic ones. However, quite surprisingly, precise figures did not lead them to think that these numbers were firm or guaranteed (Sykes et al., 2008[19]).
- Some evidence shows that individuals prefer text tables over graphs and numbers. One study shows that text tables (with highlighted retirement income) to present information on pension projections was more efficient in terms of comprehension, perceived clarity, decision-making ease, decision making confidence, and willingness to choose a drawdown product. Respondents in a study preferred text tables to graphs and number tables, most particularly women and younger (aged 45-54) individuals (Commonwealth of Australia and Department of Prime Minister and Cabinet, 2017[20]).
- Individuals' needs for simple communication can sometimes be at odds with the need to provide important messages such as uncertainty around numbers presented in pension statements. However, it is important that conveying uncertainty of pension benefits does not refer to more than the basic, underlying assumptions about the modelling. Rather, the communication should be simple. For example, uncertainty around deterministic benefit projection results could be conveyed with a warning such as "*However, this amount is not guaranteed*" or adding a worst case scenario warning: "*If you suffer more unemployment and experience lower returns on investment, you should expect a monthly income at retirement of only X*" (Antolin and Fuentes, 2012[17]).

Ways to prompt people to take action

In all communication, it is important to accompany negative information with steps to make people aware of how they can rectify a situation and to empower them to engage with that action. It is also important that people face simple steps to take action because even small roadblocks can put people off taking action. For instance, one study found that a simple but effective intervention was to change a link on a letter that asked people to file their taxes to an online form. The change saved people a single click, but considerably increased responsiveness (Behavioural Insights Team, 2018[15]).

Individuals tend to need carefully thought-out interventions in order to get them to act on their retirement needs. In a sense, this adds an additional layer to a communication strategy. Indeed, communication that motivates people to act is distinct to that which intends to inform people, and comes with its own challenges. Such a strategy can draw on behavioural science findings. Examples include:

- The 'head start effect', which involves drawing attention to how a task has already been somewhat achieved. Presenting a task as being already partly accomplished and asking people to finish off the process, such as pre-filling a form and asking them to fill the gaps, can lead people to feel the goal is close (Behavioural Insights Team, 2018[15]). A related approach is to use "chunking," which refers to presenting information or instructions as a series of small, manageable steps.
- Relying on various experience, in line with a theory that individuals feel more confident when they see their peers succeeding at a task. Applied to the context of retirement savings, individuals are more likely to save if they perceive their peers doing so (Koposko et al., 2015[21]). Therefore, communication on retirement savings should rather focus on showing that people with similar jobs, employers, and life circumstances are saving. This suggests less emphasis on people not saving enough. Rather, when messages provide people with statistics of positive things others are doing this can be more effective, such as "9 out of 10 people have started saving for retirement" (Behavioural Insights Team, 2012[22]). There is also merit in telling people how they actually perform (in monetary terms) compared to their peers.
- Using messages that convey confidence in an individual's ability to save money. People who experience negative emotions when thinking about retirement planning are more likely to overlook the value of the activity and put it off (Behavioural Insights Team, 2018[15]). To avoid people feeling negative emotions, it is important to convey messages as positive opportunities. One way to do so is to use positive framing (e.g. "your retirement income is likely to be EUR 1 000 per month" and not "your retirement is likely to be lower than your current salary by EUR 700 per month").
- Exploiting on heuristics and biases to nudge people's behaviours. For instance, retirement could feel like a closer goal when people see pictures of different ways people could spend their retirements. Other ways to make the future seem closer is to provide people visualisations that show people what the trajectory of their lives would look like if it took place over the course of 100 days, highlighting the day they're on now and the day their retire (Behavioural Insights Team, 2018[15]). Similarly, individuals can be more engaged when they perceive benefits, and for those benefits to be immediate, such as a matched contribution or a reward for joining a programme. This is particularly the case when people perceive a reward in their hands rather than in a pension pot, such as by offering a lottery prize draw for joining a scheme.

Key groups typically experiencing information gaps

Some groups are likely to face specific challenges in planning for retirement, so they may need special attention in campaigns to build their financial literacy skills.

- Young people, especially young workers, who need to be made aware of the benefits of saving early. They also need to be aware of the costs of holding money in multiple funds.

- Women, who typically earn less over their lifetimes than men, have longer life expectancy, and consistently are found to have lower financial knowledge and lower confidence in their financial abilities than men (OECD, 2013[23]). They are also more likely to have career breaks due to maternity leave, so they need to understand the impact of pausing contributions on future retirement income.
- Pre-retirees, who need to be aware of the choices that they will be faced with at retirement, such as when to draw on their pension, how to use any lump sum received and how to choose an annuity.
- Self-employed, who often find themselves with inadequate retirement income since they pay less contributions to finance public pensions. The self-employed typically need to accumulate more voluntary retirement savings (OECD, 2016[12]).

It is important that policy makers bear in mind the specific needs of particular groups of people such as these, since they may require tailored communication campaigns to illicit their engagements with their retirements. Box 7.4 presents an example of communication campaigns tailored to different social groups in Finland.

Box 7.4. Finland: An example of targeted campaigns

The Finnish Centre for pensions runs regular campaigns to make people more aware of their pension rights and entitlements. Currently, it has an ongoing campaign in traditional media (magazines, radio) as well as on social media targeting people aged 45+ to invite them to visit the online pension dashboard with information on their pension entitlements and retirement ages. The campaign is designed both to convince people to inform themselves about their own pension and to make them think about their pension and retirement options. A second ongoing campaign is targeted at youth, and aims to inform young people about pensions and how they are calculated, how pensions are paid, and how their life choices (e.g. employment, studying) affect their future pension. This campaign is particularly run online, with a designated website (Eläkepätäkkä.fi) and on social media. A third campaign targeting self-employed is to be launched in the course of 2021. As self-employed people on average have lower pensions also in Finland, this campaign is supposed to inform them about their pension entitlements and aims to boost their pension build-up.

7.3. Policy messages

National pension communication campaigns can help fill information gaps around pensions and can help build a case for reform. National pension communication campaigns should be part of an overall strategy for financial education aimed at raising awareness and literacy of an overall population. Major events, such as pension reforms, call for specific national pension communication campaigns. Clear and measurable objectives should drive the planning, implementation, and evaluation processes of the campaigns. Phased campaigns should be used to avoid multiple messages. The more focused a campaign is, the more likely it will achieve its goals. Messages need to be short and simple, with complex details broken down and delivered in a series of communication phases. National pension communication campaigns should target communication at less accessible groups, such as the young, unskilled, etc. Designers of pension campaigns can develop outreach programs in partnership with a range of stakeholders to increase engagement.

Pension statements are useful documents but should be designed in a way that provides information clearly and engages people to take action. Pension statements should ideally combine all pension information relevant to an individual, incorporating information from all pension sources. Issuers

of pension statements should set clear and measurable objectives. The statement should be more than a passive document – it should engage people and encourage actions to check, and if necessary, improve retirement income adequacy. It should focus on demonstrating the potential impact of different decisions such as postponing retirement or increasing contributions. For a maximum impact, the statement should present a clear and simple summary of key facts on the first page. The most important figure to highlight on the statement is the projected monthly income. Issuers of pension statements should introduce thorough evaluation processes to ensure the statements perform an optimal role in communicating key information.

Calculators and dashboards are good digital tools to engage people on their pensions and help them visualise the effects of different decisions. Written pension statements, as the sole means of communicating benefits, are inflexible and limited. This is why digital tools such as calculators and dashboards are increasingly important to communicate with people. They provide information on demand for people to explore their retirement situation. Calculators and dashboards are good ways to inform people about pensions and influence their choices with regard to retirement planning. Custom-built calculators, for instance those which illustrate the impacts of reforms, can also be useful ways to explain complex reform messages to the public. However, such tools, particularly dashboards, can require significant resources to set up and require careful planning, co-ordinating with different stakeholders such as private providers, and potentially long lead times.

Engagement with employers and social partners can help open communication channels to people. Collaborating with industry groups is a good way to reach people through their workplaces. This can be effective because it can make people more receptive to the information. Employers and social partners also tend to have a better understanding of members' needs, making it possible to better target communications.

The media is a powerful channel to disseminate messages about pensions and reforms. The traditional media is a key player when it comes to disseminating information, and its messaging can be particularly critical to the success of pension reforms. Strategies for national pension communication campaigns should therefore consider leveraging the power of the press. A positive relationship with the press can be beneficial and can help reinforce the government's message. Active engagement with key players in the media, such as through targeted press releases, information sessions, and bilateral relationship building are important ways to elicit backing from the media and ensure the messages it disseminates are accurate.

Using different communication channels can help reach more people and tailor messages to different audiences. Communicators can use different channels like social media or traditional media, to convey messages. Traditional media like reviews, conferences and newspapers, can be useful to inform experts on what to communicate. Social media (including influencers) are important nowadays as many surveys show that young and middle-aged generations get most of their information from social media and not from traditional media. Yet, the language is more important than the channels, which is why influencers can be quite useful.

Communication language is crucial. A key principle when it comes to communication is that there should not be an expectation that people should understand, but rather that communicators should make themselves understood. In this respect, the approach taken to reach people, how information is framed, and the ease of actions to be taken can significantly affect whether communicators are making themselves understood. Messages to people about their pensions can therefore draw on findings from behavioural science. Finally, communication language should often be adapted to the needs of particular groups such as young people, women, or the pre-retirees.

Policy makers should account for people's behavioural biases when communicating with them. OECD work assessing international experience has identified approaches that account for low financial knowledge and behavioural biases in order to improve the financial security of people in retirement.

Automatic features, default options, simple information and choice, as well as financial incentives, financial education and adequate communication help people make better choices to strengthen their financial security in retirement (OECD, 2018[1]). Pension statements can convey key information and in a simple manner, while financial education seminars and financial advice can help people understand the information.

Communicating to people the choices and the consequences that their actions can have on their financial security in retirement is essential. Adequate and proper communication helps people make choices, informs them of the effect of their choices, and allows them to understand the stakes of inaction. A key objective of communication initiatives can be to inform people of the choices available to them and of the implications of such choices. In this regard, a related objective is to elicit pro-active behaviour from people. People can make choices to improve their financial security in retirement when they understand the implications, choices like contributing more or postponing retirement. Communication is also important to make sure people understand the consequences of inaction, in particular in a changing world with population ageing and increases in life expectancy, and an environment characterised by low growth (economic, productivity and wage growth) and low returns to investment.

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Notes

[1] The full independent review is available upon request.

[2] This independent review was carried out at the request of the OECD by Dr. Dejan Verčič, Professor, Head of Department of Communication and Head of Centre for Marketing and Public Relations, Faculty of Social Sciences, University of Ljubljana, and Partner and Knowledge Director at Stratkom.

[3] As this section summarises the independent review of pension communication, it does not represent the official views of the OECD or its member countries.

[4] This lack of trust exists despite there being a youth trade union organisation (Trade Union Youth Plus) within the largest trade union federation in Slovenia (The Association of Free Trade Unions of Slovenia – ZZZS) which openly advocates for the defined benefit state pension, arguing that it is the only fair option for today's youth.

[5] As discussed in Chapter 5, a survey as part of the "My Work, My Pension" campaign found that only 21% of respondents stated that they believe they know the pension system well, 13% agree that the system is simple, 22% that they are given enough information to make relevant decisions.

[6] 2021-Public-Consultation-Good-practices-pension-projections.pdf (iopsweb.org).

[7] For links to the calculators, see Box 2 of Stanko (2019[13]).

[8] https://www.modra.si/informativni-izracuni/izracun-dodatne-pokojnine/.

[9] https://www.modra.si/davcna-olajsava/.

8 Summary: Improving the pension system in Slovenia

This chapter provides a summary of the policy recommendations for the Slovenian pension system developed in the previous chapters. It covers both public and private pensions as well as pension communication.

8.1. Public earnings-related and first-tier pensions

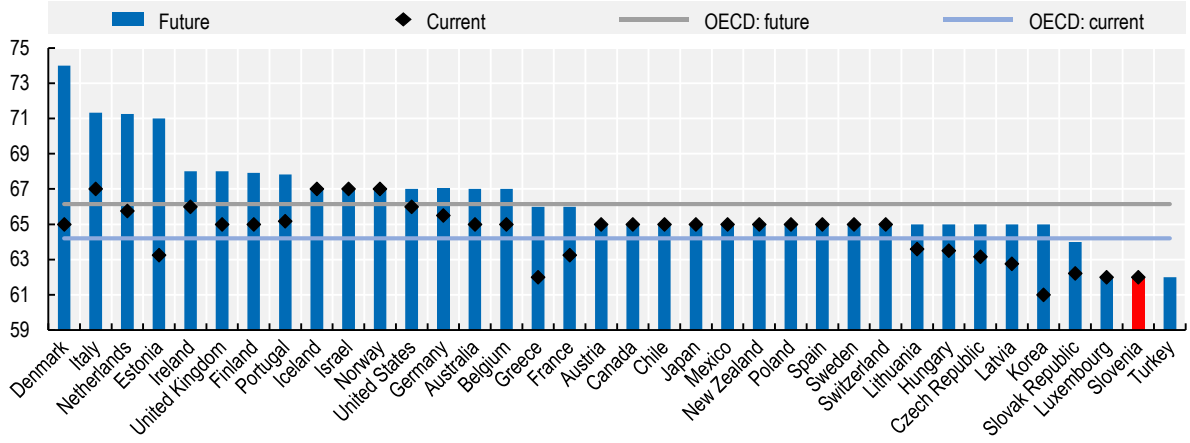
The average disposable income of individuals older than 65 is equal to 90% of that of the total population in Slovenia, slightly above the OECD average of 87%, from less than 70% in Estonia and Korea to more than 100% in France and Luxembourg. Moreover, old-age income inequality is much lower than in most OECD countries, while relative income poverty rates among older people are similar to the OECD average. However, many single people aged 80 or older, mostly women, face poverty risks as almost 30% of them have a disposable income lower than half the median for the total population, compared to 20% for the 21 EU-OECD countries for which data are available.

Employment after age 60 is very low in Slovenia. Over the last two decades the employment rates among the 55-59 age group have increased sharply, catching up with the OECD average. However, the drop in employment from age 60 is much steeper than in most OECD countries. In the 60-64 age group, only one-quarter of Slovenians were in employment in 2019, half the OECD average. Consequently the average age of labour market exit is about three years below the OECD average while life expectancy at older ages is similar.

The low labour market participation of older workers is related to Slovenia's retirement ages, which are among the lowest in the OECD: workers with an uninterrupted career from age 22 (20) can retire today with a full pension at age 62 (60) in Slovenia, which is very low in international comparison. Moreover, as many countries have legislated measures to raise normal retirement ages – defined, for harmonisation purposes, as the retirement age from which an individual with a full career from age 22 can retire with a full pension – the gap between Slovenia and the OECD average will widen further: the normal retirement age will remain at 62 years in Slovenia (40-year career from age 22), while it will increase for the OECD on average from about 64 years today to about 66 years for someone entering the labour market now (Figure 1.1).

Figure 8.1. Normal retirement age is low and no increase is foreseen in Slovenia

For men, current and future refer to retiring in 2018 and entering the labour market in 2018, respectively



Note: In Turkey, the current normal retirement age is 48 and 51 for women and men, respectively.
Source: Figure 4.6 in OECD (2019[1]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

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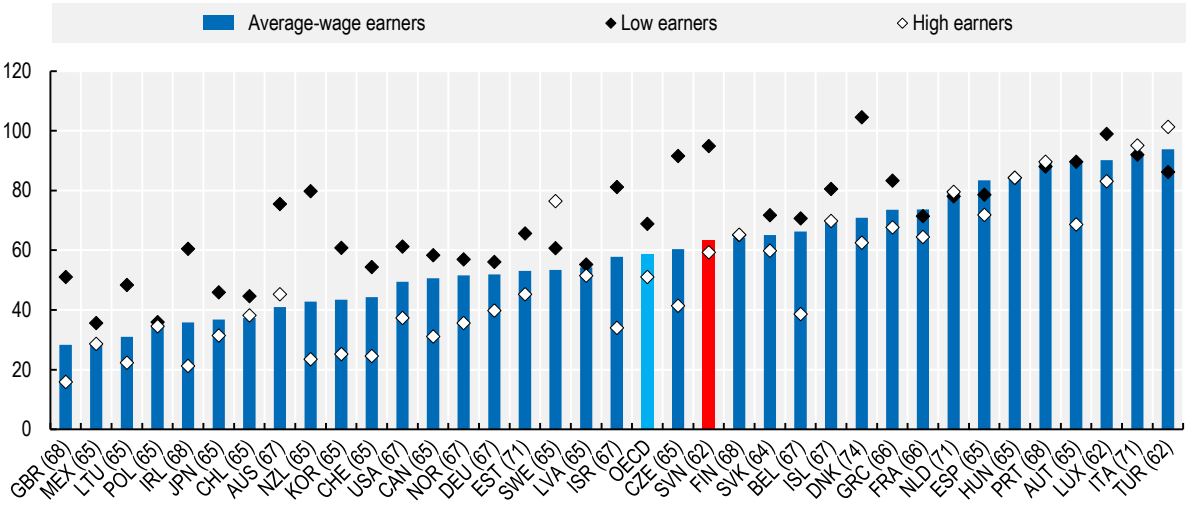
Despite low retirement ages, the future net replacement rate from mandatory pension schemes is equal to 63% for full-career workers at the average-wage level, against an OECD average of 59% (Figure 8.2). Moreover, the system is very redistributive in favour of low earners, mainly due to the strong effect of the high minimum reference wage used for pension purposes. The net replacement rate for low earners with full careers is very high in Slovenia at 95% compared with an OECD average of 69%.

Figure 8.2. Low earners can expect high net replacement rate in Slovenia

Net pension replacement rates from mandatory schemes after a full career, by earnings level



Note: Low and high earners receive earnings at 50% and 200% of average earnings, respectively. The base case assumes a worker who enters labour market at age 22 in 2018 and retires at the normal retirement age. The calculation applies to the pension rules for men. Normal retirement ages are in the brackets.
Source: OECD calculations, OECD (2019[1]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

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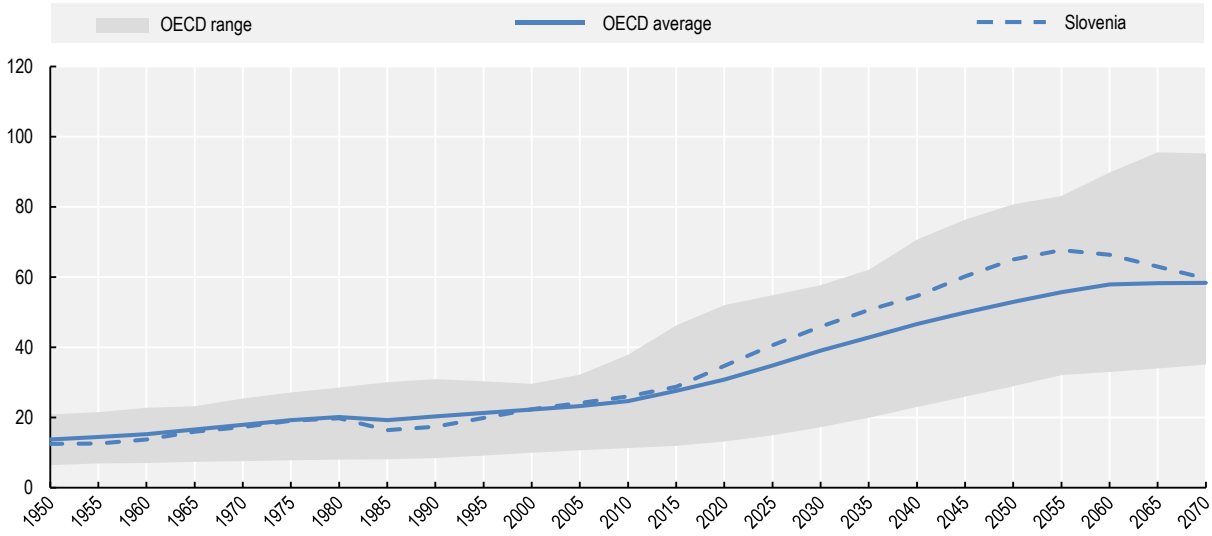
One synthetic indicator measuring total pension entitlements paid during retirement is pension wealth, defined as the discounted value of lifetime pension flows at retirement age. Pension wealth is high with high replacement rates, low retirement age, high old-age life expectancy and high pension indexation. Low retirement ages, relatively favourable pension indexation and high replacement rates for low earners boost the pension wealth in Slovenia. After a career at the average wage, the total discounted net pensions that will be received at the retirement age equal 14.4 years of net wages, much higher than the OECD average of 11.2 years, on average for men and women. Such a pension wealth level is comparable to that in France and Italy which have much higher contribution rates. For low earners, the pension wealth is second only to Luxembourg among OECD countries, due to the strong effect of the minimum pension, at 21.6 years of wages compared with 13.3 years on average, and as low as 6.1 years in Poland.

Working longer is critical if Slovenia wants to preserve retirement income levels and finance them in a sustainable way. Driven by longer lives and very low fertility rates during several decades, population ageing has started to accelerate and is projected to be fast until the mid-2050s (Figure 8.3). This will weigh on the capacity to finance the pay-as-you-go defined benefit pensions.

Figure 8.3. Ageing will be faster in Slovenia than in most OECD countries over the next decades

Evolution of the demographic old-age to working-age ratio in Slovenia and the OECD average, 1950-2100



Note: The demographic old-age to working-age ratio is defined as the number of people aged 65+ per 100 people aged 20-64. Medium projections are shown, corresponding to the 50% percentile of probabilistic projections.
Source: United Nations, Department of Economic and Social Affairs (2019). Probabilistic Population Projections based on the World Population Prospects 2019: http://population.un.org/wpp/.

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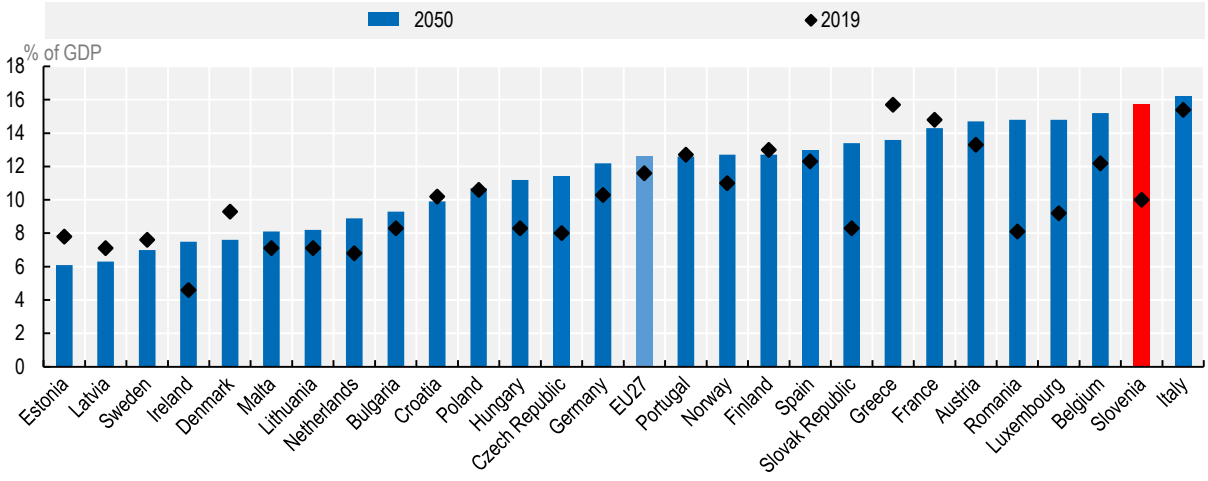
The increase in pension spending will be record high in Slovenia. Under legislated rules, pension expenditure is projected to increase sharply from 10.0% to 15.7% of GDP between 2019 and 2050 based on the 2021 Ageing Report by the European Commission. As a result, only Italy would then have a higher expenditure ratio in 2050, at 16.2%, while in the EU it would increase from 11.6% to 12.6% on average (Figure 8.4). Such an increase implies that Slovenia's pension system will face severe financial pressure over the next decades, and in particular between 2030 and 2050, and that decisive action must be taken to ensure financial sustainability. According to the Slovenian Recovery and Resilience Plan adopted by the European Commission in July 2021, a comprehensive reform to ensure the fiscal sustainability of the pension scheme will be proposed by the government in 2023 and adopted by the parliament in 2024.

Figure 8.4. Pension expenditure will increase steeply in Slovenia

Pension expenditure as a percentage of GDP



Note: The EU average is for 27 EU countries.
Source: European Commission (2021[2]), *The 2021 Ageing Report,* https://doi.org/10.2765/84455.

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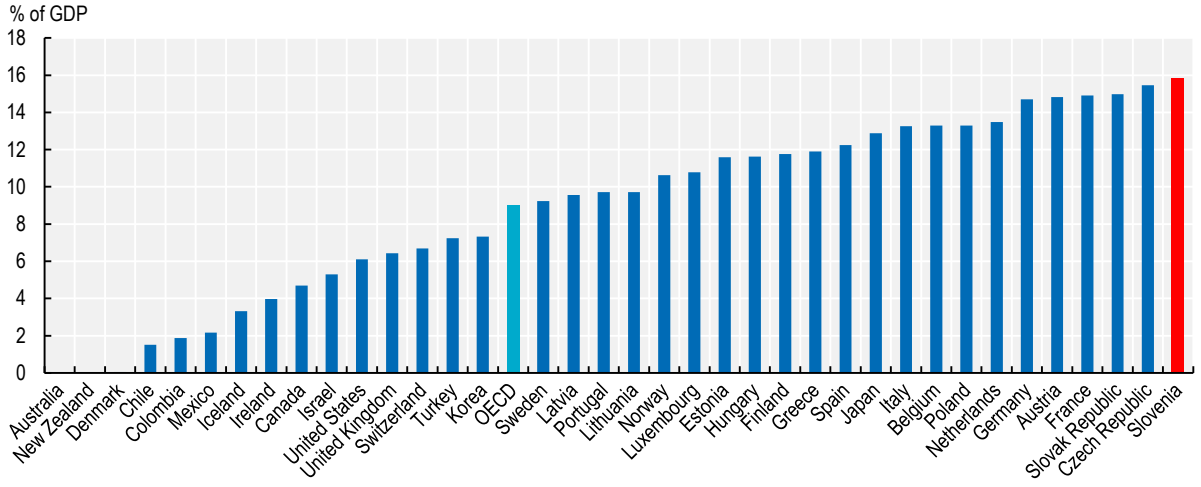
There is limited scope to increase contribution revenues. Indeed in Slovenia, the tax structure is heavily skewed towards social security contributions, such that revenues from contributions as a share of GDP are the highest among OECD countries, at 15.8% compared with an OECD average of 9.0% (Figure 8.5). Moreover, raising the contribution rate by 3 percentage points is estimated to generate additional revenues of about 1% of GDP by 2050, which compares with the almost 6%-of-GDP projected increase in pension spending. Hence, raising additional revenues, if that choice is made to balance pension finances, might require expanding tax resources, although the identification of the precise tax measures is well beyond the scope of this pension review. If additional revenues are brought into the picture – and they are most likely part of the solution given the size of projected imbalances – it will be important to raise these revenues soon and build a buffer fund before the financial problem accelerates in the 2030s in order to share the burden more fairly and smooth the increases.

While one can debate the extent to which raising additional revenues is feasible, most action is expected to take place on the spending side, given the size of the required adjustment and the level of projected pension spending. The priority should be to avoid that pension replacement rates are reduced at retirement ages. Various options are possible, as discussed in greater detail in Chapters 2 and 4. In the end, the exact combination of the various measures depends on political choices. All options involve tightening pension eligibility conditions, which are currently loose, and in particular they involve raising the minimum retirement age.

The minimum retirement age of 60 years should be increased to at least 62 years and then linked to life expectancy. The reference contribution period to retire without penalty should be increased from the current 40 years to at least 42 years. Links to life expectancy reduce uncertainty about future pension rules by minimising the need for ad hoc adjustments. They improve credibility and might help to build trust in the pension system. For example, transmitting two-thirds of gains in life expectancy to the retirement age would broadly keep the shares of the adult life spent working and in retirement constant across generations, thus contributing to equity. However, keeping these shares constant will not suffice to offset the total shift in the population structure, as low fertility rates also have a strong impact. Hence, larger increases in the retirement age than implied by a two-third link might be needed to ensure financial sustainability.

Figure 8.5. Social security contribution revenues reach record high level in Slovenia

2019



Note: Data on Australia, Japan and Mexico are from 2018.
Source: OECD Revenue Tax Statistics (https://stats.oecd.org/Index.aspx?DataSetCode=REV).

StatLink https://stat.link/p81bkt

Without other changes in pension parameters, increasing the retirement age in a defined benefit scheme as in Slovenia raises replacement rates. To limit the needed tightening of eligibility conditions, increasing the normal retirement age may be accompanied by the lowering of accrual rates, for example in a way that keeps the target replacement rate at the increasing minimum retirement age constant.

In addition, contrary to what the current rules imply, childcare periods should not result in lowering the minimum retirement age. There are valid reasons to grant pension entitlements for periods of childcare and thereby to limit the impact of childcare-related breaks on pensions. However, it is far less obvious why parents should be able to retire earlier compared to childless people; only five OECD countries relax pension eligibility conditions based on having children. In Slovenia, mothers and fathers can retire four and two years below the statutory retirement age, respectively.

As the burden of the needed adjustment on the spending side cannot be borne by tighter eligibility conditions alone, it will be difficult to avoid reducing the indexation of pensions in payment. Reducing indexation is a powerful instrument to limit pension expenditure without lowering initial pension levels. There is no optimal indexation mechanism as, for a targeted level of spending, there is a clear trade-off between lower initial benefit levels when retiring and a lower indexation. Price indexation maintains the purchasing power of pensions, while wage indexation ensures a stable retirement income relative to that of wage earners.

To reduce pension spending, the alternative is therefore to either cut the initial pension (or the replacement rate at retirement) or to reduce indexation. Between the two possibilities, the latter benefits more those with a shorter life expectancy and has the big advantage of generating savings even in the short term. In addition, it affects both current and future pensioners, thus sharing the adjustment cost more broadly, which might be fairer if current pensioners have benefited from relatively favourable pension rules. In principle, there is no reason why current pensioners should not participate in improving financial sustainability provided that their purchasing power is not reduced during retirement. For example, changing pension indexation from today's mix of 60% of wages and 40% of prices to full price indexation is estimated to reduce pension expenditure in Slovenia by 2.2% of GDP by 2050.

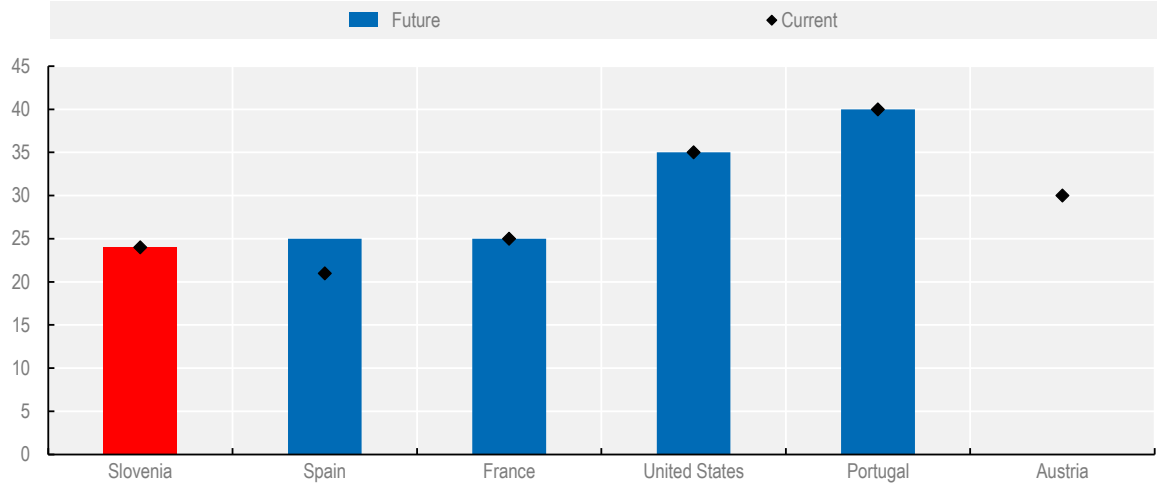
Another significant weakness of the current system is that the calculation of contributory benefits is unnecessarily complicated. Hence, it is difficult for workers to estimate their future retirement income, which can generate uncertainty and stress, as well as resignation and distrust, as people do not have a proper understanding of how the pension system works. The poor understanding of the rules and the lack of trust in the system might lead workers to retire as soon as possible even with low benefits. Simple and transparent pension calculation is an important ingredient to build effective pension communication about workers' future entitlements in order for them to make informed retirement decisions.

One main reason why pension entitlements are unclear to workers before they are actually claimed is that the reference wage is based on the best consecutive 24 years of (adjusted) earnings. Workers do not know what pension entitlements they have been accruing, for example, in a given year, nor which consecutive 24 years in the whole career are the best. Moreover, while using the best consecutive 24 years of earnings protects everyone by ignoring the remaining, less favourable years, this rule particularly benefit people with strong career progressions, who also tend to have higher lifetime earnings. Furthermore, basing the reference wage on the best consecutive 24 years compared with the full career provides very limited cushioning of career breaks on pensions, despite widespread beliefs, as explained in Chapter 1. For a given level of spending, this rule is thus regressive, redistributing from low to high earners.

Basing pensions on the average lifetime earnings rather than the 24 best consecutive years would eliminate these unfavourable elements and greatly simplify the calculation of accrued entitlements and pension benefits. The large majority of OECD countries takes into account wages throughout the whole career for calculating the pension benefit. Exceptions are Austria (which will use lifetime earnings for people born from 1955), France, Portugal, Slovenia, Spain and the United States (Figure 8.6). France, Slovenia and Spain are the only countries using 25 years or less. As the objective of this change is not to reduce pensions, it should be combined with raising accrual rates as needed, for example in a budget neutral way thus keeping the average pension unchanged (this would imply increasing the accrual rates by about 10%). As is the case today, the impact of career breaks on pensions should be cushioned by other instruments, i.e. granting pension entitlements for unemployment and childcare periods.

Figure 8.6. Few countries do not take into account the full career for pension calculation

Number of years used to calculate the pension reference wage for private-sector workers



Note: In Austria, the contribution base will steadily increase and reach 40 years for the 1954 birth cohorts while for generations born from 1955 it will be the whole lifetime.
Source: OECD (2019[1]), *Pensions at a Glance 2019: OECD and G20 Indicators*, https://dx.doi.org/10.1787/b6d3dcfc-en.

StatLink https://stat.link/a2icnj

Key recommendations for public pensions

- Tighten the minimum eligibility conditions to pensions (minimum retirement age and contribution-period condition for a full pension) and link retirement ages to life expectancy.
- Lower indexation of pensions in payment.
- Simplify the pension rules, while adjusting accrual rates as needed for example to stabilise pension levels on average, by increasing the reference period from the best 24 years to lifetime earnings.
- Remove the lowering of the minimum retirement age based on childcare periods.

Based on the analysis in Chapters 1 to 3, Chapter 4 provides detail about the following additional policy options, to fully address financial sustainability issues and improve public earnings-related and first-tier pensions. This includes in particular suggestions to enhance the transparency of pension finances and the co-ordination between old-age safety nets and contributory pensions.

Additional recommendations for public pensions

Fully addressing financial sustainability issues

Depending on the extent of the tightening of eligibility conditions and of the reduction in pension indexation, additional measures may be needed. Pension finances would be enhanced by combining some of the following options, with different impacts as discussed in Chapter 4:

- Adjust benefits to life expectancy or to the ratio of contributors-to-pensioners, increase contribution rates, finance pension redistributive components from the state budget, and lower the minimum and/or the maximum reference wages.

Improving public earnings-related pensions

- Improve the transparency of pension finances by: creating an independent expert body in charge of monitoring pensions to provide support for a sound management of the system; separating the financing of old-age and disability pensions as a first step to run separate budgets; improving the reporting of the net cost of minimum and maximum reference wages; and, explicitly recording the cumulative balance between contributions and entitlements over time.
- Simplify further the pension rules, while adjusting accrual rates as needed for example to stabilise pension levels on average, by using gross wages for the reference-wage calculation and eliminating the annual discretionary allowance.
- Remove the restrictions to combine work and pensions once a worker is eligible for a full pension, provided that combining work and pensions does not deteriorate public finances in the long term.
- Raise the contribution base of the self-employed from 75% of profits (86% of profits will harmonise contributions with employees).
- Roll back the reform which removed the requirement to provide a justified reason when dismissing an employee who has met eligibility conditions to the old-age pension.
- Align pension contributions and entitlements between civil servants and private-sector workers.

Improving first-tier pensions

- Remove the means-testing of social assistance benefits (both financial social assistance and supplementary allowance) to children of beneficiaries.
- Eliminate the conditionality of financial social assistance and supplementary allowance on employment and hours worked; make the supplementary allowance eligible at the statutory retirement age for both men and women; and, merge the supplementary allowance with financial social assistance by granting a higher benefit threshold for people older than the retirement age relative to people below the retirement age.
- Merge the guaranteed pension with the minimum pension in a budget-neutral way.
- Adopt an integrated framework for old-age safety nets and contributory pensions by ensuring that contributions paid (at least from 15 years) result in higher total benefits through the withdrawal of safety-net benefits at a much lower rate than the current 100%.

8.2. Supplementary retirement savings plans

Slovenian supplementary retirement savings plans complement the public earnings-related and first-tier pensions. Having a good supplementary retirement savings system is an important way for countries to align themselves with OECD advice to diversify sources of retirement income. While the Slovenian pension system already provides for supplementary retirement savings plans, coverage is far from universal and contributions are relatively low. The system also suffers from other shortcomings, such as lower outcomes for women, relatively conservative investment choices, and incoherent disclosures of fees and retirement income projections.

Coverage of retirement savings plans and contributions to those plans are somewhat low when compared with other countries. Slovenia has mandatory coverage for public servants and workers in arduous and hazardous occupations. For workers in these mandatory plans, coverage is expectedly high. However, not all those plans actively receive contributions (Table 1.1). Further, low contributions to the mandatory scheme for civil servants means that the scheme will not significantly enhance retirement incomes to people who have those plans. Voluntary supplementary schemes, on the other hand, suffer from relatively low coverage (at around 20% of the working age population), and only about 62% of policies are active. Considered together, relatively low voluntary plan coverage and low contributions in some plans mean that, overall, assets in supplementary retirement plans are low by international standards. As such, the plans will not provide a meaningful retirement income boost to most of the Slovenian population.

Table 8.1 Summary of coverage and contributions by plan type

Scheme	Membership	Contributions	Percentage of policies which are active
Mandatory scheme for workers in arduous and hazardous occupations	Around 48 300	9.25% of gross wages	Slightly more than half
Mandatory scheme for civil servants	Around 235 000	EUR 32.18 per month	About 80%
Voluntary schemes (personal or occupational)	Around 310 000 *contracts*	Varies. For collective plans, subject to minimum of EUR 316.20 per month.	62%

Note: Data on voluntary plans cannot be separated into occupational and personal plans. Data on the mandatory schemes for workers in arduous and hazardous occupations and civil servants refer to 2019 data. Data on voluntary plans refer to 2017 data, except Generali's Leon umbrella pension fund and Intesa's Moj umbrella pension fund. Data on voluntary plans refer to contracts or policies rather than people.
Source: IER data, Slovenian authorities.

The Slovenian authorities can consider policy changes that boost take-up of supplementary plans. Introducing compulsory enrolment to an occupational pension arrangement for all workers, or if doing so is not opportune, automatic enrolment with an opportunity to opt out, can be a good way to boost coverage of occupational schemes. In this context, setting the appropriate contribution rate for employers and employees is essential to ensure adequacy.

There is scope to improve the incentives for low income people to contribute to retirement savings plans. A lack of financial incentives to use retirement savings plans is unlikely to be a hindrance to utilisation for most people, but low income earners are an exception. The tax benefit of saving in a voluntary plan in Slovenia is among the highest compared to other OECD countries. However, lower income earners benefit less from these tax benefits, so the government can consider introducing matching contributions or fixed nominal subsidies which tend to resonate more with low income earners.

Like many OECD countries, Slovenia faces a gender gap in retirement savings which the government can address. Women are less likely to have an occupational retirement savings account than men and tend to have lower balances in their accounts. Other features of retirement savings plans exacerbate the gender pension gap. Employers are not legally required to continue contributing to employee plans during maternity and parental leave, and the government can consider mandating that they do so. Furthermore, pension rights and assets are often not split equally upon divorce, which disproportionately affects women. As such, enforcing an automatic split of pension assets in divorce settlements can help address this.

More can be done to improve investment returns on retirement savings. While historical investment performance has been good, retirement savings are mostly invested in conservative options, which can drag down returns in the future. Although a life-cycle investment strategy now exists, 85% of assets saved in supplementary pension plans are still saved in funds with a guaranteed minimum return.[1] Further, the rigidity of the investment framework in Slovenia can be loosened, to give people enough choice to adjust investments according to their risk profiles. Investment rules can also be amended to allow people to invest in riskier strategies or investment options intended for a lower age group within a life-cycle strategy.

The government can take steps to address the existence of multiple accounts. There are different reasons multiple accounts arise. First, the threshold for withdrawing assets as a lump sum is assessed on a contract level. This means that there is an incentive for people to hold multiple accounts which are under the threshold if they have a preference for lump sums. The Slovenian authorities should define lump sum thresholds at an individual level rather than at an account level, to remove this incentive and encourage the take-up of annuities unless savings are genuinely too low for annuities to be suitable. In other cases, multiple accounts may be unintentional, and having multiple accounts can mean high fees erode members' pots. For instance, when people change jobs their pots do not follow them. International best practice is to have arrangements whereby accounts follow members when they change employers, which the Slovenian authorities can consider implementing. Alternatively, introducing sector-wide schemes mean individuals can keep the same account when moving between employers within the same sector. To support these measures, the Slovenian authorities can set up a central register of all supplementary savings accounts to help consolidate accounts and inforce an individual-level lump sum threshold.

To make sure people are well equipped to make retirement saving decisions, disclosures of fees and retirement income projections can be improved. While information about fees charged is available, it is not easy to find on many providers' websites, and not at all on the regulator's website. Furthermore, no framework currently exists to harmonise retirement income projections. As such, the Slovenian authorities can consider defining frameworks to better disclose fees and costs as well as to compute retirement income projections.

The mandatory scheme for workers in arduous and hazardous situations should be redesigned to better meet an intended objective. The scheme was designed to provide bridge income between early retirement and the statutory retirement age, for workers unable to perform their occupation during these years. However, few members use the assets they have accumulated in the scheme to retire early. This is partly

because the jobs that make people eligible for this scheme include those that can be easily performed until workers attain the retirement age for the public pension. As such, there is a case to clarify the objectives of the scheme and reassess the list of occupations and criteria to allow workers to retire early.

Main recommendations for improving supplementary pensions

- To boost coverage of retirement savings plans, introduce compulsory enrolment, or if it is not opportune, automatic enrolment, for occupational plans for all workers.
- Improve incentives for lower income earners to contribute to supplementary schemes, such as through fixed nominal subsidies or matching contributions.
- Improve communication on the effect of retirement savings on future retirement income and to boost awareness of the supplementary pension system.
- To improve investment returns, allow for investments in riskier investment options. Better communicate on the potential risks and rewards of different investment strategies and provide tools to help people assess their personal risk profile and investment horizon. Introduce an appropriate default investment strategy that applies to all providers.
- To narrow the gender gap in retirement savings, make employer contributions to occupational pension schemes mandatory during maternity and parental leave, and automatically split pension assets in divorce settlements.
- Take steps to reduce the incidence of multiple retirement savings accounts. Define the lump sum threshold at the individual level, rather than the account level. Ensure occupational accounts follow when members change employers and encourage sector-wide occupational schemes. Set up a central register of all supplementary pension savings accounts
- Establish frameworks for communicating on fees and costs and computing retirement income projections.
- Clarify the objectives of the scheme for workers in arduous and hazardous occupations, and revise the list of occupations and the criteria to retire early.

8.3. Pension communication

Communication about pensions has, to date, failed to raise awareness about pensions and garner public support for reforms in Slovenia. Pension communication is therefore a key area of concern, particularly should the authorities seek to undertake a much-needed reform process. Succeeding in implementing a reform means the authorities need to communicate a compelling case for reform, and for stakeholders to support it. They also need to craft thought-out communication campaigns with clear objectives that make use of innovative communication techniques and tools.

Previous communication efforts regarding pensions have generally been unsuccessful in Slovenia. An expert report commissioned as part of this review found that government communication has lacked a vision and strategy, and has been done with insufficient resources. There are certainly some examples of good communication initiatives, such as those by the Pension and Disability Insurance Institute of Slovenia and private providers. However, communication on the system as a whole is not coherent and large communication gaps remain. As such, the public perceives pensions as confusing and have a low level of trust in them and in the Slovenian Government.

This report discusses the international experience in communicating effectively on pensions. It emphasises that carefully designed national pension communication campaigns can help raise awareness about

pensions and build the case for reforms. Those campaigns should refer to clearly set and measurable objectives. Ideally, those campaigns should also be divided into stages to stagger key messages, and should rely on a range of distribution channels to account for people's different communication needs. Good communication also comes from leveraging the main pathways individuals get their information from – such as employers, social partners, or the media.

When it comes to communication, the governments' role extends beyond national pension communication campaigns. Authorities also have a role in influencing the design of different tools that help people understand their pensions, such as pension statements, online calculators, dashboards, and other digital tools. Their efforts should help ensure that products have consistent messages, are clear, and encourage people to take action where necessary. In all communication, whether from policy makers themselves or third parties, the paramount concept should be framing communication appropriately and using language that ensures people will understand the messages being communicated.

Main recommendations for improving communication

- Launch national pension communications campaigns to raise awareness about pensions and build a case for reform.
  - Any complex messages should be broken up and communicated in phases.
  - Make use of different communication channels to better reach different groups of people and tailor messages to different audiences.
  - Work with key partners such as employers, social partners, and the media to help reach individuals.
- Take steps to ensure different communications materials such as pension statements and digital tools provide information clearly and encourage people to take action.
- In all communication, ensure concepts are explained simply and clearly, with minimal jargon.

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Notes

[1] Excluding assets in the scheme for workers in arduous and hazardous occupations.

OECD Reviews of Pension Systems

SLOVENIA

This review provides policy recommendations on how to improve the Slovenian pension system, building on the OECD's best practices in pension design. It details the Slovenian pension system and identifies its strengths and weaknesses based on cross-country comparisons. The Slovenian pension system consists of a mandatory defined benefit pay-as-you-go public scheme and supplementary private schemes. The review also describes the first layer of old-age social protection in Slovenia and discusses possible ways to improve communication about pensions. The *OECD Reviews of Pension Systems: Slovenia* is the seventh in the pension review series.

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