

# Hoping for reform

Duncan Ferris speaks with The Association of Pension Companies of the Czech Republic (APS) president, Aleš Poklop, about calming nerves in the pandemic, encouraging savers to put more away for retirement and the possibility of reform in the nation's pension system



## Could you give me an overview of the main work and objectives of the APS?

The APS unites eight out of nine pension companies in the Czech market, with the ninth only having been established a few months ago. The mission of the APS is, in particular, to coordinate, represent, defend and promote the common interests of pension companies, vis-à-vis the legislature and its bodies,

ministries and other state administration bodies, or other institutions and authorities. Furthermore, the APS also comments on legislative proposals and other measures concerning supplementary pension savings or supplementary pension insurance, to act as an advisory and information centre in the field of private capital savings for retirement, and to promote the idea of private capital savings for retirement to the general public.

## It appears that the amount of people with a pension in the Czech Republic is increasing. Has the APS worked to encourage more people to save for retirement?

Currently, 4.5 million Czechs save for their retirement privately. These people are obviously aware that their retirement prospects are not very optimistic, given the current

situation of the unreformed state pension system. The fact that they also save privately is good news, but in order to secure enough money as well as their low pension from the state, to prevent against a 'financial cold shower' when they retire, they should save more money than they do already.

The APS motivates them to do so, for instance, by regularly giving examples, such as calculations, graphs, and articles, showing how much, and in which funds, it is possible to increase the value of their monthly deposits. We also regularly publish the results of fund management, so that people have information on how well individual types of investments, such as shares, bonds or a mix of both, and the specific funds that implement them are doing.

## Czech pension funds seemed to perform well during the

**"THE APS UNITES EIGHT OUT OF NINE PENSION COMPANIES IN THE CZECH MARKET, WITH THE NINTH ONLY HAVING BEEN ESTABLISHED A FEW MONTHS AGO"**

**Covid-19 pandemic, with the value of the new pensions increasing by an average of 4 per cent. How did the APS work to support the funds during this period?**

The Covid-19 pandemic has impacted stock markets around the world, and this has, of course, affected Czech pension funds too. Subsequently, however, the funds were able to return relatively quickly to normal and so the losses were quickly erased. We, as an association, acted to calm the market and possible future panic by explaining to people not to interrupt their saving plans in the event of a loss of income during the lockdown, because there is no risk of any debt or fine in the month when no money is sent.

Interrupting payments on a pension is not a problem, but people often do not know this information and unnecessarily cancelling a pension prematurely would be disadvantageous for them, as cashing out their savings before the age of 60 years effectively results in a fine. Of course, it is also important to inform your pension company about the suspension of payments.

**It appears that there are strong calls for reform in the Czech pension system. What kind of ideas are being put forward?**

The Czech state pension system has been running at a loss for a long time; every year a third of the state budget goes to it and it is the largest cost for the state. The deficit is growing and it is not possible to maintain it in the long run. However, pension reform is not a popular topic for politicians, so only cosmetic adjustments are taking place. This includes money being distributed but the income side remains unresolved.

Thus, there is a danger that the collapsing system will be saved in the future by an unpopular increase of taxes, or a sharp reduction in already low pensions. We are pushing to change the system, for example, to provide people with higher contributions from the state when their deposits are higher, so to encourage higher rates of saving.

We are also considering the possibility of promoting entry into the system automatically as soon as you start your first job through automatic enrolment. And, of course, we want employers to have a duty to contribute to employees' private pension saving plans by law.

**How important is the imbalance between men and women's pensions in the Czech Republic? Might the issue change in the future?**

This disparity is very unfair and stems from the fact that women do not pay social insurance when they are caring for newborns. In addition, they are paid less than men for the same work (about 15 per cent in CZ), which means that they also have lower state pensions, on average. In the private sector of pension savings, of course, both men and women have exactly the same conditions and rights, yet when women earn less, it is possible that they also put less aside for pension savings.

**Are there any issues with pension saving in the Czech Republic, or in Europe generally, that you would like to mention?**

In the Czech Republic, the general problem is that people do not contribute enough money into pension saving funds. And so, even after interest in a good fund, they do not earn enough for their retirement. At the

same time, we assume that in the future, pension savings will no longer be just a 'pleasant bonus' in the form of extra money, but a necessity, because the financial decline after retirement will be huge, as we already have a compensation ratio below 50 per cent in the Czech Republic.

---

**"PENSION REFORM IS NOT A POPULAR TOPIC FOR POLITICIANS, SO ONLY COSMETIC ADJUSTMENTS ARE TAKING PLACE"**

Another problem is that the old pension savings system still exists in the Czech Republic, with three million Czechs still belonging to it, even though it is closed to new members. It guarantees that people can never receive less than 0 per cent interest. If they were on track to receive a loss, a pension company pays for the loss so people are never below zero.

This means that many funds only value money in very conservative government bonds, and don't even beat inflation. Unfortunately, people cling to this guarantee and do not want to switch to new, many times more advantageous funds, which can achieve returns of as much as 10-20 per cent per year when the situation with the stock markets is good. ■