

**PENSIONS AT A GLANCE 2009: RETIREMENT-INCOME SYSTEMS IN CROATIA**  
**Online Country Profiles, including personal income tax and social security contributions**

**CROATIA**

<b>Croatia: pension system in 2009</b>	<b>Key indicators</b>			
		<b>Croatia</b>	<b>OECD</b>	
Pension reform in Croatia, which has started in 1999, established the three-pillar pension system and introduced important changes in its first pillar – the public pension insurance based on the intergenerational solidarity ( <i>PAYG</i> ). The new Croatian pension system, introduced in 2002, and has two tiers: public pension and mandatory private pensions ( <i>depending upon age</i> ), as well as additional voluntary pension funds. Also, Croatia has a minimum social pensions for war veterans ( <i>„minimum contributif“</i> ) and for elderly people ( <i>„minimum vieillesse“</i> ).	Average earnings	<b>EUR</b>	11 393	28 600
		<b>USD</b>	14 242	35 800
	Public pension spending	% of GDP	11	7.2
	Life expectancy	at birth	76.0	78.9
		at age 65	79,1	83.4
	Population over age 65	% of working-age population	18,01	23.8

**Qualifying conditions**

When the social insurance system was reformed in 2002, those over the age of 50 remained in the then existing pension system, whilst those between 40-50 could choose whether to join the new individual account system and those under 40 were required to join the new system. Total social security contributions are 20%, with 5% diverted to individual accounts for those who joined that system. Contributions are paid by employees and the self-employed.

The retirement age is raised to 65 for men and 60 for women in 2009, when the minimum number of years required to receive a pension will be reduced to 15. Early retirement is possible by 5 years conditional on 35 years service for men and 30 years for women.

Benefits are based on a points formula (*changing from the 10 consecutive best years to a full career in 2008*).

After 2012, the minimum contribution period to reach a full pension is planned to increase in line with increases in life expectancy, so that the ratio of period of pension payment to the working period remains constant.

**Benefit calculation**

***Earnings-related***

The pension is 0.25% of individual earnings divided by average covered earnings plus 0.25% of average covered earnings for each year of service. No minimum pension or pension ceiling exists. Pensions are indexed 50/50 to wages and prices. The tax allowance for pensioners is 1.7 times that for workers.

## **Funded Pension System**

### **Mandatory**

### **Personal**

#### Coverage

The mandatory pension scheme is an individual capitalized savings system. Those under 40 had to participate in the mandatory private scheme, while those between the ages of 40-50 could opt either to remain in the PAYG system or to divert part of their contributions to one of a number of competing individual savings funds. Insured persons who were younger than 40 and failed to select a fund within the legally prescribed period (three months from the beginning of compulsory pension insurance) were assigned by REGOS (the Central Registry) in accordance with a prescribed algorithm. The first such assignment took place in early April 2002. In 2003 REGOS continued to assign insurance persons who had not chosen a fund within three months of the inception of their employment.

#### Contributions

Contributions amount to 5% of members' social security contributions and are diverted to individual accounts.

#### Benefits

Upon retirement, individuals must use the accumulated balance in their accounts to purchase a life annuity from an authorised insurance company.

#### Tax

All contributions and investment income are tax-exempt. Pension benefits are taxed but are granted a tax allowance.

#### Pension Fund Management Companies and market

Mandatory funds are managed by mandatory pension fund management companies (OMFs), which can only manage one mandatory fund each. By law, these funds must invest at least 50% of their assets in conservative government securities issued by the Republic of Croatia or the Croatian National Bank. In addition, no more than 45% of pension fund assets may be invested outside Croatia. Persons have a free choice of pension management company. Mandatory funds are legally required to have 80,000 members two years after their establishment. On 31 December 2006, 1,322,010 members participated in the four pension funds active on the market. On 31 December 2006, the total net assets of all four funds together amounted to HRK 15,9bn. Net assets grew by 35.9% in 2006.

Mandatory pension fund management companies are required to guarantee a minimum rate of return. Every member is guaranteed a rate of return of 1/3 of the reference yield, which is determined by the regulatory agency (HANFA), if the reference yield during one calendar year is positive. If the reference yield during one calendar year is negative, every member is guaranteed a rate of return of 3x the reference yield of the previous three calendar years, as determined by the regulatory agency (HANFA). Performance measurement of the pension funds is provided by using accounting units. The index used to calculate returns is called MIREX. The reference rate of return is defined as a weighted arithmetic mean of all mandatory pension funds average rates of return in the previous three calendar years, reduced by 2 percentage points.

#### Fees

The fees that mandatory pension funds can charge are determined by the Mandatory and Voluntary Pension Fund Act and by HANFA. There are four types of fees: an entry fee, a management fee, an exit fee and a custody fee. The entry fee can amount to a maximum of 0.8% of contributions. The management fee is 0.95% (start 2007). Exit fees can only be charged during the first 3 years of membership. The custody fee that pension funds are charged can be no more than 0.1% of the managed assets. Transaction fees and costs are charged over the fund assets.

#### Replacement rate

The OECD estimates the gross replacement rate from mandatory pensions for an average worker to be 38.4% (61.6% net). Since the mandatory occupational tier started operating in 2002, the vast majority of the paid out pension benefits has been financed from the state pension.

## **Voluntary Personal**

### Coverage

The voluntary pension scheme is a savings system based on capitalization for those who want additional insurance against the risks of old age, disability and death. Not only private pension companies but also trade unions and employers may establish voluntary pension funds. There are therefore both open and closed funds. The state provides an annual subsidy of up to HRK 1,250 and allows a deduction of up to HRK 1,050 per month from personal taxable income. This means that there is a double benefit – state subsidy and tax deduction – for these contributions (*Midpoint exchange rate, end of period HRK/EUR - 7,3061; Source: the Croatian National Bank*)

### Contributions

The insurance operates according to the same principles as the mandatory savings accounts with one exception: the insured person decides on the amount of contributions he makes.

### Benefits

Benefits are paid as annuities. Member may not withdraw their benefits until they reach the age of 50. Pension fund management companies and market

Voluntary pension fund management companies must be based in Croatia. They can provide both personal pension plans and occupational pension plans. Voluntary pension funds must have at least 2,000 members two years after their establishment. Voluntary pension funds are not required to purchase reinsurance or to achieve a minimum rate of return. In December 2006, 1.3m people were members of voluntary pension funds. There are six open voluntary pension funds run by six fund management companies, and six closed pension funds (ZDMF), which were managed by three management companies.

## **Reforms to the pension system**

The legal retirement age for a state pension benefits has been raised (65 years for men and women), while the relevant period for the calculation of pension income has increased (which in most cases led to lowering the pension income level).

### Early retirement

The right to early retirement pension the insured person gets when reaching 60 years of age and 35 years service for retirement (male) or 55 years and 30 years of service for retirement (women). Pension amount is determined by completed years of retirement, and not by time spent in employment of part-time.

The new law introduces a system of reduced pensions for early retirement. Under the new law since October 2010 early retirement for each year brings reduced pension by 4.08%.

Also, the pension amount is reduced for early retirement: 5 years of early retirement – reduced the pension by 20.4%. But it is rapidly leading to a large number of early retirement before the application of the law (over 93,000 new pensioners).

Pensions are calculated by multiplying the pension factor to the current value of pensions and personal credits. Pension factor is determined to what extent taking personal credits when calculating pensions. The current value of pensions (AVM) is a determined amount of pension to personal points. Personal credits are determined by the average value score is multiplied by total years of retirement and underlying factor.

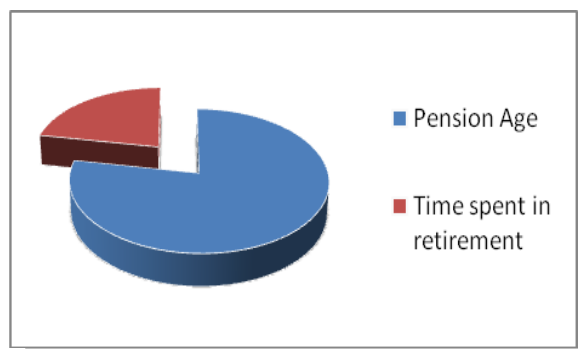
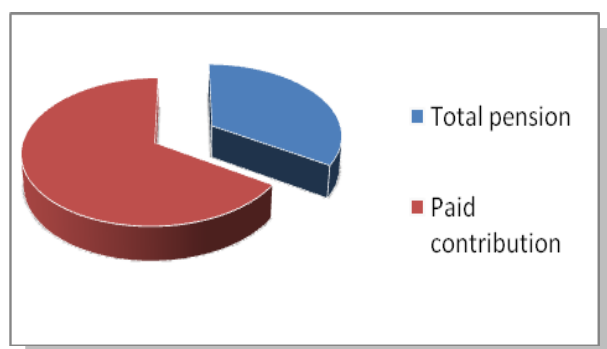
The initial factor has the value 1 for all types of pensions except for early retirement pension. For each month of the previous exercise of the right, before Age Pension age, the main factor is reduced by 0.15% (i.e., the largest reduction of 9% for those who receive early retirement five years before the Age Pension age, but it is expected to decrease soon to be 20%).

Retirement age	60	61	62	63	64
Missing years	5	4	3	2	1
Coefficient / factor	0.91	0.928	0.946	0.964	0.982

### Late retirement

Due notice of amendments to the terms of his retirement, the number of early retirement has increased by 75% compared to the year 2009. For these reasons, soon expected are additional awards and bonuses for later retirement. But there is a big problem of employers who do not want to employ the older people.

Pension Age	Time spent in retirement	Total pension	Paid contribution	Loss - minus
60	17	331.742	643.608	-
65	12	336.211	735.552	<b>87.475</b>



This example shows that early retirement is more beneficial than later retirement. It is clear that the system is unfair towards the pensioners who have worked during their whole life.

### Childcare

Mothers do not have additional rights under the pension insurance for the birth of children. If the mother is unemployed, she has the right to pension insurance for a period of 12 months. Benefit for children receiving cash is used by a parent or other person designated by law, to support the maintenance and upbringing of children. The right to child allowance is acquired and realized depending on the number of children and the amount of total income of household members and other conditions determined by law.

After the expiry of compulsory maternity leave (the first six months of age), the mother has a right to work in part-time work until the age of one year of age, or for twins, the third and each subsequent child, can work half the working time up to the age of three years of age. This right may be used and the child's father if the mother is, at the same, time working full time.

After maternity leave has expired, one of the parents of the first or second child in the family has the right not to work until the child reaches three years of age. During this time, the rights and obligations arising from employment is idle.

## Unemployment

The right to financial compensation awarded to unemployed persons at the time of termination of employment, at least nine months of the last 24 months.

An unemployed person, depending on the total time spent at work is entitled to financial compensation of 90 days to meet minimum requirements, up to 450 days if they spent at work more than 25 years.

90 days if it is spent at work from 9 months to 2 years,

120 days if it is spent at work more than 2 years,

150 days if it is spent at work more than 3 years,

180 days if it is spent at work more than 4 years,

210 days if it is spent at work more than 5 years,

240 days if it is spent at work more than 6 years,

270 days if it is spent at work more than 7 years,

300 days if it is spent at work more than 8 years,

330 days if it is spent at work more than 9 years,

360 days if it is spent at work more than 10 years,

390 days if it is spent at work more than 15 years,

420 days if it is spent at work more than 20 years,

450 days if it is spent at work more than 25 years.

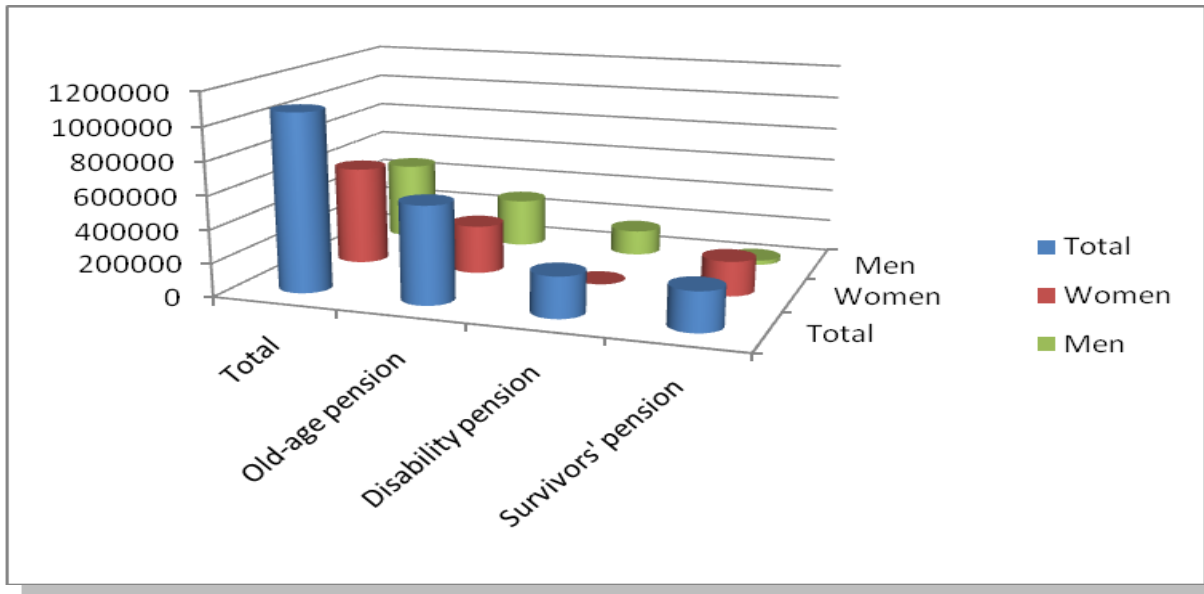
The exception to this rule: Unemployed persons who have undertaken the work of 32 years are entitled to monetary compensation to re-employment.

The amount of compensation after 12 months of use can not be higher than 60% of the minimum salary minus contributions for compulsory insurance established by a special regulation. The minimum wage for the period from 1<sup>st</sup> June 2009 to 21<sup>st</sup> May 2010 in the Republic of Croatia is 2,814.00 (the Minimum Wage Act, „Official Gazette”, no. 65/09).

31. 01.	Total	Women	55 - 60	%	60 – and over	%
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2008	240,455	149,986	26,389	10.197	7,788	3.23
2009	291,454	165,238	29,998	10.29	8,780	3.00
2010	309,562	172,173	31,220	10.08	9,183	2.96

**UNEMPLOYED PERSONS, BY AGE AND GENDER**



**Personal income tax and social security contributions**

***Taxation of pensioners***

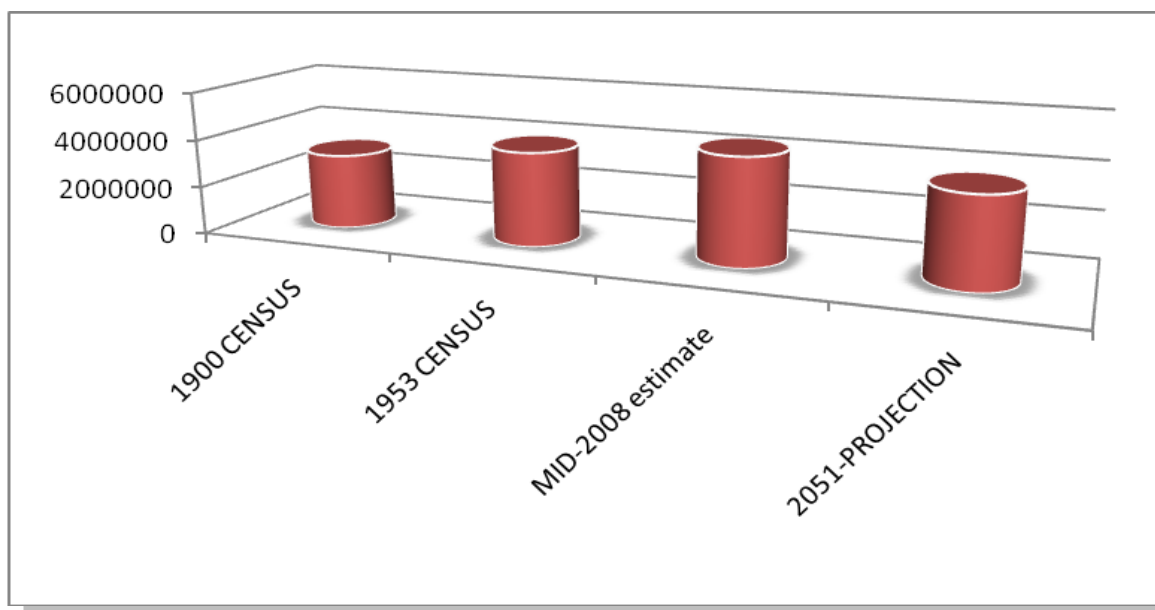
Retirees with higher pension of 3,200.00 HRK (€ 438.35), pay taxes according to state law.

***Taxation of pension income***

There are no special reliefs.

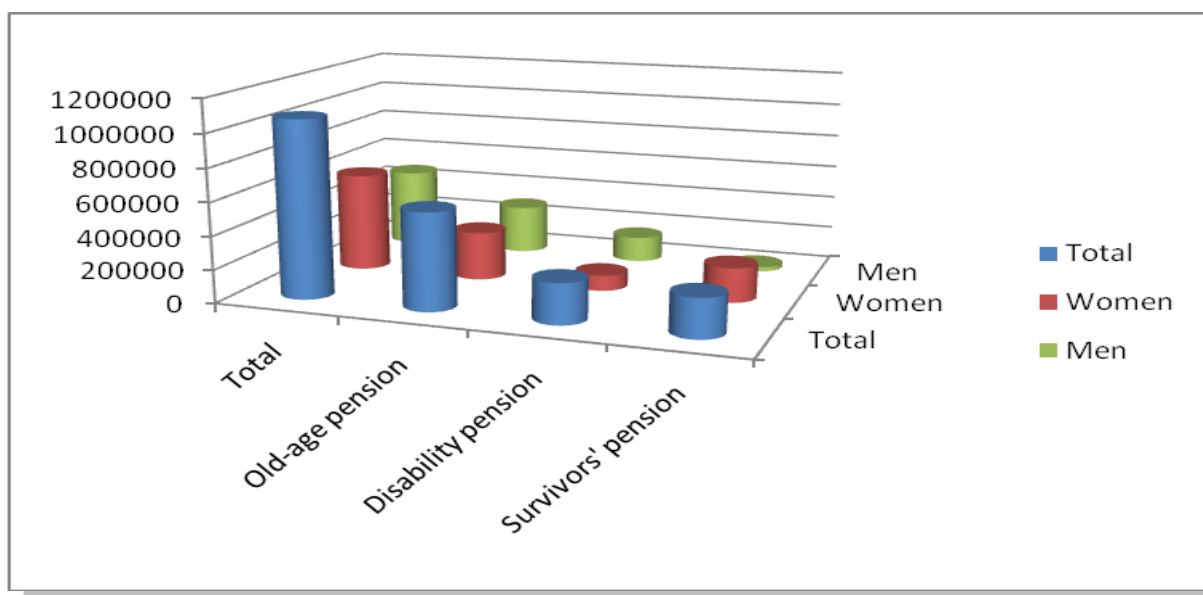
**POPULATION IN CROATIA**

<i>POPULATION IN CROATIA</i>	<i>1900 CENSUS</i>	<i>1953 CENSUS</i>	<i>MID-2008 estimate</i>	<i>2051-PROJECTION</i>
	3 161 456	3 936 022	4 434 508	3 714 300



**PENSION BENEFICIARIES BY TYPE OF PENSION, DECEMBER 2008 <sup>1)</sup>**

	Total	Women	Men	% Women	% Men
Total	1 070 956	596 816	474 140	55.7	44.3
Old-age pension	587 369	293 643	293 726	50.0	50.0
Disability pension	246 566	93 747	152 819	38.0	62.0
Survivors' pension	237 021	209 426	27 595	88.4	11.6



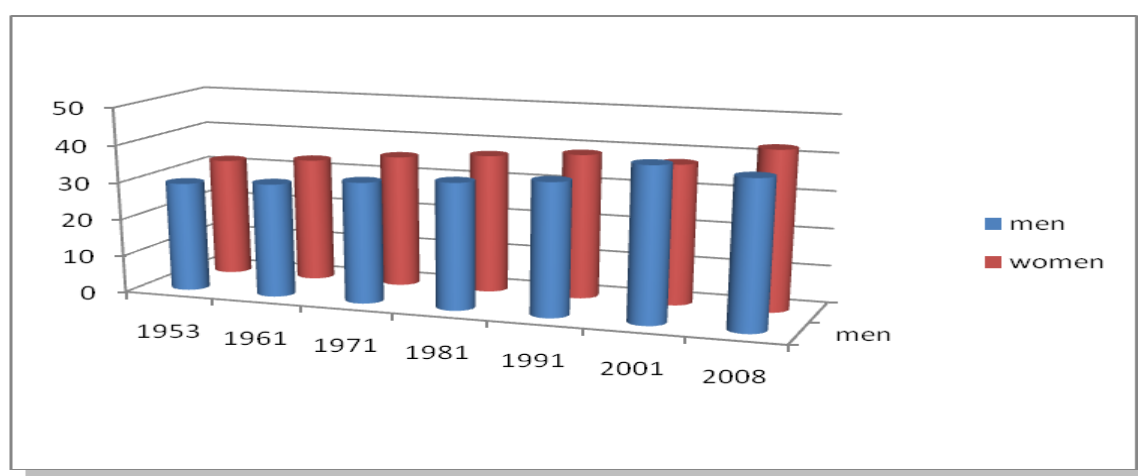
1) The amount of pensions doesn't include beneficiaries whose rights are regulated by the Law on Pension Insurance Rights of Active Military Persons, Police Officials and Authorised Officials, beneficiaries whose pension is regulated by the Law on Rights of Croatian Homeland War Veterans and Their Families nor beneficiaries whose rights are regulated by the Act on the Ratification of the Agreement between the Republic of Croatia and Bosnia and Herzegovina on Cooperation Concerning the Rights of Sufferers of War in Bosnia and Herzegovina Who Were Members of the Croatian Defense Council and Their Family Members (NN, No. 2/06).

## NUMBER OF RETIREMENT

31. 01.	Total	War veterans younger - 55	%
2008	1.068.940	61.301	5.7
2009	1.087.115	67.317	6.2
2010	1.092.226	68.112	6.3

*Source: Croatian Institute for Pension Insurance*

## AVERAGE AGE OF POPULATION



## LIFE EXPECTANCY AT BIRTH

