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:

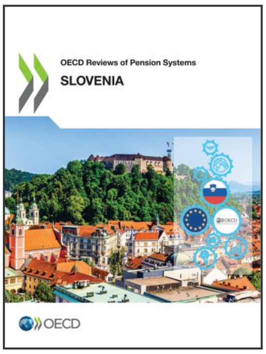
- Adjust benefits to life expectancy or to the ratio of contributors-to-pensioners, increase contribution rates, finance pension redistributive components from the state budget, and lower the minimum and/or the maximum reference wages.

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.



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