

## CZECH REPUBLIC - AN OVERVIEW OF EMPLOYEE BENEFITS

State and Mandatory Benefits	The retirement age is being progressively increased to age 63 for men from 2016 and for women without children from 2019 (and to age 65 for both from 2030), and to age 59 to 62 for women with children, depending on the number of children raised. The state pension is made up of a flat-rate pension of CZK 2,170 a month plus an earnings-related amount based on 1.5% of average revalued earnings for each year of insurance, with no upper limit. The pension is calculated on 100% of average revalued earnings up to CZK 15,000 a month, then 30% up to CZK 27,000 and 10% on the excess. Average earnings are based on earnings between 1986 and retirement, up to 30 years from 2016. Sickness, disability and survivors' benefits, and mandatory health insurance are also provided. There are proposals to replace the current defined benefit state pension with a system of notional defined contribution accounts, and to introduce a second pillar system based on funded individual accounts.
Typical New Pension Plan	Employers typically provide insured lump sum death and accident benefits. There is no mandatory second pillar pension system although there are proposals to allow individuals to divert part of their state pension contributions to a private plan. Private plans provide retirement benefits on a defined contribution basis from Voluntary Pension Savings Funds (VPSF) which are required to generate a positive return. Benefits are payable as a pension or a lump sum. If employees contribute, the state also makes a contribution, ranging from CZK 50 a month for an employee contribution of CZK 100 a month, up to CZK 150 a month for an employee contribution of CZK 500 a month or more.
Typical Costs	Contributions for state pension, sickness and unemployment benefits are 25.0% by employers and 6.5% by employees, with no upper limit. In addition, employers pay 9.0% for medical care and employees pay 4.5%. Contributions to a Voluntary Pension Savings Fund are typically 3% by employers and 2.5% by employees.
Tax Implications	Employer and employee contributions for state benefits are tax deductible. Employer contributions to supplementary pension insurance and life insurance are tax deductible up to CZK 24,000 a year. Employee contributions to pension and life insurance are tax deductible up to CZK 12,000 a year for each product. Employer contributions towards lump sum death benefits are taxable to employees. State pensions are not subject to tax. Life insurance benefits are taxable on the interest element.
Labour Law Issues	A pension plan can be provided for all employees or for different categories of employees. In defined contribution pension plans, benefits vest immediately.
Pooling Potential	There is limited scope for pooling insured benefits as most companies are too small.
International Financial Reporting	EU/EEA rules apply. For listed companies, International Financial Reporting Standards apply in both consolidated and separate company statements. For unlisted companies, IFRSs are permitted in consolidated statements but are prohibited in separate statements.
Local IBN Contact	Otto Hain, Director of Corporate Division, <a href="mailto:otto.hain@fincentrum.com">otto.hain@fincentrum.com</a> Fincentrum a.s. IBC Pobřežní 620/3 186 00 Prague 8 Czech Republic  Tel: +420 224 832 633 Web site: <a href="http://www.fincentrum.com">www.fincentrum.com</a>