

~ ДЕМОГРАФІЯ, ЕКОНОМІКА ПРАЦІ, СОЦІАЛЬНА
ЕКОНОМІКА І ПОЛІТИКА ~

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STANDARD OF LIVING OF PENSIONERS IN SLOVAKIA – PROBLEMS AND
OUTLOOKS

Pribišová Emilia, PhD (Social work), Associate Professor, Department of Economics, marketing and management, International School of Management ISM Slovakia in Prešov, Prešov, Slovakia
e-mail: pribisova@ismpo.sk

Abstract. A large demographic problem is developing in today's world and Slovakia is not an exception. Declining birth rate and increasing average life expectancy are the main reasons for the rising number of pensioners. Pay-as-you-go pension plan was first introduced by Prussian chancellor Otto von Bismarck in 1889. A system similar to that of Bismarck has spread around the developed world and is now used throughout Europe in various forms. The key principle is that the working people financially support the pensioners. People in post-productive age (65+ years) represent a considerable and to a large extent marginalized population group. In Slovakia, as of 31.12.2021, the proportion of such persons to the total population (1,407,596 pensioners in SK) is 17.39%. These are mainly pensioners who no longer engage in labour. Considering the amount of pensions paid, there is an increasing risk of poverty, which is attributable to low income of these individuals or families. Up to this moment, no definition of absolute poverty has been adopted in Slovakia. Let's define people at financial risk as those being in material need. With regard to poverty, the highest-risk group comprises elderly people (pensioners), large or single-parent families and the long-term unemployed. Moreover, people with lower education level are at high risk, too. Although living wage is defined both administratively and in the legislature, it changes based on political decisions. Consequently, we can regard this part of the population as a group that is endangered the most.

Key words: pensioner, standard of living, pension system, revenues and expenses of pensioners.

РІВЕНЬ ЖИТТЯ ПЕНСІОНЕРІВ У СЛОВАЧЧИНІ – ПРОБЛЕМИ ТА
ПЕРСПЕКТИВИ

Прібішова Емілія, доктор філософії (соціальна робота), доцент, кафедра економіки, маркетингу та менеджменту, Міжнародна школа менеджменту ISM Словаччина в Пряшові, Пряшів, Словаччина
e-mail: pribisova@ismpo.sk

Анотація. У сучасному світі розвивається велика демографічна проблема, і Словаччина не є винятком. Зменшення народжуваності та збільшення середньої тривалості життя є основними причинами зростання кількості пенсіонерів. Розрахунковий пенсійний план був вперше запроваджений канцлером Пруссії Отто фон Бісмарком у 1889 році. Система, подібна до системи Бісмарка, поширилася в розвинутих країнах і зараз використовується в Європі в різних формах. Головний принцип – пенсіонерів матеріально підтримують працюючі. Люди в постпродуктивному віці (65+ років) представляють значну і значною мірою маргіналізовану групу населення. У Словаччині станом на 31.12.2021 частка таких осіб до загальної кількості населення (1 407 596 пенсіонерів у Словаччині) становить 17,39%. В основному це пенсіонери, які вже не працюють. Зважаючи на розмір виплачуваних пенсій, зростає ризик бідності, що пояснюється низьким рівнем доходу цих осіб або сімей. До цього моменту в Словаччині не прийнято визначення абсолютної бідності. Давайте визначимо людей із фінансовим ризиком як тих, хто має матеріальну потребу. Що стосується бідності, то до групи найвищого ризику входять люди похилого віку (пенсіонери), багатодітні або неповні сім'ї та довготривалі безробітні. Крім того, до групи ризику входять люди з нижчим рівнем освіти. Хоча прожитковий мінімум визначається як адміністративно, так і законодавчо, він змінюється залежно від політичних рішень. Отже, ми можемо розглядати цю частину населення як групу, яка найбільше загрожує.

Ключові слова: пенсіонер, рівень життя, пенсійна система, доходи та витрати пенсіонерів.

JEL Classification: H550, H510.

Formulation of the problem. Aging of the population is a phenomenon that we cannot avoid in Slovakia. Strong, post-war generation is retiring and entering the labour market is the weak, post-revolutionary generation. The consequences are broad - ranging from the functioning of the economy, through changes in travel or education to healthcare and long-term care.

Slovakia is going to be affected by aging of the population more profoundly than most of the

countries of the EU.

The government's proposal on this year's increase of pensions by 1.3% can by no means compensate for the current and coming price increases. Large number of retirees, mainly old-age pensioners, are falling into depression and great sorrow as a result of fears over sharp increases in prices. In the past, before the outbreak of the pandemic, the elderly used to gain optimism from meetings with their family or one another. Then came several lockdowns and even these gatherings became sparse.

Two-digit inflation and sharp price increases in recent months have complicated the already difficult pandemic times even more. With the arrival of the New Year 2022, Slovak households were already beginning to suffer from rapid increases in energy prices, which the planned valorisation of pensions cannot cover. For many retirees, the government-proposed pension valorisation cannot compensate for the increasing prices of groceries, gas or public transport.

It is the elderly that live in energetically inefficient buildings since their large houses were built during the socialist regime. Even though these houses are equipped with gas central heating, because of high energy prices, residents are switching to wood heating and in times of the heaviest frost, it is not unusual to heat only one room. All this is necessary for cutting the expenses that are already inadequate and is possible as the elderly live largely alone or with their life partner.

© 1. Vekové zloženie obyvateľstva k 31. 12.
Age structure of population as of Dec. 31

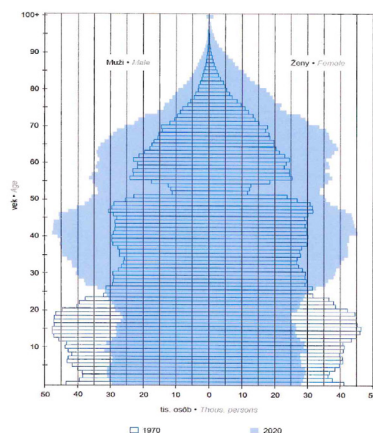


Fig. 1 source: Statistical Office of the Slovak Republic 2021

Separation of previously unresolved parts of the overall problem.

Currently, pension increases are set in favour of the rich. A retiree with a pension of a thousand euro receives additional thirteen euro from the government. However, there are only few tens of thousands of such pensioners in Slovakia. Most of the retirees receive less than the average pension, which, by the way, was 503.86 euro in August. A typical pensioner receives around 400 euro. Such pension will be increased by 5.2 euro in the beginning of next year.

According to the Council for Budget Responsibility, a quarter of financial resources will be missing from the pension system in fifty years. Low social insurance contributions cause low pensions. Those will be increased much more slowly than the pensions of people with average income. This is another way of how the government plans to motivate both employees and self-employed people not to avoid paying social insurance.

Basic material. Adopting such changes will freeze low pensions for a significant period of time. The vision of the Ministry of Labour is that the minimal pensions will only increase once their

value gets below 136 percent of minimum wage. Today, this amounts to 318.80 euro. Based on the available macroeconomic prognoses it can already be assumed that increases in pensions will not occur until 2030 – 2032. After 30 years of service, a person is currently eligible for a minimum pension of 334.4 euro per month. This amount proportionally increases with the number of years of service and in case of a 50-year long career. The minimum pension is set for 441.5 euro.

In practise, the threat of low pensions mostly lies with sole proprietors, who are and have been paying minimal or no social insurance from performing their economic activities. On one hand, they do earn much higher net income than people in permanent employment, but, on the other hand, they receive lower pensions after the retirement as a result. The government currently pays out minimum pension to around 200,000 Slovak citizens, which, regarding today’s living standards and high prices, is an unfavourable development for seniors and recipients of old-age pension, not to forget disability pensioners.

The Statistical Office of the Slovak Republic has published information according to which the consumer price index for pensioner households increased by 11.8% year-on-year. From the 1st of January 2023, pensions will be increased in accordance with § 82 of Act No. 461/2003 Coll. on social insurance by this percentage. In accordance with § 82, the pension benefit paid on January the 1st of the respective calendar year and the pension benefit granted from January the 1st to December 31st of the respective calendar year is increased by the percentage of the year-on-year growth in consumer prices for pensioner households as reported by the statistical office for the first half of the calendar year preceding the relevant calendar year.

This implies that from the 1st of January 2023, the average old-age pension will be increased to 585 euro - an increase of 69 euro. The minimum pension represents the exception that proves the rule as it will be frozen until 2032. In times of sharp price increases, the poorest retirees will therefore get no increase in pensions whatsoever from the government.

As the following table implies, in 2020, comparing earnings to expenses using simulated data, recipients of old-age and disability pensions are left with less than 5 euro per day (€149.58 / 30 days = €4.99) for fulfilling their needs and wants. The situation after 2022 will be drastically worse in comparison to 2020.

Table 1

The structure of net financial income and expenses of private households with respect to social groups – receivers of pensions

Indicator	2016	2017	2018	2019	2020
Net financial income (EUR)	4 811	5 005	5 287	5 528	5 900
percentage:					
income from social insurance	89,4	89,5	89,8	89,7	90,1
from that: pensions	86,3	86,5	86,9	87,1	87,5
Net financial expenses (EUR)	3 884	3 972	4 063	4 184	4 105
percentage:					
consumption expenditures	92,3	92,4	92,5	92,8	92,8
percentage:					
groceries and non-alcoholic drinks	25,8	26,6	27,0	27,3	27,0
housing, water, electricity, gas and other fuels	25,3	24,4	24,3	25,2	24,9
health care	5,1	5,3	5,2	5,4	5,4
transportation	6,9	7,0	7,1	6,6	6,8
other net income	7,7	7,6	7,5	7,2	7,2
Income - Expenses	927	1 033	1 224	1 344	1 795
Monthly balance in EUR	77,25	86,08	102,00	112,00	149,58

Source: Statistical Office of the Slovak Republic 2021

Silver economy

The numbers related to employment of citizens who reached the retirement age are uncompromising. Slovak seniors, despite their higher age, do actively engage in labour. There is a significant increase in the number of working seniors over the past years as older people feel the need to earn some extra money to improve their low standard of living.

Under the topic of the active elderly, it is becoming more and more common to speak about the silver economy. The silver economy is a complex and multidisciplinary system, which concerns virtually all seniors and every sector; private, non-profit, government public policies, autonomy, etc.

Concerning pension policy, the Ministry of Labour has long been trying to fulfil one of the key premises of social economy – standard of living of seniors. Increasing and thereby improving the purchasing power of seniors and their households naturally makes it much more feasible to develop the silver economy, a system whose goods and services are much oriented on seniors and their needs. Another important areas of seniors' life are private and public social services, which are, to a large extent, systematically managed and financed by the government from public resources.

In present circumstances, it is important to motivate employers to create shared, part-time positions for people aged 50 years and more and to support the development of new forms of employment that increase the flexibility of the labour market for people over 50 years old.

Seniors and the standard of living in Slovakia

In around 30 years, Slovakia along with Poland will join the countries where there is almost one pensioner per every working person. This is the result of a study conducted by the Organisation for Economic Co-operation and Development (OECD), which encourages governments to help engage seniors in labour.

Since the life expectancy is steadily increasing, the process of engaging seniors will apparently be necessary to maintain the current standard of living in developed countries. In 2018, 64% of citizens in OECD countries aged between 55 and 64 years were working. In just a decade, this number had increased by 8 percent and is likely to continue increasing.

The predictions for the year 2050 show a negative tendency that in developed economies, including Slovak Republic, there will be 40% more retired citizens and people in inactive age per one working person (in year 2018, there are 42 pensioners per 100 active people as opposed to 58 pensioners per 100 active people in 2050).

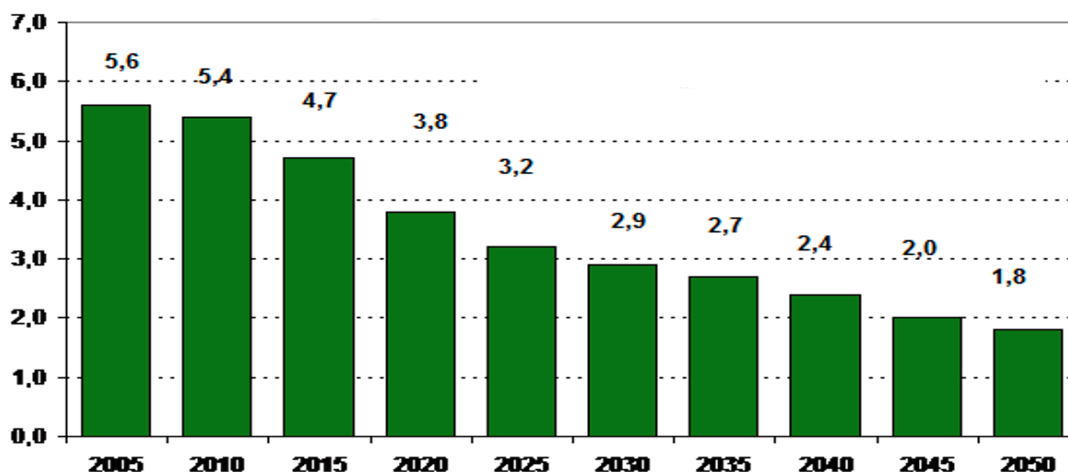


Table 2 The number of people in the age of economic activity (18-64 years) per one pensioner in SK

Source: VDC, 2002

The pay-as-you-go pension plan created by Otto von Bismarck, which is used in Slovakia by

the Social Insurance Agency, is based on the idea that the working people subsidize all pensioners. However, the development shows that this system is starting to collapse as a result of:

- the increase of average life expectancy
- the decrease of natality (birth rate)
- general population aging

The increase of average life expectancy is triggered by improving healthcare and reducing the manual aspect of work. While in 2002 an average man lived 69.5 years and an average woman 77.6 years, in 2050, it will be 71.6 years for men and 80.3 years for women on average. Such a development causes higher financial requirements on the social insurance system and old-age pensions.

In Slovak Republic in years 2020 to 2022, various types of pensions; old-age pension, early retirement pension and disability pension were paid out as follows:

Table 3

Number of pensions paid out in SK

Period	Total number of pensions	Old-age pensions	Early retirement pension	Disability pension
as of 31.12.2020	1 411 904	1 093 195	12 203	233 461
as of 31.12.2021	1 407 596	1 096 225	11 992	227 426
as of 30.6.2022	1 406 713	1 096 369	11 806	224 577

Source: Social Insurance Agency in Slovakia

Every year, the average monthly wage in Slovak Republic is more acceptable than the wage of majority of the employed population. Equally poor is the comparison of the average and typical pension. We can see this in the following tables, which illustrate the average and minimum pension.

Table 4

Average paid out pensions

Period	Old-age pension	Early retirement pension	Disability up to 70 %	Disability more than 70 %	Disability (including partial disability)
k 31.12.2020	487,37	474,48	217,79	394,74	284,53
k 31.12.2021	505,68	500,40	225,88	408,52	416,08
k 30.6.2022	515,72	507,06	230,15	416,30	297,76

Source: Social Insurance Agency in Slovakia

The precondition for increasing a pension to minimum pension is that the receiver’s total income from pensions is lower than the minimum pension. The increase is determined by the difference between the minimum and actual pension. The purpose of minimum pension is to secure sufficient income so that the insured person does not fall into material need.

Table 5

Minimum pension from the 1st of January 2021

Pension insurance period for the purposes of the minimum pension in years	Minimum pension in Euro
30	334.30
31	338.50
32	342.70
33	347.00

34	351.20
35	355.40
36	359.60
37	363.80
38	368.00
39	372.20
40	378.50
41	384.80
42	391.10
43	397.40
44	403.70
45	410.00
46	416.30
47	422.60
48	428.90
49	435.20
50	441.50

Source: Social Insurance Agency in Slovakia

There is a rather poor situation in paying out old-age pensions as compared to average monthly wage in the Slovak economy. Here, an average pensioner receives less than 45% of the average monthly wage.

Table 6

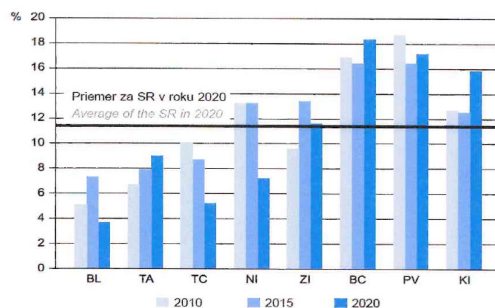
Average old-age pension to average monthly wage ratio
in the National Economy of SK in %

Year	Average old-age pension solo as of 31.12. in €	Average monthly wage in the National Economy of SK in €	Ratio in %
2019	460,39	1 092,00	42,16
2020	487,37	1 133,00	43,02
2021	505,68	1 211,00	41,76

Source: Social Insurance Agency in Slovakia

As mentioned earlier, increasing pensions by few euro per month can by no means compensate for the coming price increases. Now that the pandemic is over, pensioners, although not all of them, had overcome the difficult times and already the inflation has started to complicate their lives again. With the arrival of year 2023, Slovak households will be hit by the energy price increases even more. The planned valorisation of pensions cannot cover these increases for many seniors and receivers of pensions (old-age or disability). It is in these households that the pensioners find themselves in material need and are at serious risk of poverty. According to the data from the Statistical Office of the Slovak Republic, the at-risk-of-poverty rate in years 2010, 2015 and 2020 by region looks like this:

G 7. Miera rizika chudoby podľa krajov SR
At-risk-of-poverty rate by regions of the SR



G 8. Spotreba vybraných druhov potravín na 1 obyvateľa
Consumption of selected kinds of food per capita

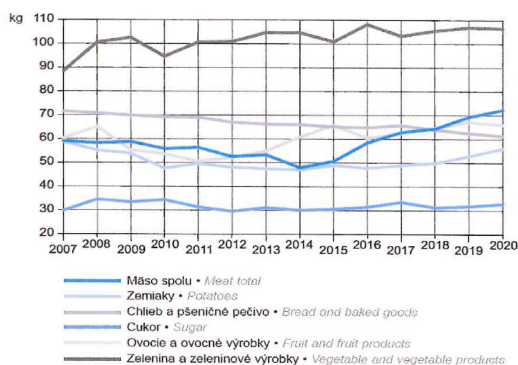


Fig. 2.

Source: The Statistical office of the Slovak Republic

In Slovakia in year 2021, every eighth citizen was at the risk of relative poverty, which is almost 660 thousand people. For the first time, the at-risk-of-poverty rate has increased year-on-year in all regions of Slovakia, most significantly in Prešov region. Moreover, large and single-parent families were at the highest risk, although their situation slightly improved year-on-year.

Furthermore, 12.3% of Slovak citizens were at risk of relative poverty, which means that their income was lower than the calculated national absolute poverty line. As a result, 660 thousand people had to make do with an income below the relative poverty, 45 thousand more than the year before. Relative poverty is the most common of the three identified dimensions/components of poverty and social exclusion in Slovak society. Overall, 10.3% of all seniors were defined as poor, a rate twice as high as in year 2016.

Concerning relative poverty, apart from the unemployed, childless families are worst off: a single person aged 65+, where the relative poverty moves around 28.5% in year 2021. The proportion of people at risk of relative poverty in Slovakia was 11.4% in year 2020, but in 2021, it was 12.3%. The worst situation was in Prešov region, 19.2%, while Bratislava region, on the other hand, had the lowest proportion with only 4.2%.

The at-risk-of-poverty rate is the percentage of persons living in households where the equivalised total disposable household income is below the at-risk-of-poverty threshold (defined as 60% of median equivalised disposable income of all households).

Conclusions. According to analysts from the Institute of financial politics, the average pension might exceed 700 euro in year 2025. However, the economist and adviser of the Union of Pensioners in Slovakia points out that the standard of living of pensioners will not improve and the number of poor pensioners will be growing. On the other hand, the analysts claim that because of the valorisation of pensions based on inflation the standard of living will remain unchanged.

There are essentially two possible methods for solving this already difficult financial and social situation for pensioners in Slovakia that could represent a substitute for the pay-as-you-go plan of

social insurance. The first one is a system that has been used here for centuries and is now more common in Asia and Africa. It is based on the principle that every person finances their children, themselves and also their parents. However, this system is not always reliable. Not only is there a poor financial situation in the country, there is also the problem of a small number of children.

The genuine solution is that everyone saves for retirement throughout their active life. This is a system already working in many countries of the world. It was first implemented to the national (and therefore mandatory) system by a Chilean economist José Piñera. Dr. Piñera promotes creating pension systems that are based on personal pension accounts. Since the system was introduced, it has served tens of countries and in 2005, Slovakia has joined this modern path. Nevertheless, the system of calculating old-age and other pensions must be changed. It has to factor in the economic and political life of not merely our country, but of all countries of the European Union. Such a calculation of pensions, however, will likely be applied only to those citizens, who are still economically active today.

One must not omit that the government also has the duty to take care of seniors and receivers of disability or old-age pensions, that could never engage in labour or worked for a short period of time because of their severe disability. The same holds true for citizens who are childless or did not have the opportunity to work but were not considered unemployed. In such cases it is the government who has to take the responsibility and provide these citizens not only with the minimum standard of living, but with what they need for living a decent life.

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