

ETUC SOCIAL PROJECT - SURVEY FOR NATIONAL CONTACT PERSONS

Trade Union report for Croatia

National Trade unions that participated in the survey: SSSH

This survey, for completion by the National Contact Persons on behalf of their trade union, is an important source of the qualitative and quantitative information required for the ETUC’s SociAll Project. This is in addition to the extensive information about each countries’ pension system that will already be available to the National Experts from established national and international sources.

The survey will provide the National Experts with:

- Background information, specifically from a trade union perspective, about the country’s pension system and attitudes to recent trends in pension provision;
- To outline the challenges in the sphere of pension provision that have been identified by trade unions; and
- Set out the trade unions’ priorities and proposals.

The survey is divided into three sections that are summarised in Table 1 below. These relate to the corresponding sections of the National Reports, as outlined in the Methodological Note. Section 4 of the National Reports will also be informed by the information that is provided.

Table 1. Outline of the National Survey	
<u>Section 1.</u>	The Country’s Pension System: The views of the national trade unions on the strengths and weaknesses of prevailing pension system and the content and the expected effects on the system of recent reforms and those currently under active discussion.
<u>Section 2.</u>	Current Challenges: Trade unions’ perception of the main socio-economic and demographic challenges that affect the present and future of pension provision.
<u>Section 3.</u>	Possible Reforms: The trade union’s priorities in pension policy and the strategies required to have more effective pension protection in the future.



Section 1. The Country's Pension System

This section of the survey covers the current situation, including questions on the trade unions' views on the strengths and weaknesses of prevailing national pension system. It also asks questions on the content and the expected effects on the country's pension system of recent reforms and those currently under active discussion. It should be taken that the National Experts are already familiar with the country's existing pension system and current issues. The status of the current reforms should be identified as follows:

- **Completed Reforms**, i.e. those implemented since 2010
- **Planned reforms**, i.e. almost certain to be adopted, i.e. having gained enough political support and formulated as draft legislation
- **Reforms under active discussion**, i.e. those that are under discussion, with an indication of the likelihood that the reform will be adopted.

QUESTIONS

GENERAL OVERVIEW

Role of Social Partners in general and trade unions in shaping pension reforms

Q 1.1

Can you describe how trade unions in particular and social partners in general are involved in the pension policy debate and decision-making process in your country and how does the involvement take place (involvement in bipartite/tripartite institutions, consultation by government/parliament, negotiations)?

There are no special procedures for involvement of the social partners, except those otherwise used for the tripartite social dialogue (discussion of the draft laws on the Economic and Social Council, and possibly participation of social partners' representatives in working groups drafting the laws).

In general, recent Governments (i.e. those in office since 2010) were not interested in any substantial dialogue with the social partners on the pension reforms they planned to undertake. In both case of substantial reforms (2013 and 2018) the governments discussed already drafted laws with the social partners only for formality's sake. In both cases, details of reforms were elaborated beforehand, and discussions within tripartite social dialogue did not influence their final shape.

In 2019 the trade unions got involved in decision-making process by collecting signatures for initiating the referendum on the retirement age and penalisation of early retirement, thus making the Government to change its already adopted reform and accept trade union demands.

Q. 1.2

Which is the trade union role in the latest pension reform processes (implemented and under discussion)? Provide your own assessment (major role, marginal role, total exclusion) and few examples in case of influence

In last reform process (2018 – 2019) the Government planned marginal role of trade unions. The new Law on Pension Insurance was drafted by the Ministry of Labour and Pension System and submitted to trade unions for comments. The Minister of Labour and Pension System held two meetings with social partners, which resulted only in offering one minor concession to trade union positions. As already mentioned, in the end trade union role was a major one, as they managed to force Government to withdraw the main aspects of its reform (increasing the retirement age from 65 to 67 and lowering pensions of those who retired earlier).

Q. 1.3

Provide a general assessment of the extent to which the existing pension system addresses the needs of current and future retired people in your country, indicating where and why it falls short.

A general assessment will be enough, as a more detailed section on challenges will follow. The existing pension system fails to address the needs of current retired people through the fact that the pensions are generally low. As the last 30 years saw continuous erosion of pension rights, time of retirement has large influence on the level of pension – i.e. those who retired in 1990 have much larger pensions than those who retired in 2000, and those who retired in 2010 have even smaller than those who retired in 2000. The main challenge related to the future pensioners will be created by spreading of precarious work. Working on fixed-term contracts, spending long periods unemployed, working on contracts other than labour contracts, and receiving part of the salary in cash (and without paid contributions) will result in much slower accumulation of pension rights than was the case with the previous generations.

Q. 1.4

- a. What are the main principles and policy drivers that inspired the design of the pension system under analysis? Are they still valid?

Croatian pension system was designed during the communist period, as a P-A-Y-G system financed by contributions from the salaries. In spite of substantial number of reforms undertaken since mid 1990's this still remains the heart of the system. In late 1990's (implemented in practice in early 2000's) the system was partially privatised, by re-directing 25% of the pension contribution (or 5% of the wage, out of the total contribution of 20% of the wage) to individual capitalised accounts of insured persons. The reform was designed following the lead of the World Bank and the IMF,



while it remains to be explained why Croatia was the most eager of all post-communist countries to implement this recipe.

The idea that the capitalisation of individual pension savings can solve demographic problem of the pension system is still widely accepted. There is political consensus that private part of the pension system should be enlarged, but no Government had the courage to deal with financial implications of such a move.

Most citizens still wrongly believe that they have “money” on their pension accounts and that this money belongs to them.

- b. Is the European Pillar of Social Rights and the recent European Council’s Recommendation on Access to social protection for workers and the self-employed¹ shaping the debate on pensions?

No.

- c. Within trade unions?

Slightly.

- d. In bipartite or tripartite social dialogue?

Almost not at all.

Q. 1.5

Summarise the trade unions’ views on the state of the country’s pension system debate in terms of the balance between financial sustainability and social adequacy, coverage and effectiveness.

The pension system debate, both by politicians, experts and the media, is always framed in terms of financial sustainability and adequacy, although the sustainability issue is heavily dominating. Issues of coverage and effectiveness are seldom raised, except by the trade unions.

In reality, the Croatian pension system is much more sustainable than the politicians and experts would want us to believe. Its deficit was artificially created by including so called special pension in the general system (which were not earned through payment of contributions, and should therefore not be financed by them), and by refusing to acknowledge the existence of transitional cost of partial privatisation of the system.

As already noted, adequacy is a grave problem (more so for every further generation of pensioners), while coverage will be growing problem in the future (i.e. for those born after 1980).

¹ <https://ec.europa.eu/social/main.jsp?catId=89&furtherNews=yes&langId=en&newsId=9478>

Q. 1.6

Summarise completed reforms (as defined above) and indicate the trade union's assessment (if any) of their impact on the adequacy, coverage, and effectiveness of pension provision?

The only substantial structural reform was introduction of the so called second pillar (individual capitalised savings) on the World Bank model (legal changes were introduced in 1998, while the reform took effect in 2001). Trade union assessment of this reform is negative, as negatively affected sustainability of the public pension system, while not providing higher retirement rates (except for high-earners).

During last 25 year there was a large number of smaller interventions in the system, which was detrimental for its effectiveness.

Q. 1.7

Summarise reforms and those under active discussion (as defined above) and indicate the trades union's assessment (if any) of their impact on the adequacy, coverage, and effectiveness of pension provision?

At the moment there is not much discussion on the pension system reforms, as current and future Government already implemented what it was planning, and was partially defeated by the trade unions (in increasing the retirement age).

However, there is still the idea that the second pillar should be further strengthened – this is on the table since its introduction in 2001, but no Government has courage to face its financial consequences (i.e. further increase of transition cost of its introduction caused by siphoning few more percentages of contributions from the PAYG public system to individual capitalized accounts. As the financial lobby is strongly advocating this idea, it will continuing to resurface (although probably not during the coronacrisis).

The idea of raising the retirement age, being such a simple one to legally implement and so popular with the European Commission and IMF, is likely to resurface again at some point in the future, but probably not during next 4 years.



Section 2. Current challenges

This section of the survey is about the trade unions' perception of the main socio-economic and demographic challenges that affect the present state and future of pension provision in terms of coverage effectiveness and adequacy (and the effective implementation of the Recommendation on Access to Social Protection for Workers and the Self-Employed).

This should cover:

- *The issues the trade union regards as the more urgent challenges to pensions; and*
- *The main social and occupational groups that, in the view of the trade union movement, need greater attention for more effective pension protection.*
- *The gender dimension of the challenges*

The lists of issues provided for certain questions is non-exhaustive and other issues should be covered, if appropriate

QUESTIONS

Main Challenges

Q. 2.1

- a. What are, in general, the main social challenges in pension provision with respect to the social and economic outlook of your country?

Please consider the needs of people, their rights and living conditions. You can make reference to the topics listed below, noting the relevance in the short, medium and long run, and add some others. Please, explain your choices and, for those that are regarded as the most salient, provide a concise explanation, with data and examples.

- Population ageing
- Poverty rates
- Access to essential services
- Out-of-pocket expenditure for healthcare and long-term care
- Low salaries
- Unemployment
- Increased share of atypical jobs (high rate of involuntary part-time/zero-hour contracts/
- Bogus self-employment
- Sluggish economic performance
- Low average productivity
- Increasing inequalities
- Gender gaps in employment/wages
- The Covid-19 Pandemic
- Other:

Low salaries, until recently very high unemployment and high share of grey economy (with common practice of paying part of the salary in cash and without taxes and social contributions) are main reasons that the level of pensions is generally low (as already noted, the pension rights were deteriorating step by step since 1990, thus making every new generation of pensioners less well-off).

Population ageing is a general social problem, although EC projections show that it won't significantly influence sustainability of the pension system (that is, if the level of pensions remains as it is).

Increased share of atypical jobs will be serious problem for all future generations of pensioners, as already explained above. In the long term, this is maybe the key challenge which must be addressed by the pension reform (as the state can have only limited impact on demography, while it can actively shape the labor market).

Gender gap in employment and wages is of course affecting the level of pensions, as almost everywhere else.

- b. Who do these social challenges affect?

Already explained above.

- c. What are the main reasons for these challenges?

Unsuccessful economic transition (including weak and inefficient state and crony capitalism) and predominance of neoliberal economic policies, including the influence of international financial institutions and European Union structural reforms in last two decades.

- d. Can you please provide data to support your views?

Na

Challenges to Formal coverage

Q. 2.2

Please answer the questions shortly framing the relevant situation(s) in the demographic/ social/ macroeconomic context and always keep into account the gender perspective wherever relevant and possible. In your reply, please, consider in particular but not only employees, self-employed and atypical workers, as well as the gender dimension (de facto)

- a. Are there any major gaps in formal coverage?

The pension system theoretically covers all those who work, as the pension contributions are today paid even of types of contract which do not constitute labor relation (albeit at a smaller percentage – and increasing this percentage to the level applicable to the labor contract would provide better pension rights for atypical workers and less incentive for employers to use this kinds of contracts).

(Until few years ago, so called “authorship contracts”, intended for artistic and intellectual services, were widely misused as no pension contribution was paid on them, thus making them much cheaper for the employer. It is still the case, but not so much as before.)

In practice, the mayor gap in coverage is created by high share of grey economy.

- b. What categories of workers, i.e. employees, self-employed and atypical workers, are formally excluded from the coverage of pension schemes by reason of their contract, or are only offered voluntary coverage by pension schemes? Which are the main groups (for example migrant, low-skilled, women) affected?

Growing number of workers which work in platform economy are sort of a mystery – there is no data on types of contracts they work on (presumably some of them, but not many, have labor contracts).

Young people are more affected, as are more likely to work on atypical jobs (including widespread misuse of student contracts, which enjoy favorable tax treatment, and it is not uncommon for students to postpone graduation for few years only not to lose the right on such contracts).

In general, self-employed, even those who can be considered proper entrepreneurs, are often avoiding to pay pension contributions (registering themselves on minimal salary, and taking out the rest of their income either by tax fraud or by paying it out as a profit, which is taxed less than wage). This includes both low and high earners.

Voluntary coverage exists (so called third pillar) but is very rare (perhaps around 10 percent of all insured persons), as those on average or under-average wages cannot afford it, while many high earners prefer to save their money in other, more individual, ways.

- c. What determines/ how would you explain these gaps in formal coverage?

The main reason is spread of “flexible” forms of employment, which were advocated by all recent governments as necessary for country’s development. Combined with weak rule of law, they create incentive for employer to misuse them as often as possible.

- d. What are their main social consequences/impact?

Lower pensions of future generation of pensioners, as already explained.

- e. Do you see issues for fiscal sustainability of a system covering of a system covering people in all forms of employment?

No. But there is (as everywhere else) a problem how to redistribute overall social wealth. In other words, the Croatian economy is capable of financing more generous pension system that the current one, but that requires combating grey economy, corruption, tax evasion and introduction of more just tax system.

f. Please provide data

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Challenges to Effective coverage

Q. 2.3

a. Is it possible to highlight any major effectiveness issues?

Please, consider effects that, for example, possible entitlement conditions, wage levels, contribution levels, may have on non-standard workers, the self-employed, atypical workers, women.

As already noted, since early 1990's number of pension reforms created a situation in which pension rights were gradually deteriorating over years. In practice this created strong incentive to retire early, as working longer would actually result in lower pension. The state also allowed employers to send large cohorts of workers in early retirement, without creating any disincentives for this. The result, high share of pensioners with under-average years of service was later used to further erode the pension rights.

The situation with non-standard workers is obvious, and already explained.

b. Who do these effectiveness issues affect? Are there categories of workers or self-employed that are at particular risk of limited effective coverage of pension benefits?

You can make reference to the topics and groups listed below, noting the relevance in the short, medium and long run, and add some others. Please, explain your choices and, for those that are regarded as the most salient, provide a concise explanation, with data and examples.

- Women
- Younger workers
- Self-employed workers
- Bogus self-employment
- Atypical workers
- Precarious workers
- Agricultural employment
- Working poor
- Migrant workers
- Low skilled workers
- Other



*Groups under particular risk of limited effective coverage include **young workers, self-employed workers and atypical/precarious workers**. **Low skilled workers** are also under greater risk than high earners.*

c. What are the main causes of the risk of ineffective coverage of workers?

You can make reference to the topics listed below, noting the relevance in the short, medium and long run, and add some others. Please, explain your choices and, for those that are regarded as the most salient, provide a concise explanation, with data and examples.

- Significant lack of transparency in the access to relevant information
- Aggregation of contributions across schemes
- Waiting period
- Calculation rules
- Requirements to access old-age or seniority pensions
- Lack of reconciliation of professional and family life
- Incomplete work careers
- Low wages
- Missing financial capacity to save in (voluntary) pension schemes
- Others

*The main causes of the risk of ineffective coverage include **low wages** (connected with grey economy, as already explained) and **incomplete work careers** (i.e. long or many short periods of unemployment, and early retirement forced by employer or general situation on the labor market).*

As the system, although one of its parts was privatized, is still universal and voluntary coverage rare, there are no significant problems with transparency and combination of schemes.

Besides missing financial capacity to save in voluntary schemes, the problem here is the general lack of trust in the pension system as such among younger generations (which includes the privatized part as well, albeit on slightly smaller scale than the public PAYG system).

d. How far are the following contingencies significant in leading to ineffectiveness of pension provisions? *Please, explain your choices and, for those that are regarded as the most salient, provide a concise explanation, with examples.*

- Maternity, paternity, parental leave
- Study or training periods
- Sickness
- Unemployment
- Care duties (elderly, children, disabled, etc...)
- Other

Abovementioned factors influence individual level of pensions, but are not among main challenges for the general adequacy of the pension system. They however present challenges for its justice towards particular groups of people.

There was a recent improvement in position of parents (mostly women), by introducing additional pension rights which depend on number of children (or number of years of work lost due to maternity or parental leave).

Studying and training periods are not always compensated by higher earnings in later career.

Unemployment is, as already mentioned, a problem in this respect.

Many women retire early due to care reasons, thus resulting with lower pensions.

- e. What are their major **social** impacts of ineffective pension provisions?
Higher rate of poverty among older people.
- f. Do you see issues for **fiscal sustainability of a fair and effective social protection system**?
Already explained.
- g. Is the lack of transparency or satisfactory information about pension entitlements and obligations limiting *effectiveness of* pension provision; and, if so, which categories of workers and the self-employed are most affected?
No, but there is general lack of interest in the pensions as such among younger generations, which consequently makes them more likely to tolerate inclusion in the grey economy (i.e. receiving part of the wage in cash and without taxes and contributions paid).

Challenges to Adequacy

Q. 2.4

- a. Is there a prevailing/institutional/constitutional reference or definition of adequacy that is used as standard in your country? How do you define adequacy?
No.
- b. Do you use any specific indicator to assess it in your country?
Usually we talk about replacement ratio (wage-pension), but there is no agreement on how high it should be.
- c. Please provide the TU's view of the significance of the two main adequacy indicators used by the Commission (Theoretical Replacement Ratio/TRR; Aggregate Replacement Ratio/ARR – Pension Adequacy Report - PAR 2018).

Due to lack of capacities, we never thoroughly examined those indicators.

- d. How would you define “ageing in dignity”?

We never tried to provide definition for this. But it obviously means not living under poverty line and being able to survive transition from employment to retirement without mayor shocks.

- e. Do you have in mind any specific indicator that could help in assessing “ageing in dignity” in your country?

No.

- f. What are the major deficiencies (if any) in the provision of adequate pensions?

Nothing specific, general level of pensions.

- g. What determines these deficiencies?

You can make reference to the topics listed below, noting the relevance in the short, medium and long run, and add some others. Please, explain your choices and, for those that are regarded as the most salient, provide a concise explanation, with data and examples.

- Lack of provision of minimum pension
- Volatility of complementary pensions
- Low rates of return from funded pensions
- Wage levels
- Contribution levels
- Worked hours
- Repartition of contributory obligations on employer/employee
- Length/continuity of careers
- Purchasing power erosion
- Lack of indexation
- Cost of living
- Services for old age provided publicly/without out of pocket expenses
- Need of personal/private (out-of-pocket-expenses) for health and long-term care
- Others

*Low level of pensions is, among other, determined by **wage levels, contribution levels** (one of the lowest in Europe), unfavorable **system of indexation** (which is also often changed, so rarely anybody can keep track of it and follow the discussion on the topic).*

Second pillar (funded pensions) has so far failed to meet its expectations, with first generation of pensioners insured in second pillar receiving as a result lower pensions than if they stayed only in first pillar (unless they were exceptionally high earners). This testifies to the fact that the huge cost of introduction of first pillar, which will continue to be borne in next decades, was not justified.

- h. **Who** do these deficiencies affect? Please, consider employees, self-employed and atypical workers

Everything we can say about this was already noted.

- i. What are the major social impacts of these deficiencies?

Everything we can say about this was already noted.

- j. Do you see issues for **fiscal sustainability of a fair and adequate social protection system**?

Everything we can say about this was already noted.

Other challenges

Q. 2.5

What are the **challenges and the opportunities related to occupational pension policy/schemes** concerning their contribution to formal coverage, effective coverage, adequacy (and transparency) of pension systems?

Occupational pension schemes are almost non-existent. Our opinion is that this kind of system should have been introduced instead of the private individual capital savings (i.e. current second pillar).

Q.2.6

Is there any other particular (set of) challenge(s) that you deem key or that should be addressed as a priority in order to give impetus to upward convergence?

- a. *Please, explain the reasons of your answer.*

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- b. Please provide data.

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Q.2.7

How is the Covid 19 emergency impacting your priorities?

So far Covid 19 emergency did not influence our priorities, not any national level discussions on the pension system.

Section 3. Possible Reforms

*This section seeks information about the trade union's priorities in pension policy; and their involvement in the policy making process and the strategies to have more adequate and effective pension protection for all. **The examples given under each question are for assistance and other issues should be covered, when appropriate.***

QUESTIONS

Q. 3.1

What are the main demands/actions/reforms that the trade unions propose in order to meet the challenge(s) highlighted in the answers to Section 2?

Provide a concise description from those listed below, plus any other that you consider relevant in light of your replies in the previous set of questions. Please, explain your choices and, for those that are regarded as the most salient, provide a concise explanation, with examples

- Minimum schemes
- Employment related or income-based schemes
- Occupational pension provision
- Pensionable age and early retirement schemes
- Regulation of the labour market and active labour market policies
- In-kind benefits, long-term care and social assistance
- Other

Please, explain also how the proposed reform would address the challenge(s) identified in your replies to the previous set of questions

- keeping in mind the possible effects linked to age groups/ gender/ forms of employment and

- providing an assessment and considering effects of main issues from the topics listed below, in the light of your replies in the previous section, plus any other that you consider relevant.

Please, explain your choices and, for those that are regarded as the most salient, provide a concise explanation, with examples.

- Formal coverage for specific categories of workers and self-employed
- Effective coverage
- Adequacy of benefits
- Inequalities (gender pension gaps, pension rights of younger cohorts of workers, coverage of atypical jobs)
- Other:

Croatian trade unions haven't developed elaborated proposals for the pension reform system (many trade unionists would argue it is not our job to do this anyway). Trade unions strongly opposed recent reform which aimed to increase the retirement age, insisting that

such administrative measure can't by itself change the fundamentals of the labour market and pension system (i.e. make more people work, if there is not enough jobs nor employers want to retain older workers). They also warned that majority of those who retire early don't do this by their own choice, but because they can't keep the job, nor employers are directly stimulating them to do so (thus, they shouldn't be further penalised as the general level of pensions is already quite low).

As a first step, order should be made in the pension system – pensions not earned through work (i.e. years of service) need to be separated and financed from the general taxation. Transition cost of introduction of the second pillar must also be excluded from the calculation of “deficit of the pension system”.

Measures should be introduced to enable workers to stay longer in the labour market – penalising employers who provide incentive for their workers to retire early, and stimulating those who keep them longer. Participation in adult education needs to be increased, in order to allow older workers to remain on the labour market. Thus, many measures needed for the pension system are actually in domain of the labour market itself.

Grey economy needs to be more seriously dealt with.

Discussions need to start about pension system capable to ensure pensions for current precarious workers. This includes discussing new sources of income for future pensions.

Current second pillar needs to be reassessed, and effects of its introduction analysed and discussed. Trade unions think that its introduction was a mistake, especially as current data shows that only high earners will have higher pensions because of it, while in general such system can't solve the demographic problems of the pension system (no matter how much some claim otherwise). However, there is not clear position among trade unions about what to do with it now, as they are aware quick dismantling could produce more damage than benefits.

In any case, contributions for the second pillar shouldn't be increased (as is occasionally proposed), as there is no fiscal capacity to do so.

Q 3.2

What would be the main fiscal sustainability drivers necessary to support your policy proposals? What would be the issues arising? What the desirable sources of financing?

In general, policy positions explained above does not require any additional funding, but are actually aimed at increasing financial sustainability of the system.

Q.3.3

Are there any major actors supporting or opposing your proposal and why?

Government and so called pension system experts (most of which are in conflict of interest, as they occasionally produce expensive studies for international financial institutions). The thing is that nobody is seriously interested in pension system reform. When implementing any reforms, governments in general do it do satisfy European Commission or the IMF

(changing numbers “65” with “67” in the text of the law is a very easy reform to implement, no matter what its effects). The experts are interested only to please the international institutions.

With the financial support of the European Union

