

SAVINGS FOR RETIREMENT IN THE CZECH REPUBLIC

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Abstract

In a long-term perspective, the Czech population – as well as the populations of all other EU countries – is aging. It is caused both by the increased life expectancy and by very low birth rates. If the number of persons funded from PAYG system increases while the number of persons contributing to the system decreases, then the amount paid to the individual pension recipients is necessarily reduced in the long run. This situation has been observable in the Czech Republic for more than 20 years and therefore, the inhabitants have had enough time to notice this fact. They had an opportunity to modify gradually their behaviour in order to take responsibility for their old age. This paper aims to analyse answers to a questionnaire survey exploring how the economically active inhabitants of the Czech Republic are getting secured for a period when they will no longer be economically active. The main goal of the research will be to find out the parameters influencing their choice of the particular retirement savings.

Key words: demographic changes; savings for retirement; pension systems

JEL Code: J26, E21, H55

Introduction

According to the Eurostat data, the EU population is obviously aging (Eurostat 2018). The post-war generation is reaching the retirement age. A very low birth rate in the European countries over the long term (1.59 children per woman) is causing a decrease in the number of economically active people (Eurostat 2019). The Czech Republic is the third fastest aging EU economy. Between 2007 and 2017, the share of people over 65 years of age rose by 4.3% (Eurostat 2018). The main pillar of the Czech pension system is Pay As You Go (hereafter PAYG). If the number of people in employment decreases and the number of people in retirement increases, the system becomes unsustainable in a long-term perspective. Therefore, either the amount paid to individual pensioners must be reduced or the amount contributed by the workers to the system needs to grow, or the financing of the deficit must be ensured. By

means of a questionnaire, this paper researches whether people are aware of the situation described above and whether they are preparing for their own pension through saving.

1 Literature Review

Population aging, falling birth rates and the increasing life expectancy are well-known facts that have been studied by many disciplines for decades. These concern statisticians, demographers, economists, sociologists and psychologists. Each discipline deals with partial factors of this issue and tries to warn the public, both non-expert and professional, against the impacts of this condition. Foster & Heneghan (2018) warn that this situation leads to unsustainability of pension systems. Kerry (2018) draws attention to the psychological effects of pension planning, which, if not properly implemented, can have a negative impact on people and their relationships with their surroundings. Lusardi & Mitchell (2007, 2011) has long been committed to the topic of improving retirement preparedness by increasing financial literacy. Bosworth & Burtless (2004) draw attention to the need for any support for the growth of retirement savings, as this will reduce the burden for future generations, thereby increasing the competitiveness of the economy. They also deal with possible types of pension system reforms. Balasuriya & Yang (2018) address the issue of the character traits affecting people's access to their retirement savings. Gerrard, Hiabu, Kyriakou & Nielsen (2019) aim to create a system that warns savers about the potential risks of individual savings instruments, thereby increasing public confidence in retirement savings. Wong, Osman, Wong, Lin, & Ho (2019) deal with studying the population access to the investment triangle for retirement savings, especially the risk / return relationship in the case of voluntary savings instruments. The reform of pension systems in relation to intergenerational ties is then discussed, for example, by Biondi & Sierra (2018). The commented Eurostat reports then regularly warn against the expected impacts of the current population developments (Eurostat 2019).

2 Research Methods

The research dealt with saving for retirement. By means of a questionnaire, its aim was to find out how the respondents save for their pension. It was a primary research using the data collection technique of written questioning. The respondents were asked to complete a questionnaire which consisted of sixteen questions.

The authors created their own questionnaire. In addition to socio-demographic items, it contained mainly the questions about the respondent's approach to his/her retirement and

the way s/he is preparing for it. The questions were designed to identify planned changes in lifestyle, housing issues, and the degree of taking responsibility for ensuring the respondents' existence in old age.

The questionnaire was piloted on a sample of 8 respondents. The piloting was done to eliminate the risk of incomprehensible or duplicated items. Based on the particular inquiries and suggestions, the questionnaire was subsequently supplemented and refined. After the completion of the final version of the questionnaire by 97 respondents, the responses were entered into the database program for summary response evaluation and for eliminating calculation errors.

The research was carried out in February 2019 and was conducted by the authors of the article in person. 97 respondents participated in the survey - 60 men (61.9%) and 37 women (38.1%). The structure of the respondents' group was designed in order to include the majority of respondents in the first half of their working age. There were 30 respondents aged 26-35 (30.9%) and 29 respondents aged 36-45 (29.9%). The remaining respondents were selected from the younger population, namely 18 respondents aged 18-25 (18.5%) and 20 respondents aged between 46 and the retirement age (20.6%). Most respondents (46, 47.4%) have a completed secondary education, as this group is the most numerous in the Czech Republic. The authors are aware of the fact that the sample did not meet the parameters of a representative sample and therefore, it is not possible to generalize the research results to the whole population.

3 Study Results

The questionnaire was compiled in such a way so that the respondents' approach to their life in retirement would be comprehensively identified. The authors learned from their practice that people who save money for retirement are mostly the ones who are currently working. Therefore, 77.4% (75) of respondents were employed and 8.2% (8) of them were self-employed. Among the remaining respondents, there were 10 students (10.3%), 3 persons on parental/maternity leave (3.1%) and one unemployed person (1%).

One of the main questions of the questionnaire survey was the current amount of the respondents' monthly net income, as this quantity often affects the amount of savings. Eleven respondents (11.3%) reported that their monthly net income is less than the net minimum wage (10,449 CZK). Five respondents (5.2%) have their income between CZK 10,500 and CZK 15,000, 11 respondents (11.3%) between CZK 15,001 and CZK 20,000. The largest

group (41.2%, i.e. 40 respondents) were the respondents with income between CZK 20,001 and CZK 30,000. 22 respondents (22.7%) receive income in the range of CZK 30,001 and CZK 40,000. The remaining 8 respondents (8.2%) stated that they have an income higher than CZK 40,000.

An interesting finding was the question of when the respondents expect to retire. Only 62 respondents (63.9%) expect to retire at the age of proper retirement. Twenty-one respondents (21.6%) plan to retire later than at the age of regular retirement. Only 14 respondents (14.4%) plan to retire early.

The authors expected that a significant proportion of respondents might intend to resolve their housing issues when they get retired, either due to the cost reductions or for a better health care. However, the results showed that only 4 respondents (4.1%) plan to change their housing after getting retired in order to reduce their costs, 1 respondent (1%) plans to change his/her housing to ensure better care for his/her health. Two respondents (2.1%) plan to change their housing in order to reduce the volume of housework due to a smaller apartment. Two more respondents (2.1%) plan to move to a smaller apartment after getting retired and leave their property for their children. A relatively large proportion of 14.4% (14) of the respondents are planning to move to another home to focus more on their hobbies, such as gardening and horse breeding. Seven respondents (7.2%) will stay in the current apartment they rent. Most respondents (61, 62.9%) will stay in the current property they own or co-own. The last 6 respondents (6.2%) have not dealt with this issue yet.

In addition to housing costs, spending on leisure time represents another important expenditure item for the retired people. Each of the 97 respondents was given 100 points and was asked to allocate them to various activities, depending on how s/he expected to perform them. In total, 9700 points were distributed. Most of them, 32.4% (3138 points), belong to the category of active leisure time in the Czech Republic. All other activities are represented in the results in an approximately similar proportion: grandchild babysitting 19.4% (1878 points), traveling abroad 17.3% (1681 points), passive leisure time at home 15.9% (1539 points), and part-time jobs 15.1% (1464 points).

Another important question was whether the respondents were already saving for retirement. The authors expected most respondents to do so. Out of all respondents, only 68 (70.1%) save for retirement. The remaining 29 (29.9%) have not started saving for retirement yet. The group includes also 15 respondents who are already working but who are still not saving for retirement.

The authors were also interested in the reasons why 29 respondents do not save for retirement. They were particularly interested in the reasons expressed by the working respondents. No respondent believes that the state will provide him/her with a decent retirement. Ten respondents (34.5%) think that they are still too young to save for their retirement. Six respondents (20.7%) do not trust any existing form of retirement savings, they have their own ways of investing and do not consider their savings to be strictly intended for retirement. Six respondents (20.7%) perceive their income as too low for retirement savings. Four respondents (13.8%) are currently unable to decide what form of saving for retirement they will use. One respondent (3.4%) does not know why s/he should save for retirement. Another respondent (3.4%) has just started arranging his/her retirement savings and will start saving in the foreseeable future. The last respondent (3.4%) believes he will die before retiring.

All the other questions were relevant only to 68 respondents who said they were saving for retirement.

Another question concerned the age at which respondents began to save money for retirement. 32 respondents (47.1%) began saving before the age of 26 years. Twenty-six respondents (38.2%) between the age of 26 and 35. The remaining 10 respondents (14.7%) started saving for retirement when they were older than 35 years.

Every person has a different motivation for saving for retirement. Therefore, the next question dealt with the motivation to start saving for retirement. Thirteen respondents (19.1%) started saving because of their impression based on the information from the media and other information sources that the state does not have a capacity to provide sufficient pension for all future pensioners. Eleven respondents (16.2%) started saving because they wanted to increase their sense of security and safety in old age. Six respondents (8.8%) started saving because they reached a stage when they had bigger income than expenditures and for them, saving for their retirement was selected as one of the potential saving forms. Five respondents (7.4%) started saving because of a contribution from the employer. Other five respondents (7.4%) began saving when they lost confidence in the ability of any government to pursue a pension reform so that future pensioners would be sufficiently secure. Five respondents (7.4%) believe that the state pension will be sufficient only for survival. They began to save money so that they could travel in retirement and enjoy the pension. Three respondents (4.4%) started saving as a result of a promotional activity of the particular financial institution. Three respondents (4.4%) started saving after the recommendation of someone from their family. Other three respondents (4.4%) were motivated by the possibility of having their pension savings contract

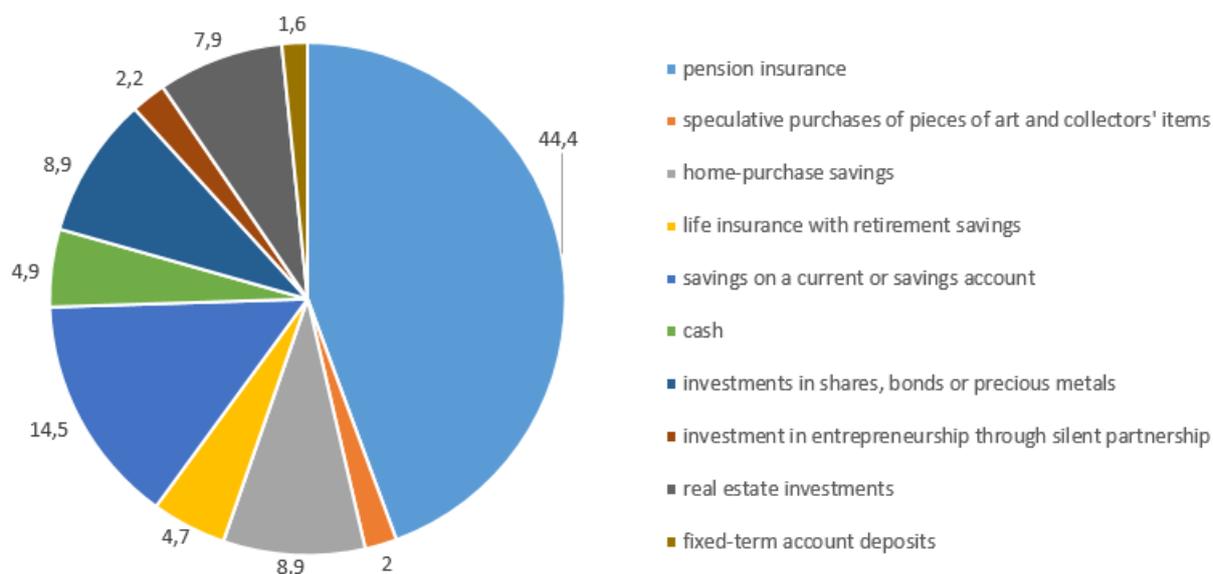
according to more favorable conditions. The remaining 14 respondents (20.6%) did not indicate the reason for initiation.

Another question was how many % of their monthly income the respondents save for retirement on average. Exactly half of the respondents (34, 50%) save less than 5% of their income per month. Thirteen respondents (19.1%) save 5% or more but less than 10%. The remaining 21 respondents (30.9%) save 10% of their income and more.

The penultimate question concerned the manner in which the respondents chose the particular form of retirement savings. 33 respondents (48.5%) chose the form of savings by themselves. 24 respondents (35.3%) selected this form in collaboration with an expert. 7 respondents (10.3%) chose the particular form according to the recommendation of the person from their surroundings. Two respondents (2.9%) left the selection entirely to the expert and the other two (2.9%) then chose their form based on the recommendation of their employer.

There are currently numerous financial instruments in the Czech Republic that can save money for retirement. 62 respondents who are already saving for their retirement were asked to categorize 100 points according to their savings instruments in their retirement savings portfolio. The remaining 6 respondents did not answer this question. The highest number of points (2750, 44.4%) was given to pension insurance. 898 points (14.5%) were allocated to the savings on a current or savings account, 554 points (8.9%) to the home-purchase savings, 552 points (8.9%) to investments in shares, bonds or precious metals, and 490 points (7.9%) to real estate investments. Other instruments received less than 5% of the points. These included cash (306 points, 4.9%), life insurance with retirement savings (291 points, 4.7%), investment in entrepreneurship through silent partnership (136 points, 2.2%), speculative purchases of pieces of art and collectors' items (125 points, 2%), and the remaining 98 points (1.6%) are represented by fixed-term account deposits. For better visibility are the answers of this question also shown on following graph Fig. 1.

Fig. 1: Structure of respondent's investment instruments for retirement savings [%]



Source: Compiled by the authors according to the author's survey results

Discussion

The answers to individual questions were provided in the previous chapter. Now the results will be confronted with the recommendations of experts and the authors of this paper.

In the first question, concerning the amount of income, a total of eleven respondents stated that their income was less than the minimum wage and five respondents said their wage was less than CZK 15,000. These results are influenced by the fact that there were 10 students, 3 parents on parental leave and 1 unemployed person among the respondents.

The second question confirms that respondents are in some cases able to work actively at a higher age than the retirement age, as 21 respondents expect to stop working later than expected by law. 14 respondents are planning the early retirement and are preparing for it through an increased saving activity carried out at the present time.

The answers to the housing question demonstrate some risks. The situation of the seven respondents who intend to continue in living in a currently rented property can be considered as potentially risky. The costs of rent are likely to account for a significant part of the expenditures, and if the rent rises faster than pensions, the quality of life of these respondents would decline. Likewise, it is striking that after getting retired, 61 respondents want to live in the same property as now. This is probably due to the sentiment and unwillingness to change, but there can be a problem in property maintenance and operating costs. A relatively large part of the researched group, or more precisely 14 respondents who are planning to move out to be able to pursue their hobbies, can be perceived positively, as

this may potentially increase the quality of life of citizens and affect some macroeconomic indicators in a favorable way (e.g. NEW – Net Economic Welfare).

The question of spending leisure time shows the respondents' optimism, because only 15.9% of the points were given to passive leisure time and 15.1% to the part-time jobs. Thus, the respondents plan to spend two-thirds of their time actively and adjust their retirement savings accordingly.

A relatively negative finding was that 29 respondents still do not save for their pension. It is understandable in the case of students (10 respondents), but it is potentially risky for working respondents. For lower-income respondents, it would be advisable to analyze their monthly incomes and expenditures; in the case of respondents who do not know which particular saving form to use, it would be advisable to consult this issue with someone they trust, who could explain the possibilities of the retirement savings to them.

The experts, for example CNN Money (n.d.) recommend saving at least 10% of one's monthly income. However, only 21 respondents do this. Even after adding other 13 respondents who save between 5% and 10% of their income, another possible source of complications in the future is being manifested.

The penultimate question clearly shows that the respondents do not feel dependent on the experts in the area of financial decisions but they are prepared to make their own decisions. In some cases, this situation is caused by a negative image of financial advisors in the Czech Republic in the respondents' eyes. Therefore, 33 respondents decided to choose the particular saving form completely independently. Even the second largest group of 24 respondents decided on their own, though they consulted the decision with an expert. The question is whether the respondents, who often have a non-professional financial education, make a good decision.

As expected, the highest number of points in the last question (44.4%) was received by supplementary pension insurance, which has the advantage of a relatively high state support. Savings on the current / savings account (14.5%) and in cash (4.9%) can be considered as totally inappropriate. These instruments are minimally - or not at all - safeguarded against inflation and their real value decreases significantly, especially with long-term savings.

Conclusion

The results of some questions demonstrate a low financial literacy of the respondents. This was mainly due to the fact that even a part of the working respondents' group does not save

for pension. Also with regard to the access to housing at the retirement age, there are considerable discrepancies in terms of the expected situation, in which a decline in income and a decline in housing requirements would be reflected. For a vast majority of respondents, the share of income they give to their retirement savings is also lower in comparison with the recommendations of experts. Furthermore, the savings for retirement in the form of a current or savings account and in cash are in contradiction with all expert views

The results of the questionnaire survey within the group of our respondents showed that the current state of saving for retirement is not good. The economy would need to reform the pension system. Furthermore, the level of financial literacy should be raised. The state should continue to support the population to accept the co-responsibility for their lives after reaching the retirement age. This support should be implemented by incorporating these issues into the school curricula and, last but not least, via a financial contribution allocated to the selected savings instruments. Tax reliefs for employers who contribute to retirement savings for their employees can also be considered highly desirable.

In the current setup, the present status of the PAYG system appears to be unsustainable. The state should not only subsidize the individual forms of saving for retirement, but in particular, it should support the increasement of the financial literacy of its inhabitants. This would improve the situation not only in the area of saving for retirement, but also in the area of indebtedness of the population.

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