

# **SIMILARITIES AND DIFFERENCES OF THE SYSTEMS OF ASSISTANCE IN MATERIAL NEED IN THE CZECH AND SLOVAK REPUBLICS**

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## **Abstract**

The systems of assistance in material need, within which the minimum income of people in these particular countries is ensured, developed considerably differently after the dissolution of Czechoslovakia. The necessary criterion for entitlement to receive assistance in material need in both countries is the category of the subsistence minimum, and here it is also important to emphasize the fact that in the Czech Republic the category of the existence minimum has been introduced. This paper focuses on the characterization of differences and similarities of the systems of assistance in material need in both the Czech Republic and Slovakia and the evaluation of these systems in terms of motivation for the long-term unemployed to work. Furthermore, attention is focused on defining the differences in household income (including social benefits), which is taken or not taken into account during the assessment whether the household income reaches the level of the subsistence minimum. Increasing employment and moving out of the system of assistance in material need is a prerequisite in both countries for a reduction of the burden on pension systems in the future.

Key words: assistance in material need, subsistence minimum, labour market.

JEL Code: H53, H55, I38

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## **Introduction**

The main role of the subsistence minimum or a guaranteed minimum income is to ensure a minimum living standard for people of all ages, including working-age people who do not work for various reasons (Vonk, G., 2017). Unemployment benefits are provided for a limited time and after they are no longer provided, most people are dependent on systems of assistance in material need (unless they have their own savings). Over the last few decades, the systems of social protection in EU countries saw the gradual establishment of the concept of “workfare”, which replaced the former concept of “welfare” (Jessop, B., 1993, 1999) and is based on an individual’s input of work while also receiving social benefits from the state. The

relations of social benefits to work incomes started to be considered to a larger extent, and some time after a person within the system of social assistance got a job, the work income or its part started to be deducted from the specified minimum income. This increased the importance of work and work income for moving out of the system of social assistance as well as the inactivity trap. The development in this context also confirmed the importance of a sufficient level of the minimum wage (Schulten, T., Mueller, T., 2019). Given the fact that each EU member state is responsible not only for the funding but also for the institutional arrangement of its whole social system including social assistance, this fact is also the cause of significant differences among individual EU member states with dominating traditions affected by the approach of the society to the extent of solidarity, social justice, etc. For that reason, it is important to monitor these differences and analyse divergent or convergent tendencies in the systems of social assistance. An increased attention is being paid to the issues of the minimum income in the new EU member states, where the transformation to a market economy also caused an overall decrease of living standards, e.g., Suhanyiova, Suhanyi (2017). This makes it even more interesting to examine the unique elements in the systems of social assistance in the Czech Republic and Slovakia, which shared a single system of social assistance based on a guaranteed subsistence minimum until 1992. This topic is very important as people with income below – subsistence living tend to lose the freedom of flexibility in choosing preferences mainly in consumption (Sharif, M., 2003).

### **1. Similarities and differences in the subsistence minimum and the provision of assistance in material need in Slovakia and the Czech Republic**

The minimum income in both the Czech Republic and Slovakia is provided through the system of assistance in material need. In both countries, the subsistence minimum is important for assessing whether a specific household is in material need. Since 1991, there were several important legislative changes in both countries concerning the specification of the subsistence minimum. An important change in the Czech Republic was brought about by the adoption of the Act on Living and Existence Minimums (Act No. 110/2006), which provided for not only the category of “living” or subsistence minimum as known before, but it also brought a new category of the so-called existence minimum. The existence minimum ensuring income from social benefits only on the level of pure survival was implemented especially to prevent the long-term unemployed from misusing the system of assistance in material need by not

working even if they can.<sup>1</sup> At the same time, the new provisions separated the costs of housing from the category of subsistence and existence minimums in the Czech Republic, which is also reflected in the different amounts of the subsistence minimum in Slovakia compared to the Czech amounts (Table 1).

**Tab. 1: Comparing subsistence minimum amounts in the Czech Republic and Slovakia**

<b>Subsistence minimum in Slovakia (1 July 2021 – 30 June 2022)</b>	
For one adult natural person	218.06 EUR
For another jointly assessed natural person	152.12 EUR
For a dependent child or an independent minor	99.56 EUR
<b>Subsistence minimum in the Czech Republic (since April 2020)</b>	
For an individual	3,860 CZK (156.15 EUR)
For the first jointly assessed person	3,550 CZK (143.61 EUR)
For the second jointly assessed person:	
- Independent minor 15 years of age or older	3,200 CZK (129.45 EUR)
- Dependent child 15–26 years of age	2,770 CZK (112.06 EUR)
- Dependent child 6–15 years of age	2,420 CZK (97.90 EUR)
- Dependent child below 6 years of age	1,970 CZK (79.69 EUR)
<b>Existence minimum</b>	2,490 CZK (100.73 EUR)

Source: Adapted using the data in Order No. 244/2021 and Government Regulation No. 61/2020.

Note: To convert Czech crowns into euros, we used the exchange rate of the National Bank of Slovakia of 25 March 2022

In Slovakia, the category of the existence minimum has not been implemented so far. However, since the beginning of 2014, when the Act on Assistance in Material Need (Act No. 417/2013) came into force, there is a possibility to decrease the assistance in material need in the event the individual is not willing to work the number of hours specified by law. This differing approach in the examined countries is also based on a differentiated system of specifying the amounts of entitlements for social benefits in times of material need.

Another important difference is the indexing of the subsistence minimum in both countries. In Slovakia, the indexing of the subsistence minimum is governed by the Act on Subsistence Minimum and Amending and Supplementing Certain Acts (Act No. 601/2003). Article 5 of this act states that the amounts of the subsistence minimum are always adjusted as of 1 July of each calendar year, unless a law provides otherwise. The amounts of the subsistence minimum are adjusted either using growth coefficients of net income per capita or low-income households' living expenses, with the lower of the two coefficients being used.

<sup>1</sup>The law specifies several exceptions when decreasing the income within the assistance in material need to the level of the existence minimum, for instance for people over 68 years of age, a dependent child and people receiving old-age and disability pensions.

According to the study by Gerbery et al. (2010), as many as half of the experts that took part in a survey on the subsistence minimum in Slovakia did not consider the current mechanism of indexing the subsistence minimum to be good, especially because it does not sufficiently reflect the increase of the price level in the country. In the Czech Republic, the adjustment of the subsistence and existence minimums is governed by Article 9 of Act No. 110/2006. It provides that the Czech government may increase the amount of the subsistence and existence minimum as of 1 January by adopting a government regulation, and it may do so reflecting the actual increase of costs of food and other basic personal needs expressed as the consumer price index, if the index grew by at least 5 % in the given period.<sup>2</sup> The indexation of the subsistence and existence minimums in the Czech Republic is also subject to criticism, as it is not only insufficient like in Slovakia, but also irregular (unlike in Slovakia). The living minimum in the Czech Republic remained the same for eight years between 2012 and 2020, even though the price level increased.

There are differences in the two countries also in determining the state of material need and then in providing assistance in material need. In the Czech Republic, the Act on Assistance in Material Need (Act No. 111/2006) provides for the payment of three benefits: living allowance, housing allowance and extraordinary immediate assistance. In the Czech Republic, the state of material need is acknowledged if the relevant income (including jointly assessed persons) minus adequate housing expenses is lower than the calculated subsistence amount, which is based on the set subsistence or existence minimum (it can be increased in some cases, e.g., by costs for dietetic food, etc.). After meeting the legal requirements, the household will receive a living allowance in the amount of the difference between the set subsistence amount and the relevant income (of jointly assessed persons).

In Slovakia, the Act on Assistance in Material Need (Act No. 417/2013) provides that the assistance in material need consists of the material needs benefit and four allowances – protection allowance, activation allowance, allowance for dependent children and housing allowance. The state of material need is acknowledged if the relevant income (including jointly assessed persons) is lower than the specified subsistence minimum for the relevant household type. After the legislative change in Slovakia (around two decades ago), the subsistence minimum is no longer a guaranteed minimum income, which means that a household in material need will not receive the amount calculated as the difference between its current income and the subsistence minimum as the assistance in material need, but only

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<sup>2</sup> Under exceptional circumstances, the subsistence minimum in the Czech Republic may be increased also outside of the date specified in the law.

the difference between the maximum calculated entitlement to assistance in material need (consisting of the material needs benefit and the four allowances) and the sum of the relevant income (of jointly assessed persons). An important change of indexation in Slovakia was brought by an amendment of the Act on Assistance in Material Need in force since 1 April 2019, which led to the implementation of a regular indexation of the benefit and allowances. As of 1 January each year, these amounts will be adjusted by the coefficient used to adjust the amounts of the subsistence minimum as of 1 July of the previous year. Before that, it was up to the government to decide whether to adjust these amounts or not, and if so, by how much.

There are significant differences between the examined countries also in the provision of assistance for housing costs. In Slovakia, there is a housing allowance (59.40 EUR for a household with one person and 94.80 EUR for a household with more people), which is a part of the system of assistance in material need. The main criticism of this allowance lies in the fact that it is not regionally differentiated, and it does not cover all housing costs, only their part. The allowance is provided only as a part of assistance in material need, meaning that eligible persons only include those in material need and others cannot receive it. Finally, there is criticism also about the relatively strict conditions that need to be met to get the allowance, e.g., ownership or co-ownership of a flat or a house, lease of a flat or a house, etc. In this connection, opponents often argue that homeless people are those who would need the allowance, but they are not eligible. Housing assistance in the Czech Republic consists of the provision of two allowances – housing allowance and housing supplement. The housing allowance is a government social benefit, which is not a part of assistance in material need and is intended to cover the real housing costs exceeding 30 % (or 35 % in the case of Prague) of the net income of jointly assessed persons, while the real housing costs cannot exceed the normative housing costs specified by the state. As regards the provision of this allowance, there is criticism towards the setting of the normative housing costs, which does not reflect the real development of housing prices, especially in larger cities. However, in some regions and locations (e.g., segregated ones), landlords ask for excessive rents for housing, which do not reflect the quality of the provided housing (Samec – Trlifajová, 2019). The housing supplement is a part of the system of assistance in material need and is intended to cover justified housing costs of low-income households (which cannot be covered from the household allowance) to ensure that after paying them, households will still have enough for subsistence. The criticism is also based on the fact that only a relatively small group of households is eligible. The average amount of the supplement is relatively low and does not reflect the real prices necessary to ensure standard housing.

## 2. Comparing the minimum guaranteed income and the minimum wage

Given the importance of work for moving out of the system of social assistance, the relation of the subsistence minimum (or guaranteed minimum income) to the minimum wage is of key significance.<sup>3</sup> A seemingly simple comparison of the two categories brings a whole range of practical problems in the institutional arrangement of the (guaranteed) minimum income through the relevant laws. These problems are mainly connected to e.g. the inclusion or non-inclusion of various social benefits when calculating the entitlement to the minimum guaranteed income, which is caused by the differing household structures especially in terms of age. That is why there are several values of the subsistence minimum, and the real minimum guaranteed income for a household is a combination of individual entitlements and the entitlement for the whole household (e.g., housing allowance in the Slovak legislation)<sup>4</sup>.

Since 1991, i.e., the first year of enacting the categories of the subsistence minimum and the minimum wage in the Czech and Slovak Federative Republic, the relation of the two categories in the Czech Republic and Slovakia went through a differentiated development. In 1991, when the subsistence minimum was 1320 CSK and the minimum wage was 2000 CSK, the share of the subsistence minimum on the minimum wage was 66.0%. In 1992, the share even increased to 77.3% for one adult. Even though there is some dependence between the minimum guaranteed income and the minimum wage, the level of the minimum wage is not only dependent on the government policy, but also on the strength of the social partners during the negotiations.

The relation of the two categories is significantly different from the time when the Czech and Slovak Federative Republic was dissolved. In 2021, the minimum wage in Slovakia reached the level of 623 EUR, in the Czech Republic, it amounted to 15,200 CZK, an annual average of 587.80 EUR (Eurostat). The 2021 minimum guaranteed income in Slovakia reached the level of the material needs benefit (i.e., 67.80 EUR for one adult person living alone); in the Czech Republic, it reached the level of the existential minimum (2,490 CZK, i.e., around 101 EUR for one adult person). The share of the minimum guaranteed income on the net minimum wage was lower in Slovakia by 5 pp. compared to the Czech Republic (13% and 18% respectively), which is caused by a higher minimum wage, but also a lower minimum guaranteed income. The reason is that in the last years, the Czech Republic had a policy of a

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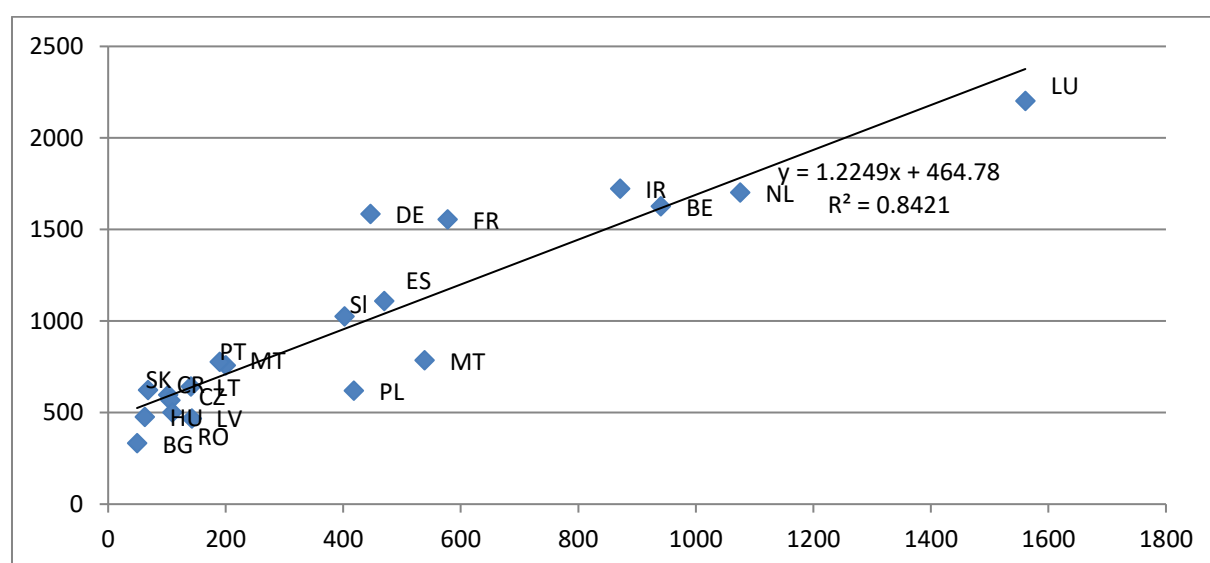
<sup>3</sup> In the developed Scandinavian countries, Austria and Italy, there are no state-wide minimum wages, but the high share of low wages is covered by the minimum wage tariffs based on social dialogue.

<sup>4</sup> For instance, in the Netherlands and Malta, the values of the minimum wage are used in the legislation to also specify the value of the minimum guaranteed income.

low minimum wage, although according to Eurostat, in the first half-year of 2022, the minimum wage in the Czech Republic (651.70 EUR) overcame the amount in Slovakia (646.00 EUR).

From the whole set of possible combinations of household members, Figure 1 below only includes a comparison of the minimum wage and the minimum guaranteed income for one unemployed adult (provided for using the system of assistance in material need in both the Czech Republic and Slovakia) as well as in other selected EU countries.

**Fig. 1: Relation of the minimum wage (axis y) and the minimum income for one long-term unemployed adult (axis x) in EU countries in 2021 (EUR)**



Source: Authors based on data from the OECD tax-benefit model and Eurostat

As follows from the data in Figure 1, both Slovakia and the Czech Republic belong to a group of countries with a relatively low minimum wage, and so a relatively low minimum guaranteed income. The data is affected by the fact that minimum wages are gross (they include taxes and levies paid by the employee). Therefore, a different view of the relation between low wages (represented by minimum wages) and the assistance in material need is provided by a comparison based on net incomes (table 2).

**Tab. 2: The share of the maximum material needs benefit (MN) on net minimum wage (MW) for a household with one person (in %, 2019)**

	Gross monthly MW (EUR)	Taxes (%)	Taxes and social contributions (EUR)	Net MW (EUR)	Maximum assistance in material need (EUR)	Share of the maximum MN benefit on the net MW (%)
LU	2,071.1	13.5	280.2	1,790.9	1,503	83.9
SK	520.0	17.3	90.0	430.0	191	44.4
CZ	519.0	31.1	161.5	357.5	149	41.7
IE	1,656.2	6.7	111.6	1,544.5	201	13.0

Source: Authors based on Eurofound (2019) and MISSOC (as of the end of 2019) data

Note: LU = Luxembourg; IE = Ireland

The individuality of the systems of assistance in material need in the Czech Republic and Slovakia compared to a large number of other EU countries lies in the fact that they include the subsistence minimum category rather than a “minimum guaranteed income”. Because of the homogeneity in terms of content, Table 2 compares the net minimum wage with the maximum assistance in material need (which is, understandably, not taxed). Note that the “maximum assistance in material need” has various terms across EU countries, but in terms of content, it is more or less identical to the terms used in the Czech Republic and Slovakia. Table 2 only includes Luxembourg and Ireland as countries with the highest or lowest share of values of the mentioned indicator among EU countries. Slovakia as well as the Czech Republic offers the maximum assistance in material need (through material needs benefits and the allowances) roughly on the level of the average value for EU member states. However, Table 2 does not include the potential housing supplement in the Czech Republic. In case it is provided, the financial status of a one-member household in the Czech Republic compared to Slovakia would improve.

### 3. Motivation of the long-term unemployed to find a job

Over the last decade, there have been many discussions among experts in EU member states about a guaranteed minimum income that would be much higher than the current guaranteed minimum income and ensure that the beneficiaries (and their household) can also satisfy higher needs (culture, travel, etc.). In the end, this alternative was abandoned by the EU, even though in 2017, EU authorities adopted the extensive European pillar of social rights. As was further confirmed by adopting the European minimum-wages directive, Europe went the route of strengthening the concept of “working pays off”. Within this context, the motivation of the unemployed to work is key. This is an optimal route to decrease the number of people in the



trap of dependence on social benefits (theory defines several specific kinds of social traps in more detail). Besides the expected growth of the minimum wage, an important role in the concept is played by lowering taxes and providing in-work benefits for the long-term unemployed who start working. The employment of the long-term unemployed is also supported by not taking into account a part of the work income. The problem of the social trap is acute especially for people with more children, who receive relatively high social benefits compared to the minimum wage.

The difference between the Czech Republic and Slovakia lies especially in the fact that when assessing the level of income earned by the household in relation to the specified subsistence minimum, the state social support benefits are taken into account in the Czech Republic but not in Slovakia. Even the payment of state social benefits in the Czech Republic is more strictly associated with the level of income earned by the household (basically from work) compared to Slovakia. Moreover, there is another difference in the shares of old-age pensions not being considered as part of the income when applying the (national) laws on assistance in material need. In the Czech Republic, 20% of pensions within the framework of the old-age insurance are not considered as income, while in Slovakia, the share is 25 %.

As an example of a differing level of motivation of the long-term unemployed in both the Czech Republic and Slovakia to find a job, we selected a household of two working-age adults after a period of long-term unemployment and two children (4 and 8 years old), who are no longer eligible for the relatively high “parental allowance” (up to three years of age in Slovakia, and up to a maximum of four years of age in the Czech Republic with the maximum cumulative amount of 300 thousand CZK) according to the OECD TaxBen model (Table 3).

As follows from the data in Table 3, the difference between the net income of households from social benefits in the case of a long-term unemployment of both adult members of the household, and the net work incomes after entering employment for the minimum wage is higher in absolute terms in Slovakia than in the Czech Republic. The same can also be observed in the case if one of the two is long-term unemployed and the other finds employment for the minimum wage. What contributes to a higher motivation to work in the case of this household type in Slovakia is the higher income from the income item “social assistance” and “in-work benefits” compared to the Czech Republic.

**Tab. 3: Comparing the net income of households using the OECD TaxBen model, 2021**

Country		Neither of the couple works, for more than 24 months	One of the couple is long-term unemployed, and the other is employed for the minimum wage	Both are employed full-time for the minimum wage
CZ	In absolute terms	133,680 CZK (5,445.2 EUR)	220,380 CZK (8,976.8 EUR)	364,800 CZK (14,859.5 EUR)
	In relative	30.7 % of the average wage	50.6 % of the average wage	83.3 % of the average wage
SK	In absolute	2,956.8 EUR	10,207.9 EUR	14,952 EUR
	In relative	21.0 % of the average wage	72.5 % of the average wage	96.0 % of the average wage

Source: Authors using data from the OECD TaxBen model

Note: To convert Czech crowns into euros, we used the exchange rate of the National Bank of Slovakia of 28 April 2022; the net income of the household includes temporary into-work benefits when starting a new job and excludes cash housing benefits for rented accommodations

## Conclusion

Over the last three decades, the systems of assistance in material need underwent significant changes in both countries. A common element that has been preserved in both countries is the use of the subsistence minimum category when assessing the state of material need of a household, but the system of specifying the amounts of entitlements to social benefits in times of material need is largely differentiated. Developments in both countries in the previous period have confirmed the introduction of workfare elements in the systems of assistance of material need. Among other things, the countries also apply a different approach to the indexation of the subsistence minimum and the assistance in material need, to the payment of housing costs, as well as the incomes of households (including social benefits) which are or are not taken into account when assessing whether the household's income reaches the level of the subsistence minimum. An important difference is also the implementation of a separate category of the existence minimum in the Czech Republic, which basically represents a lowered subsistence minimum in case the long-term unemployed who are able to work are not willing to do so. In Slovakia, a possibility to decrease the assistance was implemented for the possible misuse of the system of assistance in material need, but the existence minimum as such is not applied. A common characteristic of the two countries is that in the last decades, the criteria for the provision of assistance in material need have become stricter, and the share of the guaranteed minimum income on the net minimum wage has decreased in order to make

sure that the long-term unemployed are better off if they enter the labour market and accept work even for the minimum wage. The setting up of minimum income systems in both countries presupposes that greater freedom of choice in consumption occurs at a higher level and higher share of labour income in the social assistance recipient's total income.

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