

**THE FIFTH REPORT ON FULFILMENT OF THE
EUROPEAN CODE OF SOCIAL SECURITY**

For the period July 1, 2006 – June 30, 2007

SECTION I

List of Legal Regulations:

Part II – Medical Care

- Act No. 48/1997 Coll. on public health insurance and the changes and amendments to certain related laws (as last amended).
- Act No. 20/1966 Coll. on public healthcare (as last amended).
- Act No. 285/2002 Coll. on the donation, removal and transplanting of tissues and organs and changes to certain laws (The Transplant Act) (as last amended).

Part III – Sickness Benefit

- Act No. 54/1956 Coll. on the sickness insurance of employees (as last amended).
- Regulation No. 31/1993 Coll. on the evaluation of a temporary work disability for social security purposes (as last amended).
- Act No. 100/1988 Coll. on social security (as last amended).
- Act No. 582/1991 Coll. on the organization and implementation of social security (as last amended).
- Act No. 32/1957 Coll. on medical care in the armed forces (as last amended).
- Regulation No. 143/1965 Coll. on the payment of cash benefits in sickness insurance.
- Regulation No. 165/1979 Coll. on the sickness insurance of certain employees and the payment of sickness insurance benefits in special situations.
- Act No. 187/2006 Coll. on sickness insurance – scheduled to come into effect on January 1, 2008.
- Act No. 189/2006 Coll. on changes to certain laws in relation to the introduction of the Act on Sickness Insurance – scheduled to come into effect on January 1, 2008

Part IV – Unemployment Benefit

- Act No. 435/2004 Coll. on employment (as last amended).

Part V – Old Age Benefit

- Act No. 155/1995 Coll. on pension insurance (as last amended).
- Act No. 582/1991 Coll. on the organization and implementation of social security (as last amended).
- Regulation No. 284/1995 Coll. implementing the Act on Pension Insurance (as last amended).

Part VII – Family Benefit

- Act No. 117/1995 Coll. on state social support (as last amended).
- Act No. 463/1991 Coll. on subsistence minimums (as last amended). (in effect through December 31, 2006)
- Act No. 110/2006 Coll. on subsistence and survival minimums (effective as of January 1, 2007).
- Regulation No. 207/1995 Coll. establishing the degrees of health impairment and the methods for their evaluation for the purpose of state social support benefits (as last amended).

Part VIII – Maternity Benefit

- Act No. 88/1968 Coll. on the extension of maternity leave, on maternity benefits and on sickness insurance allowances for children (as last amended).

- Act No. 582/1991 Coll. on the organization and implementation of social security (as last amended).
- Act No. 187/2006 Coll. on sickness insurance – scheduled to come into effect on January 1, 2008.
- Act No. 189/2006 Coll. on changes to certain laws in relation to the introduction of the Act on Sickness Insurance – scheduled to come into effect on January 1, 2008.

Part IX – Invalidity Benefit

- Act No. 155/1995 Coll. on pension insurance (as last amended).
- Regulation No. 284/1995 Coll. implementing the Act on Pension Insurance (as last amended).
- Act No. 582/1991 Coll. on the organization and implementation of social security (as last amended).

Part X – Survivors' Benefit

- Act No. 155/1995 Coll. on pension insurance (as last amended).
- Act No. 582/1991 Coll. on the organization and implementation of social security (as last amended).

SECTION II

Application of the European Code of Social Security

Article 10 of the Constitution of the Czech Republic stipulates that promulgated international treaties, the ratification of which has been approved by the Parliament and which are binding on the Czech Republic, are considered to be part of the national legislation. If the provisions of an international treaty vary from the national legislation, the provisions of the international treaty shall prevail.

Article 2 – Adopted Provisions

The Czech Republic has adopted obligations under the following parts of the Code:

- Part II - Medical Care
- Part III - Sickness Benefit
- Part IV - Unemployment Benefit
- Part V - Old Age Benefit
- Part VII - Family Benefit
- Part VIII - Maternity Benefit
- Part IX - Invalidity Benefit
- Part X - Survivors' Benefit

Article 6 – Voluntary Insurance Systems

Protection provided under voluntary insurance systems have not been considered in the report.

Parts XI – XII

Questions for Articles 65 through 68 have been answered in the respective areas of the form.

General remarks regarding the calculation of benefits:

In 2006, the average gross monthly salary of a **qualified blue-collar worker was CZK 20,801** and, based on the results of a study, approximately 60% of economically active individuals earn a salary lower than the above amount. The salary of a qualified blue-collar worker corresponds to the salary of a metal lathe operator – tuning and service technician – based on KZAM-R 72231 (*Job Classification*). In 2006, the average gross monthly salary of a **non-qualified blue-collar worker was CZK 13,432** (based on KZAM-R, main class 9 – support staff and non-qualified workers).

The information system on the cost of labor is a selective statistical research of the Ministry of Labor and Social Affairs, which is included annually as part of the statistical research program of the Czech Statistical Office. As a salary and wage monitoring system, the

system monitors, on a quarterly basis, the salaries of different professions in the Czech Republic, based on the KZAM job classification structure. Data on average hourly wages (calculated for wage substitutes for labor-law-related purposes, pursuant to Section 351 of Act No. 262/2006 Coll., the Labor Code) is collected on a quarterly basis for individual employees of selected employers. The availability of this data allows for the monitoring of the size and the structure of the monthly gross salary, which yields the average salary level during the period from the start of the year through the end of the current calendar quarter.

Because social benefits in the Czech Republic are not subject to tax (with the exception of pension benefits that exceed CZK 198,000 per year and which are included in taxable income) and they are not subject to health insurance or social security contributions, it is possible to calculate the percentage share of the person's net salary that these benefits represent. In 2006, the net salary of a qualified blue-collar worker, with a dependent wife and two children, was CZK 17,398 (the calculated income tax was reduced by the following deductions: CZK 600 for the taxpayer, 2*500 for the two dependent children and CZK 350 for a dependent spouse who does not have her own source of income exceeding CZK 38,040 per year). Benefits for two children, ages 6 – 15, were CZK 1,216 in the monitored period. Thus, in 2006, the average net monthly salary of a qualified blue-collar worker was CZK 16,048.

- The benefits do not vary from region to region (Paragraph 8 of Article 65 does not apply).
- The average year-to-year inflation index in 2006 was 102.5%.
- The international average nominal salary index in the national economy in 2006 was 106.4%.

Article 69 – Right to Appeal

No changes.

Article 70 – Cost of Benefits

Updated information:

Total receipts for 2006¹

- Pension Insurance..... CZK 268,401 million
- Sickness Insurance CZK 39,697 million
- Contribution to the Government Employment Policy.... CZK 15,337 million

Total expenditures for 2006²

- Pension Insurance..... CZK 266,226 million
- Sickness Insurance CZK 32,773 million
- Unemployment BenefitsCZK 7,308 million

Article 71

Updated information:

¹ Source: Government Income and Expenditure Report for 2006

² Source: Government Income and Expenditure Report for 2006

The administration and distribution of state social support benefits is handled by both state bodies as well as by local bodies with delegated powers.

Article 74

The total number of employees in 2006: 4,000,800 (includes the members of production co-ops). If we include self-employed individuals in the total number of covered individuals, this total would be 5,591,300.

The total number of employees with pension insurance (average for 2006): 4,161,598.

- Self-Employed with Pension Insurance (average for 2006)..714,322 persons
- (of which) Individuals Covered by Sickness Insurance230,343 persons

SECTION III

No changes

SECTION IV

No changes.

SECTION V

No changes

PART II – MEDICAL CARE

Articles 7 and 8

No changes

Article 9

A. The Czech Republic makes a reference to Item (c).

B. The group of covered individuals (pursuant to the provisions of Act No. 48/1997 Coll. on public health insurance (as last amended)) remains unchanged. Under this act, the personal coverage provided under the public health insurance program applies to all individuals who are permanent residents of the Czech Republic and individuals who – although not permanent residents of the Czech Republic – are employed by an employer based in the Czech Republic (Section 2, Subsection 1 of Act No. 48/1997 Coll.). However, after the Czech Republic's entry into the European Union, the citizens of all EU member states who are entitled under Community Law also have access to the Czech public health insurance system.

C. Updated statistical information:

- | | |
|-----------------------------------|--------------------------------------|
| A. Number of Covered Individuals: | 10,297,439 (as of December 31, 2006) |
| B. Number of Residents | 10,287,189 (as of December 31, 2006) |
| C. 100% | |

D. The group of covered individuals is determined based on the fact that each person who is a permanent resident of the Czech Republic is individually insured – even if not economically active.

Article 10

A. – B. The character of the benefits provided, in accordance with Paragraph 1, and the deductible paid by patients on medical expenses have remained unchanged since the previous report.

Updated information:

In addition to institutional care that is provided in hospitals and professional treatment facilities, there are new regulations covering special types of institutional care – palliative care for terminal, bedridden patients, which is provided at special hospice-type facilities.

With respect to dental care, we have stated that the *procedures (work) performed by dentists are fully covered by the public health insurance program. Each group of dental procedures (prosthetics, fillings, braces, etc.) has at least one procedure, which is fully covered by public health insurance.* Newly added: dental procedures are covered by health

insurance to the extent and under the conditions, which are specified under Supplement No. 4 to Act No. 48/1997 Coll.

C. – D. No changes

Article 11

No changes

Article 12

No changes

PART III – SICKNESS BENEFIT

Articles 13 and 14

No changes.

Article 15

A. The Czech Republic makes a reference to Item (a).

B. Does not apply.

C. Updated statistical information:

- | | |
|--|-----------|
| A. Number of Covered Employees: | 4,162,000 |
| Number of Covered Self-Employed Individuals: | 230,000 |
| B. Total Number of Employed Persons: | 4,161,598 |
| C. 100 % | |

Article 16

A. The Czech Republic makes reference to the provisions of Article 65.

Chapter I

Updated information:

A. Rules for the calculation of sickness benefits:

1. Specified Period – 12 calendar months preceding the calendar month in which the insured person became unable to work.
2. Daily Assessment Base – Qualifying income divided by the number of calendar days of the specified period (some days are not counted to avoid an unjustified dilution of the daily assessment base – for instance days when sickness benefits were paid).
3. Qualifying Income – All income subject to social security contributions and contributions to the state employment policy that are calculated for an employee in the specified period.
4. Reduction of the Daily Assessment Base – For the first 14 calendar days of the sick leave, up to the 1st reduction limit, 90% of the qualifying income is counted; between the 1st and 2nd limit, 60% is counted; and, the amount over the 2nd reduction limit is not taken into account. From the 15th day of the sickness leave, the whole amount up to the first reduction limit is counted; between the 1st and 2nd

reduction limit, 60% income is counted; and, the amount over the 2nd reduction limit is not taken into account.

5. For 2007, the 1st reduction limit is CZK 550 and the 2nd reduction limit is CZK 790.
6. The daily benefit is calculated as 25% of the daily assessment base for the 1st to 3rd day of the sick leave and at 69% of the daily assessment base for the 4th and the following days.
7. The total sickness benefit is calculated as a multiple of the daily benefit and the number of calendar days of the sick leave.

B. The evaluation of the required level of sickness benefit is done in accordance with Article 65, Paragraph 6(b). In the Czech Republic, sick leave coverage is mandatory for all employed individuals. The subscription of self-employed individuals to the sickness insurance benefit program is voluntary.

C. In 2006, the average gross salary of a qualified blue-collar worker was CZK 20,801 (based on job classification category KZAM 72231 – metal lathe operator – tuning and service technician).

Chapter II

Updated information:

D. – G. Calculation of the ratio for the evaluation of the sickness benefit level:

- The calculation is made based on the gross monthly salary of a qualified blue-collar worker (based on job classification category KZAM 72231 – metal lathe operator – tuning and service technician) – which in 2006 was CZK 20,801.
- Gross Salary = CZK 20,801; Net Salary = CZK 17,398 (the calculated income tax was reduced by the following deductions: CZK 600 for the taxpayer, 2*500 for the two dependent children and CZK 350 for a dependent spouse who does not have her own source of income exceeding CZK 38,040 per year).
- The 'Daily Assessment Base (DAB)' for the calculation of sickness benefits: The ratio between annual salary and the number of days in the year – i.e. $CZK\ 20,801 * 12 / 366 = 684$.
- The daily assessment base is reduced as follows: the first reduction limit is CZK 550 and the second is CZK 790.
DAB₁ (for the first 14 days of sickness): $550 * 90 \% + (684 - 550) * 60 \% = CZK\ 576$.
DAB₂ (starting with the 15th day): $550 + (684 - 550) * 60 \% = CZK\ 631$.
- Daily Sickness Benefit:
1st – 3rd day at 25 % of DAB₁: $25 \% * 576 = CZK\ 144$
4th thru 14th day at 69 % DAB₁: $69 \% * 576 = CZK\ 398$
Starting with the 15th day at 69 % DAB₂: $69 \% * 631 = CZK\ 436$
- **Monthly Sickness Benefit:** $3 * 144 + 11 * 398 + 16 * 436 = CZK\ 11,786$
- **Benefit for Two Children** (ages 6 – 15): $2 * 608 = CZK\ 1,216$
- Sickness Benefit + Benefit for Two Children: $11\ 786 + 1\ 216 = CZK\ 13,002$
- Income Prior to Sickness: $17\ 398 + 1,216 = CZK\ 18,614$

- The **ratio** between income after sickness (sickness benefit + benefit for two children) and pre-sickness income (net salary + benefit for two children): $13,002 / 18,614 = 69.9\%$.

| Monthly Salary (CZK) | | Monthly Benefit for 2 Children (CZK) | Monthly Sickness Benefit (CZK) | Ratio: Sickness Benefit / Salary (%) [*] | |
|----------------------|--------|--------------------------------------|--------------------------------|---|------|
| Gross | Net | | | Gross | Net |
| 20,801 | 17,398 | 1,216 | 11,786 | 59.1 | 69.9 |

* Includes the benefit for two children.

The European Code of Social Security (ECSS) requires a 45% minimum ratio between sickness benefits and pre-sickness income. The Czech Republic meets this required minimum ratio.

B. Does not apply.

C. No changes.

Article 17

No changes

Article 18

No changes

PART IV – UNEMPLOYMENT BENEFIT

Article 19 and 20

No changes

Article 21

- A. The Czech Republic makes a reference to Item (a).
- B. The group of covered individuals includes all persons who meet the requirements to qualify for support during unemployment, in accordance with Act No. 435/2004 Coll.
- C. Updated statistical information:
 - A. Number of Covered Employees: 4,161,598
 - B. Total number of employees: 4,161,598
 - C. 100%

Article 22

- A. The Czech Republic makes reference to the provisions of Article 65.

Chapter I

- A. Updated information related to Paragraph 3, Article 65:

In 2007, the maximum level of support during unemployment reached CZK 11,389 per month (equal to 58% of the average salary paid in the domestic economy for the first through the third quarter of the calendar year preceding the year in which the application for unemployment benefits was filed).

- B. Does not apply.
- C. No changes

Chapter II

- D. – G. Updated information:

The average net monthly salary of a qualified blue-collar worker was CZK 17,398; the total benefits for two children were CZK 1,216; and, the previous income was CZK 18,614 (including children's benefits).

Benefits paid to a typical qualified blue-collar worker during the first three months of unemployment:

| Benefits (50 % of previous average income – i.e. net salary) | Children's Benefits | Total Income | % of Original Income, Including Children's Benefits |
|---|----------------------------|---------------------|--|
| CZK 8,699 | CZK 1,216 | CZK 9,915 | 53.3 |

Benefits paid to a typical qualified blue-collar worker during the subsequent three months of unemployment (for job seekers over the age of 50, this would be the subsequent 'six' or 'nine' months):

| Benefits (45 % of previous average income) | Children's Benefits | Total Income | % of Original Income, Including Children's Benefits |
|---|----------------------------|---------------------|--|
| CZK 7,829 | CZK 1,216 | CZK 9,045 | 48.6 |

B. Does not apply.

C. No changes

Article 23

Updated information:

Commitments in lieu of employment include the following: the preparation of a person with a health impairment for employment, full disability pension, basic military service, community service, personal care for a child (up to 4 years of age or a child up to 18 years of age, if the child has a long-term, severe health impairment requiring special care), personal care for a partially dependent senior citizen (over the age of 80, provided this person shares the household and person expenses of the caregiver – these requirements do not apply if the person being cared for is closely related to the caregiver, as qualified under pension insurance regulations), engagement in long-term voluntary service with an average workload in excess of 20 hours per week (on the basis of a contract between the volunteer and the respective organization, which is accredited by the Ministry of the Interior) and the consistent preparation for a future profession (in this case, however, only a period of up to 6 months in length will qualify).

In situations in which the person meets the requirements to qualify as a person with a commitment in lieu of employment, the unemployment benefits for the first 3 months of the unemployment are calculated at 0.12 times the person's average salary in the domestic

economy; and, for the remaining months, the benefits are calculated at 0.11 times this average salary.

Article 24

Updated information:

In accordance with Council Regulation (EEC) No. 1408/71, unemployment support can be paid to an individual located in another EU member state.

PART V – OLD AGE BENEFIT

Article 25 and 26

Updated information:

The retirement age is specified under Section 32 of Act No. 155/1995 Coll. In 2007, the retirement age for men was 61 years and 8 months; for childless women, 60 years; for women who raised one child, 59 years; for women who raised two children, 58 years; for women who raised three or four children, 57 years; and for women who raised five or more children, the retirement age is 56 years. The retirement age is being increased annually by 2 months for men and by 4 months for women – until the numbers reach age 63 for men and childless women; for women who raised one child, 62 years; for women who raised two children, 61 years; for women who raised three or four children, 60 years; and for women who raised five or more children, the retirement age will reach 59 years.

Article 27

- A. The Czech Republic makes a reference to Item (a).
- B. The group of covered individuals also includes the groups, which are specified under Item (b). In this case, covered individuals are persons who are (or used to be) subscribers to the pension insurance program. Subscription to the pension insurance program is mandatory for all economically-active individuals (both employed and self-employed). Under the law, there are certain other population groups that are also covered by pension insurance, without having to make contributions (these include students, persons performing basic military service and women caring for a child of up to 4 years of age).
- C. Updated statistical information
 - A. Number of Covered Employees: 4,161,598
 - Number of Covered Self-Employed Individuals: 714,000
 - B. Total Number of Employed Persons: 4,161,598
 - C. 100%
- D. Does not apply

Article 28

- A. The Czech Republic makes a reference to Article 65

Chapter I

Updated information:

A. Pension benefits are composed of the following two parts:

Basic Part: CZK 1,570 per month.

Percentage Part: This is based on the person's income (calculated using the calculation base) and the number of years for which the person has been a subscriber to the pension insurance program. For old age benefits, this amounts to 1.5% of the calculation base for each year of being subscribed to the pension insurance program. The calculation base is determined based on the average indexed gross income (earnings are indexed based on increases to the average salaries paid in the domestic economy). This applies for the period from 1986 through the year preceding the year in which the person first qualified for old age benefits. When determining the calculation base, the above-referenced average value ('personal assessment base') is reduced so that only 30% of the person's income is counted between the 1st and the 2nd reduction limits and only 10% of the person's income is calculated above the 2nd reduction limit.

In 2007, the reduction limits were CZK 9,600 and CZK 23,300 (these limits are increased annually on the basis of the increases in salaries).

B. No changes

C. In 2006, the average gross salary of a qualified blue collar worker was CZK 20,801 (based on job classification category KZAM 72231 – metal lathe operator – tuning and service technician).

Chapter III

Updated information:

D. – G. Calculation of the ratio for the evaluation of the pension benefit level:

- The calculation is made based on the gross monthly salary of a qualified blue-collar worker (based on job classification category KZAM 72231 – metal lathe operator – tuning and service technician) – which in 2006 was CZK 20,801.
- Out of the gross monthly salary of CZK 20,801, an individual with a dependent spouse receives a **net salary of CZK 16,398**.
- The personal assessment base (CZK 20,801) is reduced by $9,600 + (20,801 - 9,600) * 30\% = \text{CZK } 12,961$.
- The percentage part of the benefits for thirty years of insurance subscribing = $30 * 1.5\% * 12,961 = 5,833$.
- **Monthly old age benefit:** Basic Part + Percentage Part = $1,570 + 5,833 = \text{CZK } 7,403$.

- The **ratio** between income after the start of the distribution of benefits (old age benefit) and income during employment (net salary): $7,403 / 16,398 = 45.1 \%$.

| Monthly Salary (CZK) | | Monthly Old Age Benefit (CZK) | Ratio – Old Age Benefit / Salary (%) | |
|----------------------|--------|-------------------------------|--------------------------------------|------|
| Gross | Net | | Gross | Net |
| 20,801 | 16,398 | 7,403 | 35.6 | 45.1 |

The European Code of Social Security (ECSS) requires a 40% minimum ratio between old age benefits and pre-retirement income. The Czech Republic meets this requirement in terms of the ratio between old age benefits and net salary.

Article 29

No changes

Article 30

No changes

PART VII – FAMILY BENEFIT

Article 39 and 40

Updated information:

In order to qualify for children's benefits, the family's income cannot exceed an amount equal to triple the minimum family subsistence level (this applies during the specified period and through December 31, 2006; starting on January 1, 2007, the amount to qualify will be capped at four times the minimum family subsistence level).

Since January 1, 2007, the minimum subsistence level has been composed of only a single component, which only contains the part of the minimum subsistence level related to food and other basic personal needs (hygienic supplies, clothing, shoes, etc.).

Due to the substantial differences in housing costs, the parts of the minimum subsistence level that relate to housing have been excluded and two new types of benefits have been introduced to cover the cost of housing (the housing allowance paid from the state social support allowance system and a housing allowance paid in accordance with the act on assistance to individuals requiring material support).

Due to a greater level of motivation, the concept of a minimum survival level was introduced in addition to the minimum subsistence level. This was introduced starting in January 1, 2007 and it is used for adult individuals requiring material support.

The following minimum subsistence levels were in effect from January 1 through December 31, 2006:

The amount required to cover the cost of food and other basic personal needs:

- a) CZK 1,750 for a child under 6 years of age
- b) CZK 1,950 for a child from 6 – 10 years of age
- c) CZK 2,310 for a child from 10 – 15 years of age
- d) CZK 2,530 for an unprovided child from 15 – 26 years of age
- e) CZK 2,400 for other individuals

The amount required to cover the necessary household expenses:

- f) CZK 2,020 for a single person household
- g) CZK 2,630 for a two-person household
- h) CZK 3,260 for a three-four person household
- i) CZK 3,660 for a household of five or more persons

The minimum family subsistence level was the total of all minimum subsistence amounts provided to cover the cost of food and other basic personal needs for the individual members of the household plus a single amount representing the allowance covering the shared household expense needs.

As of January 1, 2007, the following monthly minimum subsistence levels apply (in accordance with Act No. 110/2006 Coll.):

- a) CZK 3,126 for an individual

- b) CZK 2,880 for the first adult in the household
- c) CZK 2,600 for the second and other adults in the household
- d) CZK 1,600 for an unprovided child under 6 years of age
- e) CZK 1,960 for an unprovided child aged 6 - 15
- f) CZK 2,250 for an unprovided child aged 15 - 26

The minimum subsistence level is the total of all minimum subsistence amounts for the individual members of the household. In accordance with Act No. 110/2006 Coll., the minimum survival amount is CZK 2,020.

Children's benefits can be provided in three different amounts, based on the size of the income used to qualify for benefits. Until December 31, 2006, this income had to be less than 3 times the minimum family subsistence level (factor of 3.0) in order to qualify. Effective January 1, 2007, the qualifying income had to be less than 4 times the minimum family subsistence level (factor of 4.0).

Article 41

A. The group of covered individuals is defined under Act No. 117/1995 Coll. on state social support. In terms of children's benefits, unprovided for children are considered part of the covered group. The child's entitlement to such benefits is not conditioned by the fact of whether or not the child's parent is a subscriber to the pension insurance program or to the sickness insurance program.

B. In 2006, children's benefits were provided to approximately 77 % of all unprovided for children.

Article 42

The Czech Republic makes a reference to Paragraph (a).

Children's benefits paid on the basis of the family's income (monthly) from January 1 through December 31, 2006:

- a) Family income of up to 1.1 times the minimum family subsistence level (allowance calculation: the amount required to cover the cost of food and other basic personal needs of the child times the factor 0.32):

| | |
|-------------------------|---------|
| under 6 yrs of age | CZK 560 |
| from 6 - 10 yrs of age | CZK 624 |
| from 10 - 15 yrs of age | CZK 740 |
| from 15 - 26 yrs of age | CZK 810 |
- b) Family income of from 1.1 through 1.8 times the minimum family subsistence level (allowance calculation: the amount required to cover the cost of food and other basic personal needs of the child times the factor 0.28):

| | |
|-------------------------|---------|
| under 6 yrs of age | CZK 490 |
| from 6 - 10 yrs of age | CZK 546 |
| from 10 - 15 yrs of age | CZK 647 |

from 15 - 26 yrs of age CZK 709

- c) Family income of from 1.8 through 3.0 times the minimum family subsistence level (allowance calculation: the amount required to cover the cost of food and other basic personal needs of the child times the factor 0.14):

under 6 yrs of age CZK 245

from 6 - 10 yrs of age CZK 273

from 10 - 15 yrs of age CZK 324

from 15 - 26 yrs of age CZK 355

Children's benefits paid on the basis of the family's income (monthly) starting January 1, 2007:

- a) Family income of up to 1.5 times the minimum family subsistence level (allowance calculation: the child's minimum subsistence level times the factor 0.36):

under 6 yrs of age CZK 576

from 6 - 15 yrs of age CZK 706

from 15 - 26 yrs of age CZK 810

- b) Family income of from 1.5 through 2.4 times the minimum family subsistence level (allowance calculation: the child's minimum subsistence level times the factor 0.31):

under 6 yrs of age CZK 496

from 6 - 15 yrs of age CZK 608

from 15 - 26 yrs of age CZK 698

- c) Family income of from 2.4 through 4.0 times the minimum family subsistence level (allowance calculation: the child's minimum subsistence level times the factor 0.16):

under 6 yrs of age CZK 256

from 6 - 15 yrs of age CZK 314

from 15 - 26 yrs of age CZK 360

Article 43

No changes

Article 44

Updated information:

| | |
|---|------------------|
| Children's benefit expenditures of the state social support system (2006) | CZK 11.0 billion |
| Number of unprovided for children | 2,386,500 |
| Number of unprovided for children qualified for children's benefits..... | 1,759,900 |
| Gross salary of a qualified blue-collar worker | CZK 20,801 |

Required family benefit expenditures:

20,801 (gross salary of a qualified blue-collar worker) * 0.015 (1.5 % of salary) * 12 (months) * 2,386,500 (children) = **CZK 8.94 billion**

Article 45

No changes

PART VIII – MATERNITY BENEFIT

Article 46 and 47

No changes

Article 48

A. The Czech Republic makes a reference to Item (a).

B. No changes

C. Updated information:

- | | |
|--|-----------|
| A. Number of Covered Employees: | |
| a) Employees with Pension Insurance | 4,162,000 |
| b) Self-Employed Individuals with Sickness Insurance | 230,000 |
| B. Total number of employees | 4,161,598 |
| C. 100 % | |

Article 49

No changes

Article 50

A. The Czech Republic makes reference to Article 65.

B.

Chapter I

Updated information:

A. Rules for the calculation of maternity benefits:

1. Specified Period – 12 calendar months preceding the calendar month in which the employee started her maternity leave.
2. Daily Assessment Base (DAB) – Qualifying income divided by the number of calendar days of the specified period (some days are not counted to avoid an unjustified dilution of the daily assessment base – for instance days when sickness benefits were paid).
3. Qualifying Income – All income subject to social security contributions and contributions to the state employment policy that are calculated for an employee in the specified period.

4. Reduction of the Daily Assessment Base – The entire amount is counted until the 1st reduction limit is reached; 60% of the amount is counted between the 1st and 2nd reduction limits; and, the daily assessment base amount is not counted above the 2nd reduction limit.
5. For 2007, the 1st reduction limit is CZK 550 and the 2nd reduction limit is CZK 790.
6. The daily benefit is calculated as 69% of the daily assessment base.
7. Maternity benefits are paid out for a period of 28 weeks. This period is extended to 37 weeks for women who have given birth to more than one child at the same time and who are taking care of at least two of such children; or, women who are single mothers, widows, divorced and/or living on their own (without a spouse) for other legitimate reasons.

B. No changes

C. In 2006, the average gross salary of a qualified blue-collar worker was CZK 20,801.

Chapter V.

Updated information:

D. – G. Calculation of the ratio for the evaluation of the maternity benefit level:

- The calculation is performed on the basis of the average gross salary of a qualified blue-collar worker in 2006 – i.e. CZK 20,801.
- Gross salary: CZK 20,801, of which **CZK 16,048 is the net salary** (of the qualifying worker).
- The daily assessment base (DAB) for the calculation of maternity benefits: the ratio between annual salary and the number of days of the year – i.e. $CZK\ 20,801 \cdot 12 / 366 = CZK\ 684$.
- The daily assessment base is reduced as follows: the first reduction limit is CZK 550 and the second is CZK 790. DAB from the 1st day: $550 + (684 - 550) \cdot 60\% = CZK\ 631$.
- Daily maternity benefit (from the 1st day): $69\% \cdot 631 = CZK\ 436$.
- **Monthly maternity benefit: $30 \cdot 436 = CZK\ 13,080$.**
- The ratio between income after distribution of the benefits (maternity benefits) and pre-distribution income (net salary): $13,083 / 16,048 = 81.5\%$.

| Monthly Salary (CZK) | | Monthly Maternity Benefit (CZK) | Ratio: Maternity Benefit / Salary (%) | |
|----------------------|--------|---------------------------------|---------------------------------------|------|
| Gross | Net | | Gross | Net |
| 20,801 | 16,048 | 13,080 | 62.9 | 81.5 |

Article 51

No changes

Article 52

No changes

PART IX – INVALIDITY BENEFIT

Article 53 and 54

No changes

Article 55

A. The Czech Republic makes a reference to Item (a).

B. No changes

C. Updated information:

| | |
|---|-----------|
| A. Number of Covered Employees: | |
| Employees with Pension Insurance: | 4,162,000 |
| Self-Employed Individuals with Pension Insurance: | 714,000 |
| B. Total Number of Employed Persons | 4,161,598 |
| C. 100 % | |

Article 56

The Czech Republic makes a reference to Article 65.

Chapter I

Updated information:

The benefit consists of repetitive payments – the amount of which is calculated by using the same rules as those used for the old age benefit (see the text of Article 26).

A. Rules for the Calculation of Invalidity Benefits

Invalidity benefits are made up of the following two parts:

Basic Part: CZK 1,570 per month.

Percentage Part: This is based on the person's income (calculated using the calculation base) and the number of years for which the person has been a subscriber to the insurance program. For full invalidity benefits, this amounts to 1.5% of the calculation base for each year of being subscribed to the pension insurance program. The calculation base is determined based on the average indexed gross income (earnings are indexed based on increases to the average salaries paid in the domestic economy). This applies for the period from 1986 through the year preceding the year in which the person first qualified for the benefits. When determining the calculation base, the above-referenced average value ('personal assessment base') is reduced so

that only 30% of the person's income is counted between the 1st and the 2nd reduction limits and only 10% of the person's income is calculated above the 2nd reduction limit.

In 2007, the reduction limits were CZK 9,600 and CZK 23,300 (these limits are increased annually on the basis of the increases in salaries).

B. No changes

C. In 2006, the average gross salary of a qualified blue collar worker was CZK 20,801 (based on job classification category KZAM 72231 – metal lathe operator – tuning and service technician).

Because social benefits in the Czech Republic are not subject to tax (with the exception of pension benefits that exceed CZK 198,000 per year and which are included in taxable income) and they are not subject to health insurance or social security contributions, it is possible to calculate the percentage share of the person's net salary that these benefits represent. In the Czech Republic, the total number of years for which the individual has been insured, which is used for the calculation of the invalidity benefit level, also includes the time between the date on which the person qualified for full invalidity benefits and the person's retirement age. That is why it can be assumed, when determining the level of benefits, that the person has been insured for 30 years.

Chapter II

Updated information:

D. – G. Calculation of the ratio for the evaluation of the invalidity benefit level:

- The calculation is made based on the gross monthly salary of a qualified blue-collar worker (based on job classification category KZAM 72231 – metal lathe operator – tuning and service technician) – which in 2006 was CZK 20,801.
- Out of the gross monthly salary of CZK 20,801, an individual with a dependent spouse and two children receives a **net salary of CZK 17,398**.
- The personal assessment base (CZK 20,801) is reduced by $9,600 + (20,801 - 9,600) * 30\% = \text{CZK } 12,961$.
- The percentage part of the benefits for thirty years of insurance subscribing = $30 * 1.5\% * 12,961 = \text{CZK } 5,833$.
- **Monthly invalidity benefit:** Basic Part + Percentage Part = $1,570 + 5,833 = \text{CZK } 7,403$.
- The **benefits** for two children (ages 6 – 15) = $2 * \text{CZK } 608 = \text{CZK } 1,216$.
- Full invalidity benefit + children's benefits (2 children) = $7,403 + 1,216 = \text{CZK } 8,619$.
- Pre-distribution income = $17,398 + 1,216 = \text{CZK } 18,614$.

The **ratio** between income after the start of the distribution of benefits (invalidity benefit + children's benefits for two children) and pre-distribution income (net salary + children's benefits for two children): $8,619 / 18,614 = \mathbf{46.3\%}$.

| Monthly Salary (CZK) | | Benefits for 2 Children (CZK) | Full Invalidity Benefit (CZK) | Ratio: Invalidity Benefit / Salary (%) * | |
|----------------------|-----|-------------------------------|-------------------------------|--|-----|
| Gross | Net | | | Gross | Net |
| | | | | | |

| | | | | | |
|--------|--------|-------|-------|------|------|
| 20,801 | 17,398 | 1,216 | 7,403 | 39.1 | 46.3 |
|--------|--------|-------|-------|------|------|

* Includes benefits for 2 children.

Chapter VI

See Supplement No. 1.

Article 57

No changes

Article 58

The individual is entitled to a full invalidity benefit for the entire duration of their total invalidity. There is no need to transfer to an old age benefit program. The following items apply with respect to Article 68:

- a) If the total invalidity state occurred before the person reached the age of 18, the benefit is not paid if the recipient is not a permanent resident of the Czech Republic.
- c) The full invalidity benefit is not paid while the person is receiving sickness benefits for which the person became qualified before having become qualified for the invalidity benefit.
- d) If it is discovered that the person no longer qualifies for the invalidity benefit or its payment, the benefit is cancelled or the payment is discontinued. If the benefit has been awarded or is being paid in an amount greater than the amount to which the person actually qualifies or if the benefit has been awarded or is being paid despite the fact that the person should not qualify, the benefit is reduced or cancelled and the payments are discontinued, starting on the day following the end date of the period for which the benefits were paid.

If the benefit has been awarded in an amount less than the amount to which the person would be entitled or if the benefit has been wrongfully denied and / or if it has been awarded on a date occurring after the date on which the person was supposed to be entitled to such a benefit, the benefit is either increased or awarded starting on the date on which the person would have become entitled to such a benefit or its increase. However, benefits can only be awarded retroactively for three years prior to the date on which the entitlement to such a benefit or its increase has been discovered or claimed.

- e) If the total invalidity was due to an injury that was either self-inflicted or ordered by the injured individual or was an injury that was incurred by the individual as a consequence of a criminal act, intentionally committed by the injured individual, the time between the date on which the person became entitled to a full or partial invalidity benefit and the date on which the person reaches retirement age does not count in calculating the total of the full or partial invalidity benefit amount to which the person is entitled.
- f) The distribution of full invalidity benefit payments can be discontinued if the recipient has failed to undergo a medical examination.

PART X – SURVIVORS' BENEFIT

Article 59 and 60

No changes

Article 61

A. The Czech Republic makes a reference to Item (a).

B. No changes

C. Updated statistical information

| | |
|--|-----------|
| A. Number of Covered Employees | |
| Employees with Pension Insurance | 4,162,000 |
| Self-Employed Individuals with Pension Insurance | 714,000 |
| B. Total Number of Employed Persons | 4,161,598 |
| C. 100 % | |

Article 62

A. No changes

Chapter I

Updated information:

A. **Rules for the Calculation of Widow (or Widower) Benefits**

The benefits are made up of the following two parts:

Basic Part: CZK 1,570 per month.

Percentage Part: This is based on the deceased person's income and the number of years that the person had been a subscriber to the insurance program.

Percentage Part:

- **Widow (widower)** benefits: 50% of the full invalidity or old age pension benefit to which the deceased person was or would have been entitled (see 'old age' or 'full invalidity' benefits).
- **Orphan** benefits: for each parent, the orphan is entitled to 40% of the full invalidity or old age pension benefit to which the deceased person was or would have been entitled (see 'old age' or 'full invalidity' benefits).

B. No changes

C. In 2006, the average gross monthly salary of a qualified blue-collar worker was CZK 20,801.

Chapter IV

D. – G. Updated information:

Calculation of the ratio for the evaluation of the survivor benefit level:

- The calculation is made based on the gross monthly salary of a qualified blue-collar worker (based on job classification category KZAM 72231 – metal lathe operator – tuning and service technician) – which in 2006 was CZK 20,801.
- Out of the gross monthly salary of CZK 20,801, a family with two children receives a **net salary of CZK 17,048**.
- The personal assessment base (CZK 20,801) is reduced by 9,600 + (20,801 – 9,600) * 30 % = CZK 12,961.
- The percentage part of the old age (full invalidity) benefit, to be paid to the deceased person for thirty years of insurance subscribing = 30 * 1.5 % * 12,961 = CZK 5,833.
- The percentage part of the widow (widower) benefit: 50 % of CZK 5,833 = CZK 2,917.
- **Monthly widow (widower) benefit:** Basic Part + Percentage Part = 1,570 + 2,917 = **CZK 4,487**.
- The percentage part of the orphan benefit: 40 % of CZK 5,833 = CZK 2,334.
- **Monthly orphan benefit:** Basic Part + Percentage Part = 1,570 + 2,334 = **CZK 3,904**.
- The **benefits** for two children (ages 6 – 15) = 2 * CZK 608 = CZK 1,216.
- Widow (widower) benefit + orphan benefit (2 orphans) + children's benefit (2 children) = CZK 4,487 + 2 * CZK 3,904 + 1,216 = CZK 13,511.
- Pre-distribution income = 17,048 + 1,216 = CZK 18,264.

The **ratio** between income after distribution of the benefits (survivors' benefits + children's benefits for two children) and pre-distribution income (net salary and children's benefits for two children): 13,511 / 18,264 = **74.0 %**.

| Monthly Salary (CZK) | | Benefits for 2 Children (CZK) | Survivors' Benefits (CZK) | Ratio: Benefits / Salary * | |
|----------------------|--------|-------------------------------|---------------------------|----------------------------|------|
| Gross | Net | | | Gross | Net |
| 20,081 | 17,048 | 1,216 | 12,295 | 63.4 | 74.0 |

* Includes benefits for 2 children.

Chapter VI

See Supplement No. 1

Article 63

No changes

Article 64

Widow (widower) benefits are paid for the period of one year following the death of the recipient's spouse; and afterwards, the benefits are paid under the conditions established under Section 50 of Act No. 155/1995 Coll. on pension insurance (as last amended) – i.e. in situations in which the survivor:

- a) Is taking care of an unprovided for child.
- b) Is taking care of a child that is dependent on the care of another person in Category II (medium to heavy dependency) or Category III (heavy dependency) or Category IV (total dependency).
- c) Is taking care of his or her parent or the parent of the deceased spouse, with whom the recipient is sharing the same household and who is dependent on the care of another person in Category II (medium to heavy dependency) or Category III (heavy dependency) or Category IV (total dependency).
- d) Is subject to total invalidity.
- e) Or, has reached the age of 55, if a woman (or 58, if a man), or has reached retirement age, if a lower retirement age applies.

In order to become qualified for an orphan benefit, the child must be regarded as 'unprovided for'. The definition of an 'unprovided for child' is covered under Section 20, Subsection 3 of the act on pension insurance. The child can maintain this status until the completion of mandatory attendance at school. Afterwards, the child can maintain this status up until the age of 26, provided the child meets certain additional criteria. The entitlement to a widow (widower) benefit ceases once the recipient remarries. The entitlement to an orphan benefit ceases upon the child's adoption.

The following items apply with respect to Article 68:

- a) If it is discovered that the person no longer qualifies for the benefit or its payment or if the benefit has been awarded or is being paid in an amount greater than the amount to which the person actually qualifies or if the benefit has been awarded or is being paid despite the fact that the person should not qualify, the benefit is reduced or cancelled and the payments are discontinued, starting on the day following the end date of the period for which the benefits were paid.

If the benefit has been awarded in an amount less than the amount to which the person would be entitled or if the benefit has been wrongfully denied and / or if it has been awarded on a date occurring after the date on which the person was supposed to be entitled to such a benefit, the benefit is either increased or awarded starting on the date on which the person would have become entitled to such a benefit or its increase. However, benefits can only be awarded retroactively for three years prior to the date on which the entitlement to such a benefit or its increase has been discovered or claimed. (Section 56)

If the amount of the widow (widower) benefit to which the recipient had become entitled (re-entitled) prior to January 1, 1996 or the amount to which the recipient had become re-entitled after December 31, 1995, based on Section 82, Subsection 2, had been either limited (due to the fact that it overlapped an entitlement to an old age or full invalidity benefit, based on regulations that were in effect prior to January 1, 1996) or if the widow (widower) benefit was not paid for such reasons, the amount of this benefit shall be adjusted (starting with the payment due after July 1, 2006) by adding the difference between the amount being paid and the amount, which would have been paid without such a restriction being in effect. If the widow (widower) benefit was not being paid for the above-noted reasons, the date on which the widow (widower) benefit has been awarded shall be the day on which the person has become entitled to such a benefit (Section 82a).

- e) The entitlement to a widow (widower) benefit shall cease on the date on which a decision of the court, stating that the widow (widower) had intentionally caused the death of the spouse, as an offender, co-offender or participant in a criminal act (Section 50, Subsection 6), becomes legally effective. The above shall apply accordingly to orphan benefits.

Annex No. 1

The year-to-year indexing of old age benefits, average gross nominal salaries and consumer prices (living expenses) per Article 65, Chapter VI.

| | | Old Age Benefit | | Average Salary | | Average Year-to-Year Consumer Price Index (living expenses) |
|--------------------|------|-----------------|-----------|----------------|-----------|---|
| | | Amount (CZK) | Index (%) | Amount (CZK) | Index (%) | |
| A) Start of Period | 2001 | 6,352 | | 14,793 | | 104.7 |
| | 2002 | 6,830 | 107.5 | 15,866 | 107.3 | 101.8 |
| | 2003 | 7,071 | 103.5 | 16,917 | 106.6 | 100.1 |
| | 2004 | 7,256 | 102.6 | 18,041 | 106.6 | 102.8 |
| B) End of Period | 2005 | 7,728 | 106.5 | 18,992 | 105.3 | 101.9 |
| | 2006 | 8,173 | 105.8 | 20,207 | 106.4 | 102.5 |
| | 2007 | 8,715 | 106.6 | | | |