

**THE SEVENTH CZECH REPORT ON THE FULFILMENT OF  
THE EUROPEAN CODE OF SOCIAL SECURITY**

**for the period from 1 July 2008 to 30 June 2009**

## SECTION I

### ***List of applicable legislation:***

#### **Part II – Medical Care**

- Act No 48/1997 Coll., on Public Health Insurance and on Changes and Amendments to Certain Related Acts, as amended
- Act No 20/1966 Coll., on Public Healthcare, as amended
- Act No 285/2002 Coll., on the Donation, Removal and Transplants of Tissues and Organs and on Changes to Certain Acts (the Transplantation Act), as amended

#### **Part III – Sickness Benefit**

- Act No 187/2006 Coll., on Sickness Insurance
- Act No 189/2006 Coll., on changes to certain Acts in relation to the adoption of the Act on Sickness Insurance
- Act No 100/1988 Coll., on Social Security, as amended
- Act No 582/1991 Coll., on the Organisation and Implementation of Social Security, as amended
- Act No 32/1957 Coll., on Hospital Care in Armed Forces, as amended
- Act No 262/2006 Coll., the Labour Code, as amended
- Act No 54/1956 Coll., on Employee Sickness Insurance, as amended (effective by 31 December 2008)
- Decree No 31/1993 Coll., on the Evaluation of Temporary Incapacity to Work for Social Security Purposes, as amended
- Decree No 143/1965 Coll., on the Payment of Monetary Benefits in Sickness Insurance, as amended
- Decree No 165/1979 Coll., on the Sickness Insurance of Certain Workers and on the Payment of Sickness Insurance Benefits in Special Situations, as amended

#### **Part IV – Unemployment Benefit**

- Act No 435/2004 Coll., on Employment, as amended

#### **Part V – Old age Benefit**

- Act No 155/1995 Coll., on Pension Insurance, as amended
- Act No 582/1991 Coll., on the Organisation and Implementation of Social Security, as amended
- Decree No 284/1995 Coll., implementing the Act on Pension Insurance, as amended

#### **Part VII – Family Benefit**

- Act No 117/1995 Coll., on State Social Support, as amended
- Act No 110/2006 Coll., on Living and Subsistence Minimum, as amended
- Decree No 207/1995 Coll., establishing the degrees of health impairment and the methods of their evaluation for the purposes of state social support benefits, as 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 amended
- Act No 582/1991 Coll., on the Organisation and Implementation of Social Security, as amended
- Act No 187/2006 Coll., on Sickness Insurance
- Act No 189/2006 Coll., which changes certain Acts in relation to the adoption of the Act on Sickness Insurance

**Part IX – Invalidity Benefit**

- Act No 155/1995 Coll., on Pension Insurance, as amended
- Decree No 284/1995 Coll., implementing the Act on Pension Insurance, as amended
- Act No 582/1991 Coll., on the Organisation and Implementation of Social Security, as amended

**Part X – Survivors' Benefit**

- Act No 155/1995 Coll., on Pension Insurance, as amended
- Act No 582/1991 Coll., on the Organisation and Implementation of Social Security, as amended

## SECTION II

### *Code Application*

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 legal order. If the provisions of an international treaty vary from the national legislation, the provisions of the international treaty shall prevail.

### *Article 2 – Provisions Adopted*

The Czech Republic has adopted the 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 Schemes*

The report does not consider protection provided under voluntary insurance.

### **Parts XI – XII**

Questions on Articles 65 to 68 are answered under the relevant section of the form.

### **General notes on benefit calculations:**

In 2008, the average gross monthly salary of a **qualified blue-collar worker was CZK 24,757** and, according to survey results, approximately 70% of economically active people earned lower salary than the above amount. Qualified worker's salary corresponds to the salary of a metal lathe operator – tuning and service technician – based on KZAM-R 72231 (Job Classification). In 2008, the average gross monthly salary of **an non-qualified blue-collar worker was CZK 17,685** (based on KZAM-R 93211 – mechanical handling worker in industry (manufacturing)).

The information system on the average income is a selective statistical survey by the Ministry of Labour and Social Affairs, which is annually included as a part to the statistical research program of the Czech Statistical Office and, as a quarterly salary survey, it monitors the salary levels of individual professions in the Czech Republic, based on the KZAM Job Classification. The data on the average hourly salary of individual employees of selected

economic entities, calculated as remuneration for labour-law-related purposes, pursuant to Section 351 of Act No. 262/2006 Coll., the Labour Code, are collected on quarterly basis. The survey also allows for monitoring the amount and structure of the monthly gross salary, which indicates the average salary level for the period from the start of the year to the end of the current calendar quarter.

As the social security benefits in the Czech Republic are not subject to tax (with the exception of pensions that exceed CZK 288,000 per year which are included in taxable income), and they are not subject to health insurance and social security contributions either, it is possible to calculate the percentage of the benefits to net salaries. In 2008, the net salary of a qualified blue-collar worker, with a dependent wife and two children, was CZK 22,570 (the calculated income tax was reduced by tax credits, i.e. by: CZK 2,070 for the taxpayer, 2 \* CZK 1,780 for two dependent children and CZK 2,070 for a dependent spouse who does not have her own income exceeding CZK 38,040 a year).

Allowances for two children at the age of 6 to 15 years have been CZK 1,220 since 1 January 2008. The family, composed of the said members, with income in the amount of the average net monthly salary of a qualified blue-collar worker of CZK 22,570 in 2008, fails to comply with the requirements for child allowances because the specified income of the family to qualify for the child allowance is CZK 10 higher than the set limit of 2.4 times the family's minimum subsistence amount. The family's minimum subsistence amount is CZK 9,400 (the level to qualify for the benefit is  $2.4 * 9,400 = \text{CZK } 22,560$ ). In effect, however, the income for a previous calendar year is taken into account and, in this respect, the family meets the conditions to receive the child allowance.

- The benefits do not vary from region to region (paragraph 8 of Article 65 is not applied)
- The average year-on-year index of price inflation in 2008 was 106.3%
- The year-on-year index of average nominal salary in the national economy in 2008 was 108.4%

#### *Article 69 – Right to Appeal*

No changes

#### *Article 70 – Cost of Benefits*

##### Updated information:

##### **Total revenue for 2008<sup>1</sup>**

- Pension insurance ..... CZK 310,828,637,000
- Sickness insurance..... CZK 45,836,849,000
- Contributions to the State Employment Policy ..... CZK 17,760,310,000

##### **Total expenditure for 2008<sup>2</sup>**

- Pension insurance ..... CZK 304,870,974,000
- Sickness insurance..... CZK 31,881,609,000
- Unemployment benefits ..... CZK 7,114,895,000

<sup>1</sup> Source: National Accounts for the Czech Ministry of Labour and Social Affairs chapter for 2008

<sup>2</sup> Source: National Accounts for the Czech Ministry of Labour and Social Affairs chapter for 2008

*Article 71*

No changes

*Article 74*

Total number of employees in 2008: 4,338,385 people. With self-employed persons included among the individuals covered, the total number is 4,541,081 people.

Total number of employees with pension insurance (the average for 2008): 4,338,385 people.

Self-employed persons with pension insurance (the average for 2008).....725,203 people  
of whom individuals with sickness insurance.....202,696 people.

**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 refers to letter c).
- B. The scope of people covered pursuant to the wording of Act No 48/1997 Coll., on Public Health Insurance, as amended, has not changed.
- C. Updated statistical information:
- A. Number of individuals covered: 10,364,808 people (average number of people in 2008)
  - B. Population: 10,467,542 people (as at 31 December 2008)
  - C. 99%
- D. The scope of covered people remains unchanged.

### *Article 10*

- A. The Act on Public Health Insurance stipulates the healthcare covered by health insurance funds positively (i.e. paid care) and negatively. The extent of paid healthcare has not changed.
- B. In the Czech Republic in general, no participation of patient or patient's breadwinner in healthcare costs applies. However, what are known as **regulatory fees** were introduced on 1 January 2008. Effective from 1 April 2009, Act No. 59/2009 Coll. changed certain provisions governing the regulatory fee system. Only the changes comparing to the previous report have been included.

The regulatory fee of CZK 30 for issuing each medicinal product or food for special medical purposes fully or partly paid from health insurance and prescribed on a prescription, irrespective of the quantity of the packagings prescribed:

If the insured person pays a supplementary charge for issuing a medicinal product or food for special medical purposes prescribed on a prescription, the sum of the supplementary charges for all packagings of the medicinal product or food for special medical purposes of one sort is reduced by the paid regulatory fee or its relevant part in such a way that the amount paid by the insured person in the supplementary charge and the regulatory fee is at least CZK 30.

Extension of the scope of people for whom the regulatory fee is not paid by the following:

- if the insured are, on the basis of a court ruling, put into a facility for children who require immediate assistance,
- if the insured are, on the basis of a court ruling, put into foster care pursuant to the Family Act,

- the insured who is, pursuant to other legislation, provided with residential social services in the homes for people with disabilities, homes for senior citizens, homes with special regimen or in healthcare institutional facilities if, after the payment for accommodation and food, the set balance of such insured person of at least 15% of the person's income is less than CZK 800 or if the person has no income; the insured person proves this by producing a confirmation not older than 30 days, which the social service provider is obliged to issue upon the insured person's request.

The regulatory fee of CZK 30 for a visit during which a clinical examination was performed (hereinafter the "visit") by general practitioner, pediatrician, gynaecologist, or for a visit during which an examination by dentist was performed, for a visit to the doctor's office providing specialised outpatient healthcare and for a visit service provided by general practitioner and pediatrician, the fees newly fail to apply in the following case now:

- children up to the age of 18 including the date of the child's 18th birthday.

The regulatory fee is the revenue of the healthcare facility that collected it. The healthcare facility is obliged to use the collected regulatory fees for the payment of the costs associated with the operation and modernisation of the healthcare facility.

Simultaneously with the introduction of the regulatory fees, the limits on the regulatory fees and supplementary charges for medicinal products and food for special medical purposes were introduced on 1 January 2008. A change took effect on 1 April 2009. The limit of CZK 5,000, as described in the last report, was maintained but a limit of CZK 2,500, applying to the following people, was newly introduced:

- children younger than 18 years; the reduced limit will also apply in the calendar year in which they attain 18 years of age, and
- insured persons older than 65 years; the reduced limit will also apply in the calendar year in which they attain 65 years of age.

The limit does not include supplementary charges for partially covered medicinal products or food for special medical purposes that contains curative substances intended for supportive or supplemental treatment; this does not apply to medicinal products and food for special medical purposes prescribed for the insured older than 65 years including on the date they attain 65th year of age.

C. For pregnancy, childbirth and its consequences, the participation in the costs of healthcare provided is not required. Regulatory fees are subject to the provisions described under item B.

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 refers to letter a).

B. Not applied.

C. Updated statistical information:

A. Number of employees covered:	4,338,385 people
Number of self-employed persons covered:	202,696 people
B. Total number of employees:	4,338,385 people
C. 100 %	

### *Article 16*

A. The Czech Republic refers to the provisions of Article 65.

### Title I

Updated information (since 1 January 2009):

**A. – Rules for the calculation of the sickness benefit:**

a) **Salary compensation**, paid to employees by employers

1. The compensation is paid out for working days – only for the first 14 calendar days of the incapacity for work.
2. The specified period for setting the average pay is the previous completed quarter.
3. The amount is set on the basis of the average hourly salary, which is reduced in a similar way as the basis for determining the amount of sickness benefits.
4. The percentage rate is the same as that for sickness insurance (60% of the reduced average salary).
5. The compensation is not awarded for the first three working days ('waiting period'); however, it is possible to make an agreement between the employee and his employer or an arrangement within a collective agreement, or to stipulate by an internal regulation that the compensation will also be awarded for the first 3 days of the temporary incapacity for work.
6. The daily amount of salary compensation from the fourth working day of the incapacity for work corresponds to the amount of sickness benefits from the 15th to the 30th calendar day of the incapacity for work (60% of the daily assessment base).

## b) Sickness benefit

1. The specified period to determine the average salary is 12 calendar months preceding the calendar month in which the incapacity for work occurred.
  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 example, the days when sickness benefits were paid).
  3. Qualifying income – All income subject to social security contributions and contributions to the State Employment Policy that is calculated for an employee in the specified period.
  4. Reduction of the daily assessment base: 90% of the income is counted from the amount of up to the first reduction limit; 60% of the income is counted from the amount between the first and the second reduction limit; 30% of the income is counted from the amount between the second and the third reduction limit, and the amount above the third reduction limit is not taken into account.
  5. In 2009, the first reduction limit was CZK 786, the second reduction limit was CZK 1,178, and the third limit was CZK 2,356.
  6. The daily benefit is calculated as 60% of the daily assessment basis from the 15th to the 30th day of the incapacity for work, 66% of the daily assessment basis from the 31st to the 60th day of the incapacity for work, and 72% from the 61st and following days of the incapacity for work.
  7. The sickness benefit is calculated as a multiple of the daily benefit and the number of calendar days of the work incapacity duration.
- B. The evaluation of the required level of sickness benefit is undertaken in accordance with Article 65, paragraph 6 (b). In the Czech Republic, sick leave coverage is mandatory for all employees. The subscription of self-employed persons to sickness insurance benefit program is voluntary.
- C. In 2008, the average gross salary of a qualified blue-collar worker was CZK 24,757 (based on Job Specification KZAM 72231 – metal lathe operator – tuning and service technician).

## Chapter II

### Updated information (since 1 January 2009):

The salary compensation for the first 14 days of incapacity for work corresponds to the amount of sickness benefits from the 15th day of the incapacity for work; therefore we only specify the sickness benefit calculation for the purposes of evaluating the amount of benefits paid during sickness.

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

- The calculation is based on the average gross monthly salary of a qualified blue-collar worker (based on Job Specification KZAM 72231– metal lathe operator – tuning and service technician) in 2008, i.e. CZK 24,757.

- Gross salary from employment: CZK 24,757, of which the net salary is CZK 22,570 (the calculated income tax was reduced by the following deductions: CZK 2,070 for the taxpayer, 2 \* CZK 1,780 for two dependent children and CZK 2,070 for a dependent spouse who does not have her own income exceeding CZK 38,040 per year).
- Daily assessment base for the calculation of sickness benefit (DAB): the ratio between annual salary and the number of days in the year:  
 $24,757 * 12 / 365 = \text{CZK } 813.9$ .
- The daily assessment base is reduced as follows:  
 $\text{DAB: } 786 * 90\% + (813.9 - 786) * 60\% = \text{CZK } 725$ .
- Daily sickness benefit:  
 From the 4th to the 30th day of the incapacity for work it is 60% of the DAB,  
 $60\% \text{ of } 725 = \text{CZK } 435$ .
- **Monthly sickness benefit:**  $30 * 435 = \text{CZK } 13,050$ .
- Amount of **allowances for 2 children** at the age of 6 to 15 years:  $2 * \text{CZK } 610 = \text{CZK } 1,220$ .
- Sickness benefit and allowances for two children:  $13,050 + 1,220 = \text{CZK } 14,270$ .
- Net income and child allowances:  $22,570 + 1,220 = \text{CZK } 23,790$ .
- The **ratio** between income after the sickness (sickness benefits and allowances for two children) and income before the sickness (net salary and allowances for two children):  
 $100 * 14,270 / 23,790 = 60.0\%$ .

Monthly salary in CZK		Monthly allowances for 2 children in CZK	Monthly sickness benefit in CZK	Ratio sickness benefits/salary in % *)	
Gross	Net			Gross	Net
24,575	22,570	1,220	13,050	55.3	60.0

\*) sickness benefit and income including allowances for 2 children

The European Code of Social Security requires that the ratio of sickness benefit in comparison with preceding income is at least 45%. The Czech Republic fulfils the required level of the amount of sickness benefit in respect of both gross and net salaries.

B. Not applied.

C. No changes

*Article 17*

No changes

*Article 18*

No changes

## PART IV – UNEMPLOYMENT BENEFIT

### *Article 19*

The relevant legislation changed during the reference period. The Amendment to Act No. 435/2004 Coll., on Employment, has been in effect since 1 January 2009.

### *Article 20*

#### Updated information:

Since 1 January 2009, to be entitled to unemployment benefit seekers must, in the specified period (3 years prior to being admitted on job seekers' records), acquire a pension insurance period of at least 12 months pursuant to the Act on Pension Insurance by employment or other gainful activity.

Since 1 January 2009, those job applicants who, over the last 6 months prior to being added to job applicant records, without a serious reason, repeatedly, by themselves, terminated a suitable employment negotiated by a Labour Office have not been entitled to unemployment benefits either.

### *Article 21*

- A. The Czech Republic refers to letter a).
- B. The scope of covered persons consists of all people who meet the conditions to claim the employment benefits pursuant to Act No. 435/2004 Coll., on Employment, as amended.
- C. Updated statistical information:

A. Number of covered employees:	4,338,385 people
B. Total number of employees:	4,338,385 people
C. 100%	

### *Article 22*

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

#### Chapter I

#### A. Updated information pertaining to paragraph 3 of Article 65

The maximum level of the unemployment benefit (0.58 times the average salary in the national economy for the first to third quarter of the calendar year preceding the calendar year in which the application for unemployment benefits was submitted) was CZK 13,307 per month in 2009.

B. Not applied.

C. No changes

Chapter II

Updated information (since 1 January 2009):

D. to G.

The average net monthly salary of a qualified blue-collar worker with two children and a dependent spouse who does not have her own income was CZK 22,570.

Unemployment benefit calculation as at 1 January 2009:

The benefit for a typical qualified blue-collar worker for the first two months of unemployment:

Benefit amount (65% of the preceding average income) <i>/of net salary/</i>	% of the original income *)
CZK 13,307	59.0%

\*) The maximum amount of unemployment benefits applies.

The benefit for a typical qualified blue-collar worker for the next two months of unemployment

Benefit amount (50% of the preceding average income) <i>/of net salary/</i>	% of the original income
CZK 11,285	50%

The benefit for a typical qualified blue-collar worker for the remaining period of receiving the benefits:

Benefit amount (45% of the preceding average income) <i>/of net salary/</i>	% of the original income
CZK 10,157	45%

Thus the average monthly benefit for a qualified blue-collar worker throughout the period of receiving the benefits was  $2 * 13,307 + 2 * 11,285 + 10,157 = \text{CZK } 11,868$ .

The **ratio** between incomes after the unemployment (unemployment benefits) and before the employment (net salary) is  $11,868 / 22,570 * 100 = \mathbf{53.0\%}$ .

The European Code of Social Security requires that the level of unemployment benefits in comparison to preceding salary is at least 45%. The Czech Republic fulfils the required level.

B. Not applied.

C. No changes

### *Article 23*

#### Updated information:

Since 1 January 2009, the commitments in lieu of employment in the form of compulsory military service, community service and the systematic preparation for a future occupation have been cancelled. This change responds to the cancellation of the compulsory military service and the professionalization of the Army of the Czech Republic.

Since 1 January 2009, the benefit period has been shortened by one month for each of the three age categories, i.e. to 5 months of the benefit period for applicants up to the age of 50, to 8 months for applicants at the age of 50 to 55, and to 11 months for applicants above the age of 55.

For those who meet the condition of the employment period by commitment in lieu of employment, the unemployment benefits since 1 January 2009 have been set at 0.15 times the average salary in the national economy for the first 2 months, 0.12 times for the next two months, and 0.11 times for the remaining months.

Since 1 January 2009, the percentage rate of the unemployment benefits has been 65% of the average monthly net salary for the first 2 months of the benefit period, 50% for the next 2 months of the benefit period, and 45% for the remaining benefit period.

### *Article 24*

No changes

## PART V – OLD AGE BENEFIT

### *Articles 25 and 26*

#### Updated information (since 1 January 2009):

The retirement age is specified under Section 32 of Act No. 155/1995 Coll. In 2009, the retirement age is 62 years for men, 60 years and 8 months for childless women, 59 years and 8 months for women who raised one child, 58 years and 8 months for women who raised two children, 57 years and 8 months for women who raised 3 or 4 children, and 56 years and 8 months for women who raised 5 or more children. The retirement age annually increases by 2 months for men and by 4 months for women until it reaches 63 years for men and childless women, 62 years for women who raised one child, 61 years for women who raised two children, 60 years for women who raised 3 or 4 children, and 59 years for women who raised 5 or more children.

### *Article 27*

- A. The Czech Republic refers to letter a).
  
- B. The scope of covered persons also includes groups specified under letter b). Covered persons are those who are (or were) subscribers to the pension insurance scheme. Subscription to the pension insurance scheme is mandatory for all economically active individuals, both employed and self-employed. Under the applicable law, there are certain other population groups that are also covered by pension insurance, without having to make contributions, and thus included among the covered persons, such as students or women caring for a child of up to 4 years of age.

#### C. Updated statistical data:

A. Number of covered employees:	4,338,385 people
Number of covered self-employed persons:	725,203 people
B. Total number of employees:	4,338,385 people
C. 100%	

D. Not applied

### *Article 28*

- A. The Czech Republic refers to Article 65

## Chapter I

### Updated information (since 1 January 2009):

A. The pension benefit consists of two components:

**Basic Part:** CZK 2,170 a month.

**Percentage Part:** depends on individual's income (calculated on the calculation base) and the length of insurance in years. For old age benefit, this amounts to 1.5% of the calculation base for each year of insurance. The calculation base is determined on the basis of the average indexed gross income (earnings are indexed in relation to growth in average salaries in the national economy) usually for the period from 1986 to the year preceding the year in which the person first qualified for the old age benefit. When determining the calculation base, this average ("personal assessment base") is reduced in such a way that only 30% of the income is counted from the amount between the first and second reduction limits, and only 10% of the income is counted from the amount above the second reduction limit.

In 2009, the reduction limits are CZK 10,500 and CZK 27,000 (the limits are increased annually depending on wage growth).

B. No changes

C. In 2008, the average gross monthly salary of a qualified blue-collar worker was CZK 24,757 (according to Job Specification KZAM 72231 – metal lathe operator – tuning and service technician).

## Chapter III

### Updated information (since 1 January 2009):

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

- The calculation is based on the average gross monthly salary of a qualified blue-collar worker (according to Job Specification KZAM 72231 – metal lathe operator – tuning and service technician) in 2008, i.e. CZK 24,757.
- The **net salary** for an individual with a dependent spouse is **CZK 20,790**.
- The personal assessment base (CZK 24,757) is reduced  $10,500 + (24,757 - 10,500) * 30\% = \text{CZK } 14,778$ .
- The percentage part for thirty years of insurance is  $30 * 1.5\% * 14,778 = \text{CZK } 6,651$ .
- The **amount of pension benefit** is composed of the basic part and the percentage part  $2,170 + 6,651 = \text{CZK } 8,821$ .
- The **ratio** between income after the distribution of benefit (pension benefit) and income during employment (net salary) is  $100 * 8,821 / 20,790 = 42.4\%$ .

Monthly salary in CZK		Monthly old age benefit in CZK	Ratio pension / salary in %	
Gross	Net		Gross	Net
24,757	20,790	8,821	35.6	42.6



The European Code of Social Security requires that the ratio of old age benefit in comparison with preceding income is at least 40%. The Czech Republic fulfils the required level of the amount of old age benefit in respect to net salary.

*Article 29*

No changes

*Article 30*

No changes

## PART VII – FAMILY BENEFIT

### *Articles 39 and 40*

#### Updated information:

Since 1 January 2008, the child allowance has been granted in three different amounts, depending on child's age. The eligible person is a dependent child living in a family whose specified income is lower than the family's minimum subsistence amount times the coefficient of 2.4.

### *Article 41*

A. The scope of covered persons is determined by Act No. 117/1995 Coll., on State Social Support. Dependent children are considered to be the groups covered (by child allowances). The child's eligibility does not depend on whether or not the parent is a subscriber to the pension insurance scheme or sickness insurance scheme.

B. In 2008, the child allowance was awarded to approximately 38% of dependent children.

### *Article 42*

The Czech Republic refers to paragraph a).

#### Amounts paid in relation to children on the basis of child's age (monthly) since 1 January 2008:

Up to the age of 6	CZK 500
Age 6-15	CZK 610
Age 15-26	CZK 700

### *Article 43*

No changes

### *Article 44*

#### Updated information for 2008:

Expenditure on child allowances under the State Social Support.....	<b>CZK 6.2 billion</b>
Number of dependent children.....	2,310,600
Number of dependent children entitled to child allowance.....	887,600
Gross salary of a non-qualified blue-collar worker.....	CZK 14,685

Required family benefit expenditure:

14 685 (average gross monthly salary of a non-qualified blue-collar worker) \* 0.015 (1.5% of salary) \* 12 (months) \* 2,310,600 (children) = **CZK 6.1 billion.**

The Czech Republic fulfils this requirement, when the actual expenditure on child allowances in 2008 was higher than required by the European Code of Social Security.

*Article 45*

No changes

## PART VIII – MATERNITY BENEFIT

### *Articles 46 and 47*

No changes

### *Article 48*

A. The Czech Republic refers to letter a).

B. No changes

### C. Updated information:

A. Number of covered employees:

a) Employees with pension insurance 4,338,385 people

b) Self-employed persons with sickness insurance 202,696 people

B. Total number of employees 4,338,385 people

C. 100%

### *Article 49*

No changes

### *Article 50*

A. The Czech Republic refers to Article 65.

B.

Chapter I

### Updated information (since 1 January 2009):

#### **A. Rules for the calculation of the maternity benefit:**

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 example, the days when sickness benefits were paid).
3. Qualifying income – All income subject to social security contributions and contributions to the State Employment Policy that is calculated for an employee in the specified period.
4. Reduction of the daily assessment base: the entire amount is counted until the first reduction limit is reached; 60% of the income is counted from the amount between the first and the second reduction limits; 30% of the income is counted from the amount

between the second and the third reduction limits, and the amount above the third reduction limit is not taken into account.

5. In 2009, the first reduction limit was CZK 786, the second reduction limit was CZK 1,178, and the third reduction limit was CZK 2,356.
6. The daily benefit is calculated as 70% of the daily assessment base.
7. Maternity benefit is 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 are taking care of at least two of such children.

B. No changes

C. The average gross monthly salary of a qualified blue-collar worker in 2008 was CZK 24,757.

Chapter V

Updated information (since 1 January 2009):

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

- The calculation is based on the average gross monthly salary of a qualified blue-collar worker in 2008, i.e. CZK 24,757.
- **Net salary** (of the taxpayer) is **CZK 18,720**.
- The daily assessment base (DAB) for calculation of the maternity benefit is the ratio between the annual salary and the number of days of the year:  
 $CZK 24,757 * 12 / 365 = CZK 813.9$ .
- The daily assessment base is reduced (the first reduction limit is CZK 786, the second limit is CZK 1,718 and the third limit is CZK 2,356).
- DAB from the 1st day:  $786 + (813.9 - 786) * 60\% = CZK 803$ .
- Daily amount of the maternity benefit from the 1st day:  $70\% * 803 = CZK 563$ .
- **Monthly amount of the maternity benefit:  $30 * 563 = CZK 16,890$ .**
- The **ratio** between income after the distribution of the benefit (maternity benefit) and income before (net salary) is:  $100 * 16,890 / 18,720 = 90.2\%$ .

Monthly salary in CZK		Monthly amount of the maternity benefit in CZK	Ratio maternity benefit / salary in %	
Gross	Net		Gross	Net
24,757	18,720	16,890	68.2	90.2

The European Code of Social Security requires that the ratio of maternity benefit to the preceding income is at least 45%. The Czech Republic fulfils the required level of the maternity benefit in respect of both gross and net salaries.

*Article 51*  
No changes

*Article 52*  
No changes

## PART IX – INVALIDITY BENEFIT

### *Articles 53 and 54*

No changes

### *Article 55*

A. The Czech Republic refers to letter a).

B. No changes

C. Updated information:

A. Number of covered employees:

a) Employees with pension insurance: 4,388,385 people

b) Self-employed persons with pension insurance: 725,203 people

B. Total number of employees 4,388,385 people

C. 100%

### *Article 56*

The Czech Republic refers to Article 65.

#### Chapter I

Updated information (since 1 January 2009):

The benefit is a periodical payment, calculated on the base of the same rules as old age benefit (see the explanation of Article 26).

#### **A. Rules for the calculation of the full invalidity benefit:**

The invalidity benefit consists of two components:

**Basic Part:** CZK 2,170 per month.

**Percentage Part:** depends on individual's income (calculated from the calculation base) and the length of insurance in years. For full disability pension, it is 1.5% of the calculation base for each year of insurance. The calculation base is determined on the basis of the average indexed gross salary (earnings are indexed in relation to growth in average wages in the national economy) usually for the period from 1986 to the year preceding the year in which the person first qualified for the benefit. When determining the calculation base, this average ("personal assessment base") is reduced in such a way that only 30% of the income is counted from the amount between the first and second reduction limits, and only 10% of the income is counted from the amount above the second reduction limit.

In 2009, the reduction limits are CZK 10,500 and CZK 27,000 (these limits are increased annually depending on wage growth).

B. No changes

C. In 2008, the average gross monthly salary of a qualified blue-collar worker was CZK 24,757 (according to Job Specification KZAM 72231 – metal lathe operator – tuning and Service technician).

As a great majority of social security benefits in the Czech Republic are not subject to tax (as regards pensions, only the amount that exceeds CZK 288,000 a year is taxed), and they are not subject to health insurance and social security contributions either, it is possible to calculate the proportions of the benefits to net salaries. To determine the level of invalidity benefit in the Czech Republic, the insurance period also includes the ‘add-in’ period, from the date of entitlement to the full invalidity benefit until the retirement age; therefore, in determining the pension amount, the relevant person can be considered to have been insured for 30 years.

## Chapter II

Updated information (since 1 January 2009):

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

- The calculation is based on the average gross monthly salary of a qualified blue-collar worker (according to Job Specification KZAM 72231 – metal lathe operator – tuning and service technician) in 2008, i.e. CZK 24,757.
- The **net salary** for a taxpayer with a dependent spouse and two children is **CZK 22,570**.
- The personal assessment base (CZK 24,757) is reduced:  
 $10,500 + (24,757 - 10,500) * 30\% = \text{CZK } 14,778$ .
- Percentage part for thirty years of insurance:  $30 * 1.5\% * 14,778 = \text{CZK } 6,651$
- **Monthly invalidity benefit:**  
 Basic part and percentage part  $2,170 + 6,651 = \text{CZK } 8,821$ .
- Amount of **allowances** for 2 children at the age of 6 to 15 years:  $2 * \text{CZK } 610 = \text{CZK } 1,220$ .
- Full invalidity pension and allowances for two children:  $8,821 + 1,220 = \text{CZK } 10,041$ .
- Net salary and allowances for two children:  $22,570 + 1,220 = \text{CZK } 23,790$ .
- The **ratio** between income after the start of the distribution of the invalidity benefit (full invalidity benefit and allowances for two children) and income before (net salary and allowances for two children) is:  $10,041 / 23,790 * 100 = \text{42.2\%}$ .

Monthly salary in CZK		Allowances for 2 children in CZK	Full invalidity benefit in CZK	Ratio benefit / salary *)	
Gross	Net			Gross	Net
24,757	22,570	1,220	8,821	38.7	42.2

\*) invalidity benefit and salary including allowances for 2 children

The European Code of Social Security requires that the ratio of invalidity benefit to preceding income is at least 40%. The Czech Republic fulfils the required level of the invalidity benefit in respect to net salary ratio.

## Chapter VI

See Annex 1

### *Article 57*

No changes

### *Article 58*

An individual is entitled to the full invalidity benefit for the entire duration of their total invalidity. The transfer to an old age pension scheme is not mandatory. As far as Article 68 is concerned, the following applies:

- a) If the total invalidity occurred before the person reaches the age of 18, the pension is not paid out unless the beneficiary is a permanent resident of the Czech Republic.
- c) Full invalidity benefit is not paid out while the beneficiary is receiving sickness benefits awarded before the beneficiary became entitled to the invalidity benefit.
- d) If it is discovered that the person is no longer qualified for invalidity benefit or its payment, the beneficiary will be deprived of the benefit or its payment will be discontinued. If the benefit has been awarded or is being paid in an amount greater than that to which the beneficiary is entitled, or if the pension has been awarded or is being paid unjustly, the pension will be reduced or the beneficiary will be deprived of it, and the payments will be discontinued, starting on the day following the day whereby the period for which the benefit was paid elapses. If the benefit has been awarded in an amount lower than that to which the beneficiary is entitled or has been wrongfully denied, or if it has been awarded from a later date than that since which the beneficiary has been entitled to it, the benefit will be increased or awarded as from the date from which the beneficiary becomes entitled to such a benefit or its increase, but for no more than five years retroactively prior to the date on which the entitlement to such a benefit or its increase has been discovered or claimed. However, the pension or its increase will be retroactively paid out from the day since which the beneficiary has been entitled to the benefit or its increase if the benefit was not awarded or if it was paid in an amount lower than that to which the beneficiary was entitled, or was wrongfully denied, or was awarded from a later date than that since which the beneficiary has been entitled to it, due to an incorrect procedure by the Social Security Authority.
- e) If the total invalidity occurred as a result of intentional harm to health that the insured person self-inflicted or had someone else inflict it on the insured person, or if harm to the insured person's health occurred as a consequence of the insured person's intentional crime, the 'add-in' period, i.e. the time between the date on which the person becomes entitled to the full or partial invalidity benefit and the attainment of retirement age, does not count for the purposes of the full or partial invalidity benefit.
- f) The payments of the full invalidity benefit may be suspended if the beneficiary has failed to undergo a medical examination.



## PART X – SURVIVORS’ BENEFIT

### *Articles 59 and 60*

No changes

### *Article 61*

A. The Czech Republic refers to letter a).

B. No changes

C. Updated statistical information:

A. Number of covered employees:	4,388,385 people
Number of covered self employed persons:	725,203 people
B. Total number of employees:	4,388,385 people
C. 100%	

### *Article 62*

A. No changes

#### Chapter I

Updated information (since 1 January 2009):

#### **A. Rules for the calculation of widow (widower) benefit:**

The benefit consists of two components:

**Basic part:** CZK 2,170 per month.

**Percentage part:** depends on the income and the length of insurance, in years, of the insured person.

Percentage part:

- **widow (widower)** benefit: 50% of the percentage part of the full invalidity or old age benefit to which the diseased was or would be entitled (see the old age or full invalidity benefit)
- **orphan** benefit: for each parent, 40% of the percentage part of the full invalidity or old age benefit to which the diseased was or would be entitled (see the old age or full invalidity benefit)

B. No changes

C. The average monthly gross salary of a qualified blue-collar worker in 2008 was CZK 24,757.

## Chapter IV

Updated information (since 1 January 2009):

### D. – G. Calculation of the ratio for the evaluating of the survivors' benefit:

- The calculation is based on the average gross monthly salary of a qualified blue-collar worker (according to Job Specification KZAM 72231 – metal lathe operator – tuning and service technician) in 2008, i.e. CZK 24,757.
- The **net salary** for a family with two children (and only one parent) is **CZK 20,500**.
- The personal assessment base (CZK 24,757) is reduced:  
 $10,500 + (24,757 - 10,500) * 30\% = \text{CZK } 14,778$
- The percentage part of the old age (full invalidity) benefit of the diseased person for thirty years of insurance is:  $30 * 1.5\% * 14,778 = \text{CZK } 6,651$ .
- Percentage part of widow benefit: 50% of CZK 6,651 = **CZK 3,326**.
- **Amount of widow (widower) benefit:** basic part and percentage part  
 $2,170 + 3,326 = \text{CZK } 5,496$ .
- Percentage part of orphan benefit: 40% of CZK 6,651 = **CZK 2,661**.
- **Amount of orphan's pension:** basic part and percentage part  
 $2,170 + 2,661 = \text{CZK } 4,831$ .
- Amount of **allowances** for 2 children at the age of 6 to 15 years:  
 $2 * \text{CZK } 610 = \text{CZK } 1,220$ .
- Widow benefit, two orphan benefits and allowances for two children:  
 $\text{CZK } 5,496 + 2 * \text{CZK } 4,831 + 1,220 = \text{CZK } 16,378$ .
- Net salary and allowances for two children:  $20,500 + 1,220 = \text{CZK } 21,720$ .
- The **ratio** between income after the death of the breadwinner (survivors' benefit and allowances for two children) and income before (net salary and allowances for two children) is:  $100 * 16,378 / 21,720 = \text{75.4\%}$ .

Monthly salary in CZK		Allowances for 2 children in CZK	Survivors' benefit in CZK	Ratio benefit / salary *)	
Gross	Net			Gross	Net
24,757	20,500	1,220	15,158	63.0	75.4

\*) survivors' benefit and salary including allowances for 2 children

The European Code of Social Security requires that the ratio of survivors' benefit to preceding income is at least 40%. The Czech Republic fulfils the required level of survivors' benefit in respect to both gross and net salary.

## Chapter VI

See Annex 1

### Article 63

No changes

## Article 64

Widow (widower) benefit is 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, i.e. in cases when the survivor:

- a) takes care of a dependent child,
- b) takes care of a child who is dependent on the care of another person in Category II (medium dependency) or Category III (heavy dependency) or Category IV (total dependency),
- c) takes care of his or her parent or a parent of the deceased spouse, with whom the beneficiary shares the same household, and is dependent on the care of another person in Category II (medium dependency) or Category III (heavy dependency) or Category IV (total dependency),
- d) is totally disabled, or
- e) has reached the age of 55 (58 years for widowers) or retirement age if the retirement age is lower.

The precondition for the entitlement to orphan's pension is the child's dependency. The dependency is defined by the Act on Pension Insurance in Section 20, paragraph 3, and recognises it until the completion of the compulsory school attendance, and then (if other conditions are met) until no longer than the age of 26. The entitlement to the widow or widower benefit ceases when the beneficiary remarries. The entitlement to the orphan pension ceases upon the child's adoption.

As far as Article 68 is concerned, the following applies:

- a) If it is discovered that the person no longer qualified for the benefit or its payment, or if the benefit has been awarded or is being paid in an amount greater than that to which the beneficiary is entitled, or if the pension has been awarded or is being paid unjustly, the benefit will be reduced or cancelled, and the payments will be discontinued, starting on the day following the day whereby the period for which the benefit was paid ends. If the benefit has been awarded in an amount lower than that to which the beneficiary is entitled or has been wrongfully denied, or if it has been awarded from a later date than that since which the beneficiary has been entitled to it, the benefit will be increased or awarded as from the date from which the beneficiary becomes entitled to such a benefit or its increase, but for no more than five years retroactively prior to the date on which the entitlement to such a benefit or its increase has been discovered or claimed (Section 56). However, the benefit or its increase will be retroactively paid out from the day since which the beneficiary has been entitled to the benefit or its increase if the benefit was not awarded or if it was paid in an amount lower than that to which the beneficiary was entitled, or was wrongfully denied, or was awarded from a later date than that since which the beneficiary has been entitled to it, due to an incorrect procedure by the Social Security Authority. If the amount of widow benefit to which an entitlement (re)occurred prior to 1 January 1996 or to which an entitlement reoccurred after 31 December 1995, pursuant to Section 82, paragraph 2, was limited due to the concurrent entitlement to the payment of old age benefit or full invalidity benefit pursuant to legislation in force prior to 1 January 1996 or, for the said reasons, the widow benefit was not paid, the payments due after 1 July 2006 will be adjusted by the amount of the difference between the paid amount and the amount without such limitation. If, for the same reasons, the widow benefit was not

paid, the procedure applied is similar, with the date of awarding the widow benefit being considered to be the day when the entitlement to such widow benefit occurred (Section 82a).

- e) The entitlement to the widow or widower benefit ceases to exist on the date of the finality of a court ruling on the widow or widower having intentionally caused the death of his or her spouse as a perpetrator or co-perpetrator or as a participant in a crime (Section 50, paragraph 6). Likewise, this applies to the entitlement to orphan benefit.

## Annex 1

Year-on-year indexes of old age benefits, average gross nominal salaries and consumer prices (living expenses) according to Article 65, Chapter VI

Year	Old age benefit		Average salary		Average year-on-year consumer price index (living expenses) for households in total
	abs. in CZK	index in %	abs. in CZK	index in %	
2001	6,352		14,750		104.7
2002	6,830	107.5	15,911	107.9	101.8
2003	7,071	103.5	16,905	106.2	100.1
2004	7,256	102.6	18,025	106.6	102.8
2005	7,728	106.5	18,940	105.1	101.9
2006	8,173	105.8	20,158	106.4	102.5
2007	8,736	106.9	21,621	107.3	102.8
2008	9,151	104.8	23,430	108.4	106.3
2009	10,029	109.6			

## **Annex 2**

### **Comments on the Conclusions of the Experts, Article 43 of the European Code of Social Security**

The Experts requested an explanation as to whether the qualifying period of 365 days determined for foreigners – temporary residents in the territory of the State is consistent with Article 43 of the European Code of Social Security, according to which the entitlement to the family benefits for specified groups of employees or economically active population including the group of covered people (Article 41) should be awarded after as early as six months of ordinary residence.

#### **The Czech Republic's explanation**

The Czech Republic's position is based on the assumption that there is a semantic difference between "temporary residence" and "ordinary residence", used in the Conclusions of the Experts. If the "temporary residence" is considered to be residence for a temporary period and "ordinary residence" is considered to be permanent residence, then the national legislation (Act No. 117/1995 Coll., on State Social Support) actually lays down softer conditions of the entitlement to family benefits for foreigners with ordinary residence (and for other groups of foreigners enumerated in the Act) than the conditions laid down by the European Code of Social Security. Foreigners with ordinary residence are provided with state social support benefits in the Czech Republic (if they qualify) from the very beginning, and not after 6 months of ordinary residence.

Based on the above, the Czech Republic interprets that its legislation complies with Article 43 of the European Code of Social Security.

## **Annex 3**

### Impacts of the current financial and economic crisis on the national social security system and the measures adopted or planned in regard to maintaining their financial feasibility and reinforcing social protection of the most vulnerable groups of population

The financial crisis and economic recession has also had evident effects on the Czech Republic. The significant decline that hit the manufacturing industry in late 2008 continued to worsen over the first four months of this year. Due to lower demand, production was being reduced, and some businesses were even shut down. The reduced production subsequently affected the situation on the labour market.

Employment rate decreased by 0.2% y/y to 4,946,800 people in the first three months of 2009; compared to the 4th quarter of 2008, when employment hit a high of 5,033,400 people, it decreased significantly by 1.1%. The internationally comparable general unemployment rate of people at the age of 15 to 64 years (according to ILO definition) increased by 1.1% y/y to 5.8% in the 1st quarter of 2009; compared to the 4th quarter of 2008, it increased by 1.4%.

The rate of unemployment registered by the Ministry of Labour and Social Affairs in all months of 2009 has been rising so far; from the end of 2008 to June 2009, it rose from 6.0% to 8.0%. The number of job seekers registered with Labour Offices rose from 352,300 people to 463,600 people over the same period. The number of job seekers receiving unemployment benefits also increased. In June 2009, 41.4% of all people registered with Labour Offices (191,700 applicants) were receiving the benefits, as opposed to 37.6% (183,600 people) in late 2008.

From January to April 2009, a total of CZK 4.444 billion was paid out in unemployment benefits, i.e. almost CZK 2 billion more than for the same period of 2008.

In the first four months of 2009, the developments in the labour market and the rise in unemployment also made themselves felt in the social assistance (emergency benefit) system, which is designed to improve the income of people who, for objective reasons, do not have enough means for their own maintenance, where the number of awarded benefits increased. After approximately two years of a steady decline in benefits awarded, the number of beneficiaries of the living allowance increased by approximately 9,000 people from December 2008 to April 2009, and reached 69,300 people. As the labour market reacts to the deceleration of economic growth with a delay, we may be in for a greater increase in unemployment and another increase in the number of people in material need during the second half of 2009.

The impacts of the crisis were mitigated by preventive measures aimed to secure the financial sustainability of social benefit systems and adopted as part of the public finance reform over the last two years. The measures recently implemented in social benefit systems were based, for example, on transferring the support for families with children to taxes, on making family benefits more targeted, as well as extending the variants of child care, tightening the conditions governing the allocation of emergency benefits and reinforcing their motivational

and activation functions. Together with other employment measures, these steps significantly increased people's motivation to accept a job and to keep it. Social protection systems, in the way they are designed in the Czech Republic, should work as stabilisers during the crisis.

In addition to measures adopted in reaction to the current economic crisis (described below), some of the measures that were adopted prior to the crisis but came into force when the impacts of the crisis were already evident in the Czech Republic (as of 1 January 2009) also counteract the crisis.

### **Reduction of the rates of social security contributions and contributions to the state employment policy paid by employees**

The reduction of the rate was implemented as the cancellation of the rate of the sickness insurance contributions and the contributions to the state employment policy paid by employees (from 1 January 2009). Since that date, employees have only contributed 6.5% to the pension insurance scheme from their incomes. The same arrangement has adequately applied to the contribution rates paid by self-employed persons, whose sickness insurance is voluntary, however. The measure will increase the net household income by an estimated CZK 18 billion.

### **Reduction of the rate of sickness insurance contributions paid by employers**

Also, the rates of sickness insurance contributions paid by employers have been reduced by 1% since 1 January 2009. This means another reduction of employers' direct contributions.

### **Public service**

A new measure, implemented into the material need assistance system since 1 January 2009, is the public service. Public service, which consists of minor activities performed for the benefit of a municipality, represents – in addition to measures of active employment policy (community work, short-term employment) or volunteering – another possibility owing to which particularly people who have been in material need for a long time can maintain or develop their working skills and social habits. Approximately 80 municipalities had expressed interest to organise a public service by late April 2009.

Those who perform the public service are not employed under labour law, and are not remunerated for the job; however, these activities are reflected when they are provided with the emergency benefits. Under applicable legislation, people who have been unemployed for a long time and have received emergency benefits for longer than half a year are only entitled to what is known as the subsistence minimum, i.e. CZK 2,020 (provided that they do not have income from gainful activity and/or do not receive unemployment benefits or during occupational retraining). If the people wish to increase that benefit, they can perform a public service for a municipality. If they work at least 20 hours per month in that way, they are entitled to a benefit of up to the minimum living amount.

## **Anti-crisis measures in the Czech Republic**

**The Czech Republic has been virtually unaffected by the financial crisis**, owing to cautious behaviour of the banking sector and the debt relief for the sector in the 1990's. As far as fiscal stimuli are concerned, it is necessary, in view of the anticipated state budget deficits, to keep the **fiscal discipline** (fiscal pressure is also stemming from the necessity of



implementing reforms to meet the challenges of an ageing population and of the future adoption of the euro). The following measures have been taken:

- Introduction of a reduction in social security contributions by up to 1.5% (degressively, depending on salary);
- Increasing the capital of the institutions engaged in promoting entrepreneurship (Czech Export Bank; Support and Guarantee Fund for Farmers and Forestry; strengthening the Guarantee Fund managed by the Czech and Moravian Guarantee and Development Bank);
- Increasing the amount of money in the State Fund for Transport Infrastructure (by CZK 14.4 billion);
- Increasing the amount of money for wages in the public sector by CZK 2.7 billion;
- Support to the co-funding of projects from EU Funds, with a focus on projects that improve the environment, by the amount of CZK 500 million (as part of the Financial Perspective of 2004-2006);
- Subsidies for thermal insulation of buildings (CZK 24 billion in 2009 to 2012, CZK 6 billion in 2009);
- Allowing faster depreciation and extending the possibility of deducting VAT on purchased passenger cars (the impact of approximately CZK 9.4 billion on the budget);
- Guarantees and support for small and medium-sized businesses, mainly by increasing the availability of loans;
- Increasing the deposit guarantee to EUR 50,000;

The Czech Republic reacted to the impacts of the economic crisis as long ago as in the second half of 2008. The Ministry of Labour and Social Affairs introduced a regular monitoring of collective redundancies, and monitored and evaluated the situation on the labour market. Methodical measures were taken, focused on the organisational management of the unfavourable social and economic situation of people threatened with poverty and social exclusion.

### **Active employment policy**

Starting from 2008, funding the active employment policy has been based on use of money from the European Social Fund, where the Ministry of Labour and Social Affairs has approximately CZK 50 billion available for the programming period until the end of 2011 and 2013. The ESF is used for funding the main instruments, i.e. occupational retraining, socially useful jobs and community work, i.e. support to the creation of permanent and temporary jobs. Hence the Czech Republic primarily focuses on launching all those programmes. The state budget is only used for funding certain activities of the active employment policy that cannot be funded from the ESF, notably the creation and operation of protected workshops, etc. The Czech Republic spent CZK 1.149 billion on active employment policy for the first four months of 2009 alone. Additional CZK 525 million was spent on contributions to employers who employed more than 50% of people with disabilities, and CZK 78 million was paid to employees whose employers were insolvent.

### **Temporary introduction of reductions in social security contributions**

The adoption of the bill introducing the reductions in insurance contributions paid by employers was completed in the first half of July 2009. The purpose of the introduction of the contribution reductions is to maintain employment. The measure is limited in time, until 31 December 2010.

The reduction in the insurance contributions is intended for employers who will use the reductions for employees whose monthly income from which they pay social security contributions does not exceed 1.15 times the average salary (CZK 27,100 in 2009); the higher the employee's basis of assessment, the lower the contribution reduction. The crisis most severely affects unskilled employees, and therefore the highest reduction is allowed for low-income employees. The amount of the contribution reduction per employee is 3.3% of the difference from 1.15 times the average salary, but no more than 25% of his or her basis of assessment. The sum of the contribution reductions in 2009 is estimated to reach CZK 17-19 billion, and employers should use the money to maintain their jobs. The bill should take effect on 1 August 2009.

### **Employee education and training support**

As part of the Operational Programme Human Resources and Employment, the Ministry of Labour and Social Affairs announced two new programmes: **'Extend your Knowledge' (Vzdělávejte se)** and **'Training is a Chance' (Školení je šance)**, the purpose of which is to maintain employment even at the time of a drop in orders. The programme allows providing businesses with compensations for salaries, including the relevant contributions, for employees who, during a temporary production shutdown, participate in trainings that will enhance their skills, knowledge and qualifications on the labour market, including language and computer courses.

### **Insolvency Act Amendment**

The Amendment to the Act has boosted the existing effects of insolvency legislation to keep as many operating entities (debtors) on the market as possible while respecting the common interest of debtor's creditors, and concurrently maintaining the consistent protection of the rights of debtor's employees. **The position of debtor's employees is newly the same as that of the other creditors;** employees' salary claims are being satisfied in all stages of the insolvency proceedings. This Amendment has also resolved the well-known case of dismissed glass-workers who, pursuant to previous legislation, were not entitled to the salaries they had earned.

### **Consultancy**

The activation of applicants involves **the reinforcement of consultancy services.** In addition to the increasing number of external providers of those services for Labour Offices, emphasis needs to be laid on compliance with standards, and on the quality and efficiency control in respect of the services bought.

### **Retraining of job applicants**

The task of Labour Offices is to carry out, to the maximum possible extent, occupational retraining as an instrument that leads to increasing the employability through the acquisition of new skills, and through increasing, extending or enhancing the existing skills. Targeted professional retraining for a specific application on the labour market enjoys priority in respect of funding. Increased support is being provided to occupational retraining where the practical training is carried out on employer's premises (what are known as tailored retraining

programmes). Within the scope of socially useful jobs and community work, Labour Offices support the jobs that will allow acquiring new professional skills and qualifications for the integration and further application on the open labour market.

### **Retraining and education for employees within a layoff process**

The Czech Republic is preparing an invitation to the **RESTART programme** (aid area 1.2 Operational Programme Human Resources and Employment). Restart focuses on assistance to employees who are threatened with losing their jobs or those whose period of notice has already started. As part of the implementation of the project, these employees will have the opportunity to increase their employability. The project is innovative by focusing on this target group and the effort to accelerate finding a job with a new employer. The project will encompass the implementation of a comprehensive mix of activities, which will thoroughly guide the participants in the project from the initial consultancy, through educational activities and retraining, to finding a new job, if any, even before the project activities end. Employees will thus have the opportunity to participate in further education, and to improve their expertise, skills and qualifications before their periods of notice expire. The project also includes a large group of accompanying measures, which will facilitate effective aid for the target group.