Abstract

Adequacy of Pensions in Croatia: What Can Tomorrow’s Pensioners Expect?

RESEARCH PAPER

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The paper explores the adequacy of old-age pensions in Croatia measured by the theoretical replacement rate. The adequacy is assessed for the next 40 years under a no-policy-change assumption. The results point to two major challenges for future pension benefits in Croatia: (i) reduction in the relative pensions measured by the replacement rate, and (ii) significant imbalance between pensions paid from the first pillar and those paid from both mandatory pillars. If nothing changes in the pension system, a worker who retires at 65 years of age after 40 years of service and who received a salary in the amount of the average wage in the country during his whole working life can expect the first pension to be approximately 53 percent of the last-year wage. In 2050, this ratio will be 37 percent and will possibly be the lowest in the European Union. The paper simulates the effects of several reform measures and shows that a combination of measures that could distribute the reform burden between citizens and the state budget has the potential to lead to adequate and sustainable pensions.

Keywords: retirement system, adequacy of pensions, replacement rate, Croatia

JEL classification: G23, H55, J11

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