

Senior guide: How not to lose income while taking early retirement

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Summary

- The Czech social and pensions system offers a range of options to those who lose their job or decide for health, family or professional reasons to stop working a number of years before the statutory retirement age.
- However, for the vast majority of older people it is very difficult to judge the financial advantages of those options. The state authorities do not yet provide information about those options in a sufficiently understandable form.
- This study quantifies the financial consequences of six basic options for a number of typical individuals who leave their jobs "by agreement" two years before reaching statutory retirement age. It also outlines the non-financial conditions and consequences of these options. The ideal compromise between the financial and non-financial consequences of each option is left to the preferences of particular individuals.
- It is apparent that leaving one's job early presents, at least from a financial perspective, a very important decision in the lives of older people. Their total future real net income, which is dependent on that decision, will change by as much as several hundred thousand crowns.
- The most advantageous option for all the tested individuals was one of which the majority of older people are probably unaware: taking on work for 70% of their previous gross salary and receiving a pre-pension. This option guarantees the highest possible monthly income both before and after the individuals in question reach retirement age. With this option, the old age pension remains the same as it would have been if the individual in question had not left their original better-paid job. Moreover, their income in the pre-retirement period is in fact higher once the pre-pension is included. ²

² In the section of our study in which we report our results, we emphasise that a pre-pension can be understood as an income and as a payout from savings. Nevertheless even if the reader considers a pre-pension to be a payout from savings, the opportunity to work at 70% of one's previous gross salary while receiving the pre-pension results in the highest possible net monthly income in the pre-retirement period.

- For those who after leaving their original employment early do not want to return to work, it can be most advantageous from the perspective of their total future incomes to register as unemployed, rather than to take early retirement. Registering as unemployed is – for a typical older person with a gross monthly income of 30,000 CZK – more profitable financially if the individual in question will live longer than 11 years after reaching retirement age. If they live 30 years beyond retirement age, registering as unemployed can increase their total future real income by more than 500,000 CZK.
- Those who no longer wish to work but prefer to have a stable and relatively high net income in the remaining period before they reach statutory retirement age may choose to take early retirement. The cost of doing so is that they will have a lower old age pension later on and lower total future real income. For a typical older person whose original gross monthly income was 30,000 CZK taking early retirement reduces their monthly pension after reaching retirement age by nearly 2,500 CZK. Their total future real income, if they live for thirty years beyond retirement age, will be nearly 900,000 CZK lower, than if they had chosen to work at 70% of their previous gross salary and receive a pre-pension.