

## 80 Years of Social Insurance



## Introduction



*Main administrative building of the Central Social Insurance Company (CSIC), period photo, about 1935*

Act no. 221/1924 Coll. of Laws and Regulations on Sickness, Disability and Pension Insurance for Employees was passed eighty years ago on October 30, 1924. It was a very progressive legal regulation introducing workers' disability and old-age insurance and marking a turning point in social security. Insurance was available for all individual who worked or provided services in Czechoslovakia as employees, servants or apprentices, with the exception of occasional or part-time workers.

It was the first time that workers' social insurance was consolidated under one single institution, the newly established Central Social Insurance Company. The company administered disability and old-age insurance as well as sickness fund associations, newly identified by the Act as sickness insurance companies. Along with their new name, sickness insurance companies were assigned new tasks. They started to register and administer disability and old-age insurance revenues and to collect disability, old-age, and sickness premium. Considerable organisational and administrative concentration brought real economic benefits and stabilisation of the social system.



*Another CSIC administrative building in Prague, period photo, about 1935*

The Act we commemorate in 2004 was the first to respect individual needs of insured person. Each client had his/her insurance card and a registration serial number. Even then, individualised information was considered one of the main prerequisites for the effective management of social systems. All insured persons paid premium in accordance with assigned income-related categories. Originally, there were ten categories, each of them assigned with particular premium and pension rates. Employers were obliged to keep payroll records for three years.

The act passed eighty years ago led to the establishment of special insurance tribunals, which had the power to penalise employers and employees for defaulting on premium or for the non-fulfilment of obligations considered essential for the administration and functioning of social insurance.

This, however, is only once piece of its history. This brochure will tell you more about the development of social insurance, its past, present and future.



Map of Europe in the period of the Austro-Hungarian Monarchy

Past

The history and development of social policy and social security starts with the nobility and church caring for the poor people. It was assumed that the care of people unfit for work was private or church business. The Church mainly provided alms and shelter. Further support for people who fell sick or who were unable to earn a living came from professional associations, organised roughly according to their manufacturing (employment) activities. Since the Early Middle Ages, such care was traditionally provided by miners' fraternities. Unlike other professions bound by strict guild rules, miners had always enjoyed a freer standing. In part this was due to their professional significance for the ruler's wealth and also their large communities in mining areas, an unusual phenomenon in the scarcely populated Middle Ages. Monarchs and private entrepreneurs therefore provided the profession with Miners' Codes. Since the 19th century, such Codes laid down provisions allowing for maintenance for injured or impoverished miners. In the Middle Ages, assistance and support could also be sought from the funds of professional craftsman guilds, which promoted solidarity and co-operation.

## 2<sup>nd</sup> HALF OF THE 18<sup>th</sup> CENTURY

### ***Early Stages and Development of Social Security in the Austrian Monarchy***

Under Feudalism, people unable to work were not provided with any organised assistance unless it was considered necessary to solve extraordinary situations in areas affected by high concentration of the poor and the potential for social unrest. Some progress in social security was achieved at the end of the 18th century when society reached a certain level of development, particularly economic, brought by the Industrial Revolution. At this time it became vital to address the urgent need of organising and providing support to people suffering from illness or disability, to those in old age, or undergoing situations posing risks to their health or capacity to work.

At the end of the 18th century, civil servants and subsequently other state employees were provided with statutory pensions. Between 1771 and 1781, the Austrian Monarchy issued two rulings, the so-called 'pension standards', entitling widows and orphans of 'loyal' employees and of employees who had become unfit for work after at least ten years of satisfactory service to claim benefits.

## END OF THE 19<sup>th</sup> CENTURY

### **Taafe 's Regulations**

The importance of the assistance described above should not be overestimated. The benefits, mostly inadequate and incomplete, were only available for a limited number of inhabitants. The best care was provided to civil servants and similar professions (military officers, judges), later to public entities' officials (principalities, municipalities, chambers of commerce), and employees of some state-owned companies. Further amendments applicable to miners and railway workers were adopted after the 1848 revolution.

Modern forms of social security, which emerged under capitalist systems, only appeared in the Czech Lands at the end of the 19th century.

In terms of sickness insurance, the Austro-Hungarian system was inspired by Imperial Germany and Chancellor Otto von Bismarck's government introducing, for the first time, a general and obligatory scheme for workers' accident and sickness insurance. Such legal provisions were included in the celebrated 'Emperor's Speech' read by Bismarck on November the 17th, 1881. The act was adopted by the Reichstag in 1883.

Shortly after the discussion on sickness insurance in Imperial Germany, Prime Minister Eduard Taaffe submitted new bills to the Austro-Hungarian Imperial

Council (the workers' accident insurance bill in 1883 and the sickness insurance bill in 1885). The bills were debated in Parliament for several years and underwent many amendments. The Sickness Insurance Act no. 33, dated March the 30th, 1888 only took effect on August the 1st, 1889. Historical sources mention the Sickness Insurance Act no. 33/1888 of the Imperial Code of Laws as the first general and obligatory legal sickness insurance scheme in the Czech Lands.

It is interesting that the Act, which provided extensively for the organisation of sickness funds, specified the benefits in only a few paragraphs. From the start, sickness insurance was an entitlement-driven concept and basically maintains this form today. In contrast with the current system, the insurance scheme of the time offered medical and financial benefits: free medical treatment, free assistance at birth, and sickness benefits available to workers unfit for work for more than 3 days reaching up to 60% of a standard daily wage determined by administrative officials. Section 6 of Act 33/1888 provides:

*„When the sickness takes more than three days and the patient is unfit for work, she/he shall receive a sickness benefit of 60% of a standard daily wage of a common insured worker in the relevant court district per each day of sickness from the onset. The sickness benefit shall be provided for the whole course of the illness and, unless this terminates earlier, at least for twenty weeks from the onset in weekly arrears.“*

### ***Strengths and Weaknesses***

From the current perspective, the Act was a successful political move and brought about a significant social reform. The Act gave rise to principal sickness and maternity material and cash benefits, although the sums were relatively limited. However, due to the organisational classification of the law, the system was not effective in collecting premium from employers that avoided payments. Despite the shortcomings, sickness insurance was quick to take root and develop further, with only World War I disrupting extension of the scheme.

### **BEGINNING OF THE 20<sup>th</sup> CENTURY**

Due to the currency devaluation, the system was amended to adapt sickness benefits to the wage and price rises (Emperor's Regulation no. 6/1917 of the Imperial Law). The amendment introduced eleven income categories that determined daily sickness benefit amounts and the support period was prolonged from 20 to 26 weeks.

In the early stages of independent Czechoslovakia, the system of benefits was improved by Act no. 268/1919 Coll. and Act no. 684/1920 Coll., extending sickness insurance to all those in gainful employment. Only civil servants and

public sector employees, who were entitled to receive their salaries even during illness, remained uncovered.

### ***New Act – Common Product of the Czech Political Representation***

In October 1920, once Austro-Hungarian social and political regulations had been unified and made effective throughout the whole of the Czechoslovak Republic, Václav Johanis, Member of Parliament, put forward a new social insurance bill. Subsequently, each Parliamentary political party presented its amendments voiced by MPs Laube, Slavíček, Hajne, Bubník, and Horák. Parliament interrupted the political debate in March 1921 authorising the Ministry of Social Care to establish a select committee, appointed by the then Minister Dr. Grubwer. Dr. Schönbaum, a professor at Charles University's Faculty of Mathematics and Physics and director of the General Pension Insurance Company, played a decisive role in this committee. A new bill was jointly compiled by Czechoslovakia's leading social policy experts, e.g. Lev Winter, MP, Dr. Jan Gallas and Dr. Emil Hendrich from the General Pension Insurance Company, Dr. Bedřich Odstrčil from the Accident Insurance Company, and Jan Brabec from the Ministry of Social Care. The committee sat daily until May 1923 and the bill it tabled prompted a renewed political discussion. Joint cross-party agreement was reached after one and a half years as Act no. 221/1924 Coll. of Laws and Regulations on Sickness, Disability and Pension Insurance of Employees.





Identity card of CSIC employee from 1930

### Enhancing Democratic Development in Czechoslovakia

The progressive Act no. 221/1924 Coll. of Laws and Regulations was structured into five sections and 288 sections. It laid down the following principles:

1. Disability and old-age insurance formed one joint risk and financial group linked in only organisational terms with otherwise separate sickness insurance.
2. Workers' disability and old-age insurance provided partly lump-sum and partly continuous benefits. In addition to entitlement-related (obligatory) benefits the scheme also included optional (facultative) benefits. The key benefits encompassed a) disability benefits conditioned by loss of earning capacity by more than two thirds and b) old-age pensions provided to insured people reaching 65 years who ceased pursuing gainful employment or received only half or less of a healthy employee's salary. Widow's and orphans' benefits were also introduced. Under specific circumstances, the bereaved of an insured person or a pensioner could also claim a lump-sum benefit. The right to a pension was acquired after completing 150 weeks of insurance. Benefit entitlement was also conditioned by the insured event (disability, retirement age, decease) occurring within the effective insurance period or a 1-year protection period after insurance termination. The minimum workers' pension entitlement after three years of insurance equalled CZK 1,130 a year, i.e. less than CZK 95 per month. After 10 - 20 years



*Auxiliary storage of documents registry in wooden drawers in CSIC, period photo, about 1935*

of insurance, pensioners received annually between CZK 1,800 and CZK 2,400, i.e. CZK 150 - CZK 200 per month. The highest disability and old-age benefits amounted to CZK 5,400 annually, i.e. CZK 450 per month. However, qualification was conditioned by a continuous insurance of 50 years in the top income category at least for 50 weeks each year. In practice, such a pension could not be granted to anyone.

3. Besides financial benefits, the Act introduced optional benefits in the form of medical treatment. They were aimed at preventing or delaying impending disability.

4. The Act imposed some limitations on sickness insurance benefits. Instead of a three-day waiting period, it introduced an absolute waiting period granting sickness benefits only from the fourth day of incapacity for work.



*Original machinery registry of insured persons in CSIC Prague, period photo, about 1935*

The entire social insurance system was based on the balance between earnings and expenditures. Premium was mostly paid by both employers and employees, each paying one half, although in some social security branches (accident insurance) they were borne by employers only. Both men and women acquired entitlement to old-age pensions once they reached 65 years while satisfying the condition of completing 150 insurance weeks.

Act no. 221/1924 Coll. of Laws and Regulations on Sickness, Disability and Pension Insurance of Employees significantly contributed to the enhancement of democracy in Czechoslovakia. With regards to future political developments in neighbouring states, it proved very far-sighted and became one of the most important pieces of Czechoslovak legislation on social reform in the inter-war period.

## 1930 – 1948

Due to the harsh economic situation between 1930 and 1934, which affected sickness insurance companies, the scheme was subject to restrictive measures imposed by amendment no. 112 of Act no. 221/1924 Coll. adopted in 1934. Insurance companies where premium exceeded a certain limit granted only reduced sickness benefits during the first period of incapacity for work (14 days up to 6 weeks) scaling them in line with income categories from CZK 2.50 to CZK 18. Sickness benefits were granted only from the fourth day of incapacity for work and the range of family members was limited.

The occupation period saw changes mainly in income categories adapting benefits to the rise in prices and salaries. Further modifications and extension of income categories applicable to all sickness insurance benefits were introduced after the war. All the previous regulations, however, remained in effect until September 30, 1948 and were complemented on 1st of December, 1945 by child benefits becoming an important form of assistance to families with dependant children.

A new concept of national insurance developed between 1945 and 1948 was translated into Act no. 99/1948 Coll. on National Insurance, replacing all regulations in this field. The Act made the benefit system flexible and open paving the ground for further development, improvement and extension to other social issues. The national

insurance was to become a general insurance for all citizens providing a broad coverage and the most suitable security options. Pursuant to Act no. 102/ 1951, sickness insurance was newly administered by the Revolutionary Trade Unions (where it remained until 1990) and performed by employers. This move was based on an assumption that social organisations would take on some state functions and sickness insurance would not require any expert or administrative staff, but be administered by workers' bodies (national insurance commissions).



*Part of the CSIC Prague records office, period photo, about 1935*

## THE 1950s AND 1960s

### ***Abandonment of the Central European Social Insurance Traditions and Implementation of the Soviet Model***

The sickness insurance scheme was significantly changed by Act no. 54/1956 Coll. on Sickness Insurance of Employees effective from January 1, 1957. The system of benefits was overhauled introducing provisions of no substantive relevance aimed at preventing fluctuation and absenteeism and determining financial benefit amounts or entitlement to receive child benefits.

For political reasons, the principle of universal coverage was abandoned in the 50s leaving the self-employed without any sickness insurance to strangle the private sector (mainly in agriculture). The Act introduced new calculation methods of sickness benefits scaling them from 60% to 90% pursuant to employment periods and providing 50% - 70% in daily sickness benefits during first three days on sick leave.

Subsequent amendments to the Act resulted in further modifications and new benefits. The general provisions of Act no. 54/1956 Coll. on Sickness Insurance of Employees have been in effect to this day.

Structural development of the sickness insurance administration bodies was rather complicated leading to the establishment of district and regional

sickness administration offices, the Czech Sickness Insurance Administration Office and the Central Sickness Insurance Administration, which organised federal matters. The Central Trade Union Council acted as the supreme sickness insurance body for the whole period.

Act no. 102/1951 Coll., on Reforming National Insurance separated sickness and pension schemes placing old-age security under the State Pension Administration. This structure was changed in 1957 when the State Social Security Office was created to administer social and old-age security.

In 1968, Act 53/1968 Coll., on Transformation of Organisation and Functioning of Central Bodies established the Ministry of Labour and Social Affairs. It was commissioned to execute activities in the field of social security hitherto administered by the State Social Security Office. Pension benefits were newly administered by the Prague Pension Administration, originally an internal body of the State Social Security Office, transformed in 1969 into the Prague Old-Age Security Office.



*Present view of CSSA Headquarters in Prague*

## THE 1990s

### ***A Social Insurance Comeback***

The new social and economic conditions in the aftermath of the events of November 1989 required reforms in social security. The legal framework was set by the Czech National Council Act no. 210/1990 Coll., on Changes in Competences of the Czech Republic's Bodies and on Amendments to Act no. 20/1966 Coll. on Care of Public Health. It provided for the merger of the Prague Old-Age Security Office, the Czech Sickness Insurance Administration, and Sickness Insurance Administrations of the Association of Czech and Moravian Industrial Co-Operatives, which established a new system of state administration bodies in social security: the Czech Social Security Administration (CSSA). The CSSA picked up from its predecessors, took on their archives, and extensive citizen registers.

District Social Security Administration Offices (DSSAs) within the CSSA emerged from the previous District Sickness Insurance Administration Offices; and the Prague Social Security Administration Office (PSSA) from the Prague Sickness Insurance Administration Office.



## The Current Situation

*People first...*

The absolutely unique Czech Social Security Administration is the largest financial administration body within the Czech Republic's civil service with an annual total income and expenditure exceeding CZK 516 billion. The CSSA looks after the social security issues of almost 7,200,000 clients including over 2,590,000 pensioners receiving more than 3,212,000 pensions. (Data valid as at December 31, 2003)

The CSSA also pays out – directly or through employers – sickness benefits, maternity benefits or attendance allowance for almost the whole working population of the country.

By collecting social insurance premium, state employment policy contribution and voluntary premium the CSSA provides for almost 39 per cent of the state budget revenues. The CSSA also performs important tasks under the international agreements signed by the Czech Republic. A Medical Assessment Service providing for the assessment of the clients' health and capacity for work in relation to social security, family benefits and social care claims is an integral part of the CSSA.

As part of the civil service structure, the CSSA answers to the Czech Ministry of Labour and Social Affairs.

Since July the 1st, 2002, the smooth performance of the CSSA's operations carried out by more than 8,000 employees has been managed by General Director Jiří Hoidekr.

The CSSA's ambition is to become a modern, client-oriented institution making the fullest use of up-to-date information and communication technologies. This is formulated under the CSSA's Mission Statement:

*'The transformed CSSA is a modern agency, a social insurance administrator whose effective performance is based on processes using the most up-to-date technologies of the modern information society and whose exclusive focus is on providing maximum value for the client, thus striving to meet client's expectations and satisfying his/her needs.'*

The CSSA has offices throughout the Czech Republic. The CSSA headquarters are located in Prague, with seven regional offices (RSSAs) in Prague, Ústí nad Labem, Hradec Králové, Pilsen, České Budějovice, Brno and Ostrava. There are 76 District Social Security Administration offices (DSSAs) and the Prague Social Security Administration office (PSSA) with its thirteen Prague offices, all of which report to the CSSA.





*Important CSSA working places, equipped with state-of-the-art technology*

## The Future

## VIRTUAL ACCOUNTS

### *Individual Insurance Accounts*

Electronic Individual Insurance Accounts (IIAs) will be introduced in 2006. The citizens of the Czech Republic will thus be able to receive the complete information on their periods of insurance and earnings that is important for their pension claims from any CSSA district office. These IIAs will also enable easier communication with foreign pension insurance institutions.

The creation of IIAs and their continuous annual up-date will be possible thanks to the transfer onto the annual pension insurance record system representing a fundamental and truly historic change. This transfer is based on an amendment to the Social Insurance Implementation Act effective as of the 1st of January, 2004. The technical solution is based on the aforementioned pension insurance data digitalisation and other pension entitlement documents converted into data records.

In the first phase of digitalisation, started in 2001, the CSSA processed client data from the CSSA central archive. These were paper documents stored from 1935, a year that what may very well be the largest archive of pension entitlements in Central Europe was established. More than 37 million pension insurance records were converted into digital images by the end of 2003 and

stored in an advanced optic archive. Data records are then created from these digital images and stored in a data bank, using the best available technologies in data storage. At this point, there are over 30 million data records stored in this data bank.

The digitalisation of entitlement documentation has continued. In August 2003, the CSSA began processing all pension insurance records stored by employers (organisations) and closed in 1995. By the end of the year, almost 2 million of these documents had been processed. In the following phase, i.e. during 2004, all pension insurance records with insurance periods between 1996 and 2003 will be taken over from employers who have stored them so far. This will involve processing approximately 4 million pension insurance records. In the final phase, annual pension insurance records will be introduced, which employers will start using from the 1st of January, 2004 onwards. These will be handed over to the CSSA in the first half of 2005 by all employers. At the end of every calendar year, each employer must close these annual pension insurance records and send them to the CSSA with a copy issued to each employee.

The overall transformation is not only about significant technological steps in line with the modern society, but also about the move towards the CSSA's new client-oriented policy. The provision of services on all working days, welcomed by clients, was introduced several years ago. Such service goes

significantly beyond the two-day service required for state administration and public services. The CSSA is constantly further developing modern advanced approaches to client services employing available information and communication technologies. The CSSA is doing all it can to satisfy its clients.



*Photo of one of the CSSA client centres*



*Client centre in DSSA Pilsen-city*



*Up-to-date premises for public in DSSA Strakonice*

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HP is a technology solutions provider to consumers, businesses and institutions globally. The company's offerings span IT infrastructure, personal computing and access devices, global services and imaging and printing. For the four fiscal quarters ended July 31, 2004, HP revenue totaled \$78.4 billion. More information about HP (NYSE, Nasdaq: HPQ) is available at [www.hp.com](http://www.hp.com).

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Siemens Business Services

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## THE LIST OF THE LITERATURE

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