

# **Pension TRAJECTORIES**

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**in Albania, Macedonia and Kosovo**

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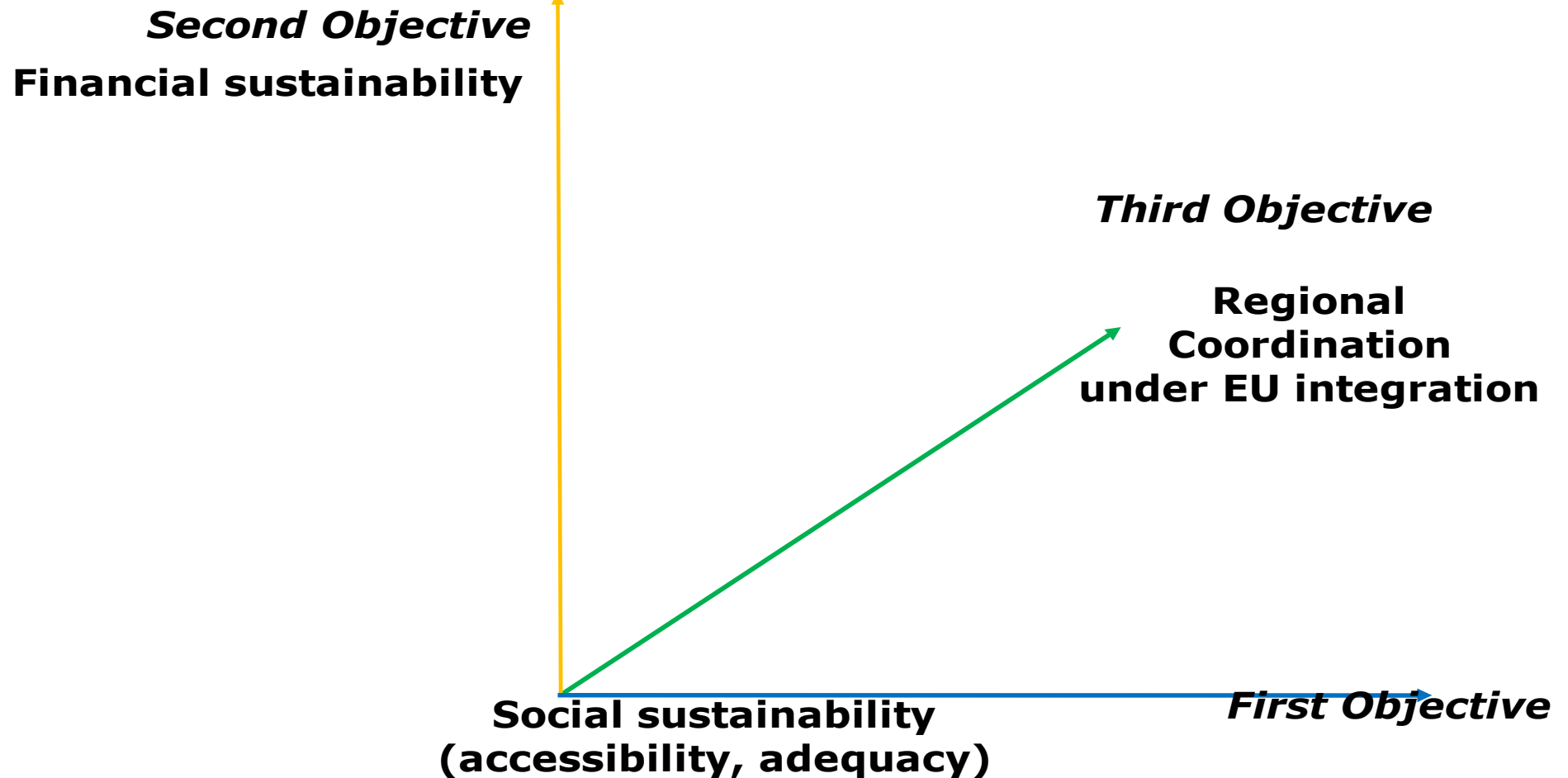
# **The analysis follows a comparative logic against:**

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- ☐ **The past similar tradition, referring to the inherited systems**
- ☐ **The actual policy targets to build democratic states, rule of law, free markets and social welfare**
- ☐ **The future regional approach in the context of EU integration.**

# ***A new conceptual framework for pension reform in Western Balkans***

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# The subject

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The Western Balkan countries, which inherited very common pension systems, are reforming it following different trajectories:

- **Albania** is continuing reforms following the Bismarckian **Pay-As-You-Go model**.
  - **Kosovo** is building a pro-market, quite a **liberal model**.
  - **Macedonia** has created a **mixed pension system**, combining elements of two models.
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# The main question



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■ **Why** are there such different approaches when Albania, Macedonia and Kosovo **share common characteristics such as:**

- **Demographic:** small and relatively young population, where more than 50 per cent is under 35 years old.
  - **Economic:** low GDP per capita, a private sector dominated by self-employment, low agricultural productivity, the persistence of the informal sector, and lack of the developed financial and capital markets.
  - **Social:** high level of unemployment, poverty, migration, vulnerability of elderly, children, refugees, etc.
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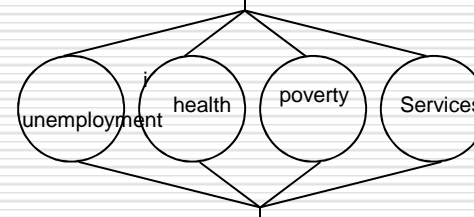
## **Social policy context**

*Pensions policy explores the political, economic, social, demographic and institutional context within which benefits are produced*

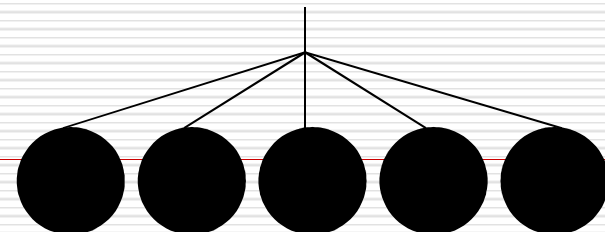
## **Five pension pillars**



### **SOCIAL NEEDS**



Social policy system response by development of



## A view of the reformed pension systems

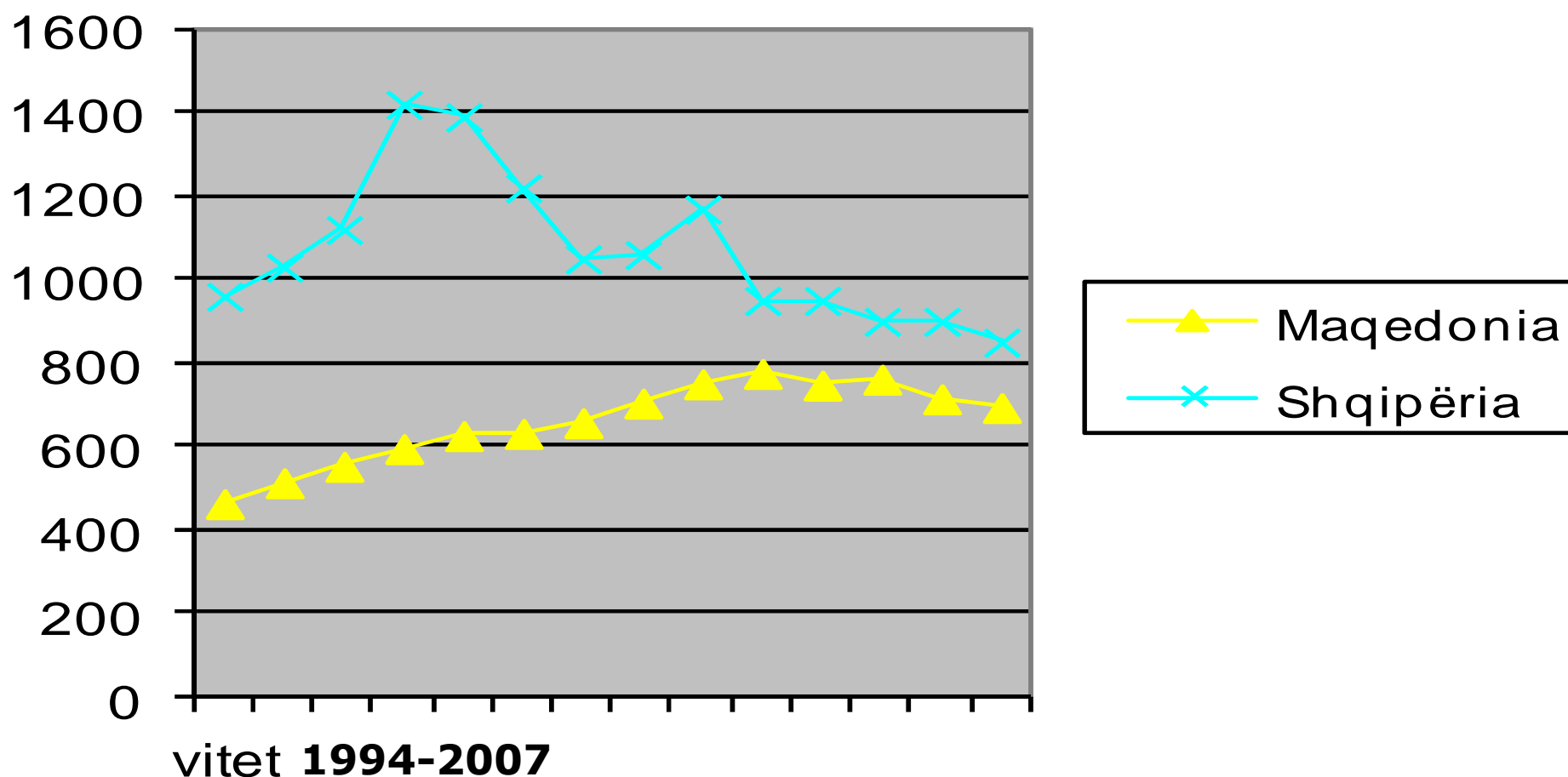
<b>ALBANIA</b>	<b>II. PAYG DB</b> – from 1993 Public mandatory for all economically active population in , and Voluntary for Albanian emigrants and foreign working in .	<b>IV. PAYG DB</b> – from 1996 Public mandatory supplementary pension schemes for senior civil servant, military servant and recently academic staff as professors.	<b>V. Fully Funded DC</b> from 2006 - <b>Voluntary</b> Private Pensions
<b>MACEDONIA</b>	<b>II. PAYG DB</b> - from 1993 Public mandatory for all economically active population in .	<b>III. Fully</b> 2005 Mandatory for all insured after 1 <sup>st</sup> January 2003, and voluntary for others.	<b>V. Fully Funded DC</b> from 2008 - <b>Voluntary</b> Private Pension,
<b>KOSOVO</b>	<b>I. Basic Pension</b> – from 2002, covering all residents above 65 years old in Kosovo and <b>A supplement</b> - from 2007 for those insured from the previous system, with at	<b>III. Fully Funded DC</b> – from 2002. Mandatory for all economically active population under 55 years old.	<b>V. Fully Funded DC</b> From 2006 <b>Voluntary</b> private pensions

## Using the scheme of Martin Kohli & Camila Arza, Pension Trajectories in Europe, 1990-2010

	Typical reforms in pension systems
<b>Parametric reform</b>	<p>Raising retirement ages ( all three countries )</p> <p>Increasing contribution years for entitlement (all three countries)</p> <p>Restricting early retirement options (Albania, Macedonia)</p> <p>Introducing incentives for later retirement ( Albania)</p> <p>Changing indexation rules from wages to prices (Albania, Macedonia has a mixed )</p> <p>Extending the working period for the calculation of benefits to the entire working life (Albania, Macedonia)</p> <p>Adjusting benefits to changes in life expectancy (no one)</p> <p>Adjusting eligibility conditions to changes in life expectancy (no one)</p> <p>Reducing transformation coefficients in NDC pensions, leading to pension cuts ( no one )</p>
<b>Structural Reform</b>	<p>Reconfiguration of the public PAYG pension scheme into a NDC system (no one )</p> <p>Shifting towards a mixed system with mandatory private individual accounts (Macedonia )</p>
<b>Improving Minimum protection, and coverage</b>	<p>Introducing the basic poverty-prevention pillar (Kosovo )</p> <p>Increasing minimum benefits (Kosovo )</p> <p>Lowering earnings threshold to cover low-income and part-time workers (no one )</p>
<b>Multi-pillarization through “layering” and “conversion”</b>	<p>Companies’ severance pay converted into pension plan (no one)</p> <p>Adding new mandatory layers for individual savings (Kosovo)</p> <p>Encouraging voluntary individual pension savings and/or occupational pensions with tax incentives (just approved legal framework in all three countries)</p> <p>Introducing minimum employer contributions to occupational pensions ( no one )</p> <p>Converting DB occupational pensions into DC (no one )</p>



# Dependency ratio of the pension systems (pensioner/contributors), 1994-2007



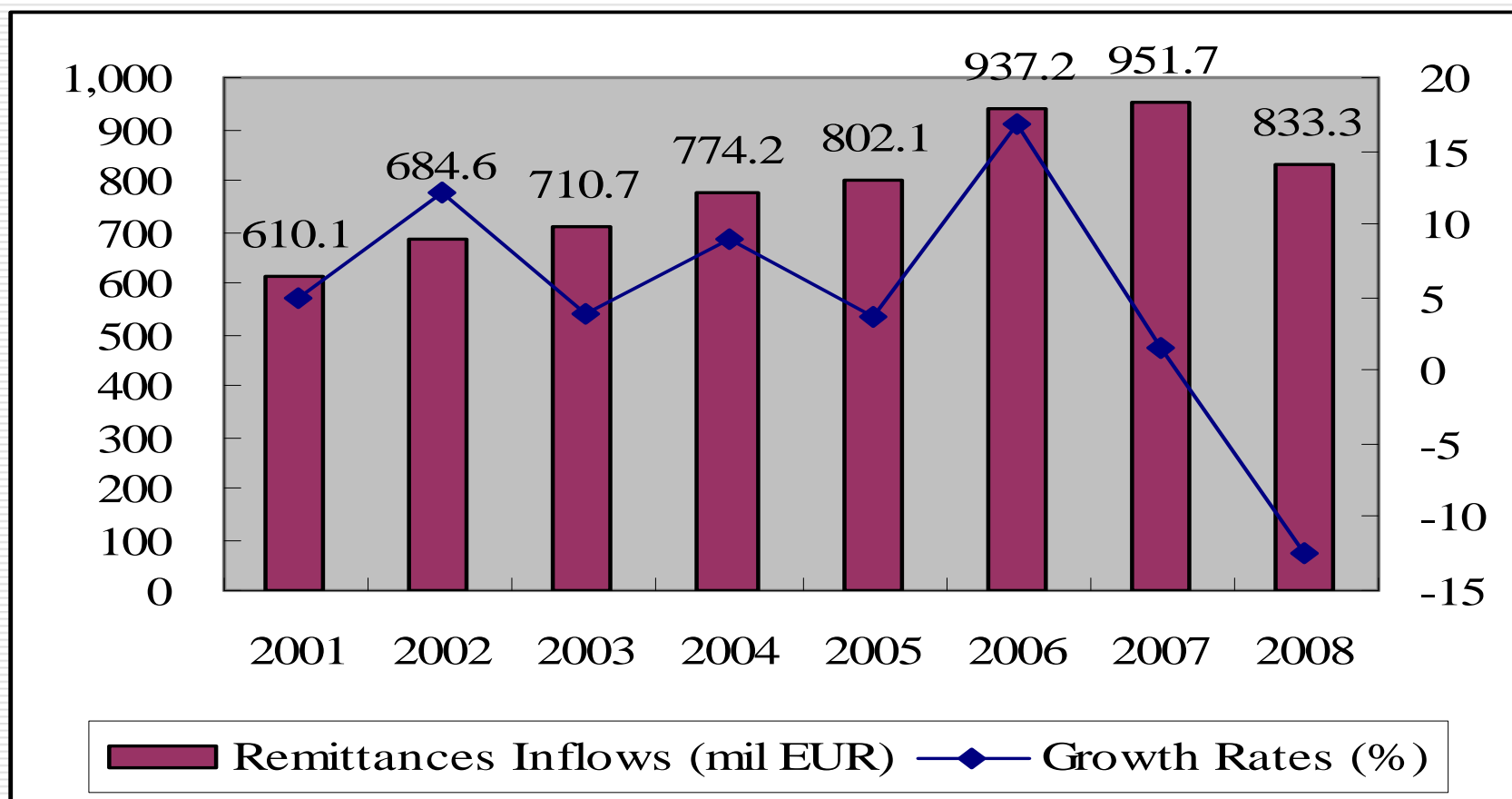
YEAR	2005	2006	2007	2008	2009
<b>Gross Domestic Product (in real terms, annual % change)</b>					
Croatia	4.2	4.7	5.5	24	-5.8
Macedonia	4.1	4.0	6.1	5.0	-0.8
Albania	5.7	5.4	5.9	7.7	3.3
Bosnia & Herzegovina	3.9	6.1	6.2	5.7	-2.9
Montenegro	4.2	8.6	10.7	6.9	-5.7
Serbia	5.6	5.2	6.9	5.5	-3.1
Kosovo	3.8	3.9	3.9	5.4	4.0
<b>Unemployment (LFS, in % of workforce)</b>					
Croatia	n.a	n.a	9.6	8.4	9.1
Macedonia	37.3	36.0	34.9	33.8	32.2
Albania	14.3	13.9	13.3	12.7	13.0
Bosnia & Herzegovina	44.7	44.2	42.9	40.6	42.7
Montenegro	18.5	14.7	11.9	10.7	11.4
Serbia	21.8	21.6	18.8	14.7	17.4
Kosovo	41.4	44.9	43.6	47.5	45.4

## Albania

## Macedonia

Years	Average wage	Average pension	Replace ment	Average wage	Average pension	Replace ment rate
	ALL/month	ALL/month	rate	Denar/month	Denar/month	
<b>1993</b>	3,084	1,740	<b>57</b>	6,315.00	5,327.00	<b>84.4</b>
<b>1994</b>	4,778	2,240	<b>47</b>	8,424.00	6,140.00	<b>72.9</b>
<b>1995</b>	6,406	2,840	<b>44</b>	8,435.00	6,438.50	<b>76.3</b>
<b>1996</b>	8,638	3,380	<b>39</b>	8,931.00	6,558.00	<b>73.4</b>
<b>1997</b>	9,559	3,514	<b>37</b>	9,096.00	6,634.00	<b>72.9</b>
<b>1998</b>	11,509	4,212	<b>37</b>	9,694.00	6,607.00	<b>68.2</b>
<b>1999</b>	12,708	4,653	<b>37</b>	10,029.00	7,188.00	<b>71.7</b>
<b>2000</b>	14,963	5,197	<b>35</b>	10,526.00	7,394.00	<b>70.2</b>
<b>2001</b>	17,218	5,921	<b>34</b>	10,592.00	7,498.00	<b>70.8</b>
<b>2002</b>	19,659	6,446	<b>33</b>	11,550.00	7,982.00	<b>69.1</b>
<b>2003</b>	21,325	7,780	<b>36</b>	11,955.00	8,421.00	<b>70.4</b>
<b>2004</b>	24,393	7,900	<b>32</b>	12,534.00	8,492.00	<b>67.8</b>
<b>2005</b>	26,808	8,307	<b>31</b>	13,125.00	8,517.00	<b>64.9</b>
<b>2006</b>	28,882	9,499	<b>33</b>	13,854.00	8,765.50	<b>63.3</b>
<b>2008</b>	38,310	10,536	<b>28</b>	17,363.00	10,762.00	<b>62.0</b>

# Remittance Inflow and Growth Rates (2001-2008)



(Source) BoA, "Bank of Albania 2008: Balance of Payments Bulletin", p.48, and EC, 2008, Social Inclusion and Social Protection in Albania, p.22

## Characteristics of Multi-pillar Pension Reforms in Transition Economies (Holzman,R. World Bank), 2008

Country	Starting Date	First (or Zero) Pillar	Size of contribution of the second pillar	Share of workforce in funded pillar	Switching Rules to new system
Croatia	2002	PAYG DB	5 percent	80 percent	Mandatory <40, Voluntary 40–50
Macedonia	2006	PAYG DB	7 percent	25 percent	Mandatory for new entrants
Kosovo	2002	Universal/min. consumption basket level	10 percent	30 percent	Mandatory for all
Kazakhstan	1998	Guaranteed Minimum	10 percent	82 percent	Mandatory for all

## The second pillar indicators in Macedonia

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Period	NPF	KB Prv
01.01.2006 - 31.12.2006	5,93%	6,27%
01.01.2006 - 31.12.2007	7,48%	7,38%
01.01.2006 - 31.12.2008	0,05%	2,32%
31.03.2006 - 31.03.2009	-0,05%	2,16%

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**Source: MAPAS, 2009.**

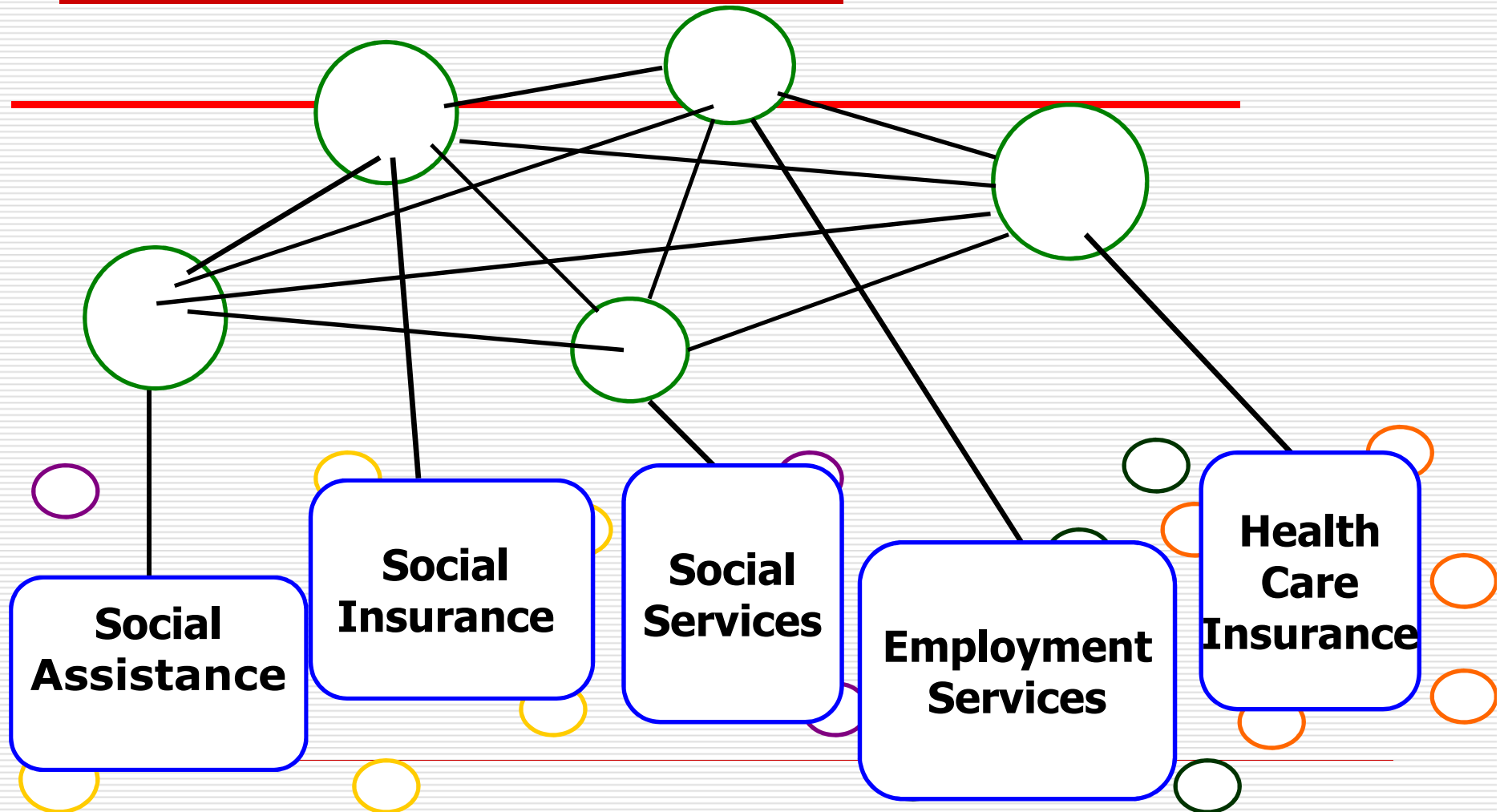
## The second pillar indicators in Kosovo

<b>Year</b>	<b>Financial Means invested (Euro)</b>	<b>Contributions (Euro)</b>	<b>Active contributors</b>
<b>2002</b>	<b>8.6 mil.</b>	<b>8.6 mil.</b>	<b>84,668</b>
<b>2003</b>	<b>37.8 mil.</b>	<b>29 mil.</b>	<b>121,447</b>
<b>2004</b>	<b>84.8 mil.</b>	<b>44.4 mil.</b>	<b>209,186</b>
<b>2005</b>	<b>145.8 mil.</b>	<b>51.7 mil.</b>	<b>227,725</b>
<b>2006</b>	<b>251,1 mil.</b>	<b>56.7 mil.</b>	<b>229,510</b>
<b>2007</b>	<b>279.6 mil.</b>	<b>63.8 mil.</b>	<b>255,485</b>
<b>2008</b>	<b>255.7 mil.</b>	<b>72.8 mil.</b>	<b>275,196</b>

The Mean's Manager	The Investment Class	The Headquarter	The Type	12/ 2007	12/ 2008	01/ 2009	02/ 2009	03/ 2009	04/ 2009
Vanguard	Equities	Belgium	Glob	158.4	112.3	103.8	94.6	100.5	110.0
Schroders	Treasury Bonds	Luxemburg	Glob	49.9	49.2	50.2	50.2	51.2	51.2
European Credit Managm.	Credit Market	Great Britain	Euro	23.7	14.2	13.7	13.1	12.7	13.1
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Raiffeisen Bank Kosova	Bank Deposit	Kosovo	Kos.		10.4	10.4	10.4	10.5	10.5
FX Concepts	Currencies Market	USA	Glob	6.5	7.4	7.3	7.4	7.2	6.0
ProCredit Bank Kosova	Bank Deposit	Kosovo	Kos		5.2	5.2	5.2	5.2	5.2
Fortis (ex Abn-Ambro)	Money Market	Belgium	Glob	3.9	4.1	4.1	4.1	4.1	4.1
Auriel Capital Managm.	Money Market	Great Britain	Glob	6.5	4.4	4.3	4.3	4.0	3.0
<b>Invested</b>				<b>272.5</b>	<b>219.4</b>	<b>210.8</b>	<b>200.6</b>	<b>206.1</b>	<b>217.0</b>
<b>Non-Invested</b>				<b>7.1</b>	<b>36.3</b>	<b>40.3</b>	<b>46.6</b>	<b>52.1</b>	<b>55.0</b>
<b>The Total</b>				<b>279.6</b>	<b>255.7</b>	<b>251.1</b>	<b>247.2</b>	<b>258.2</b>	<b>277.0</b>



# Integrated Social Security Systems



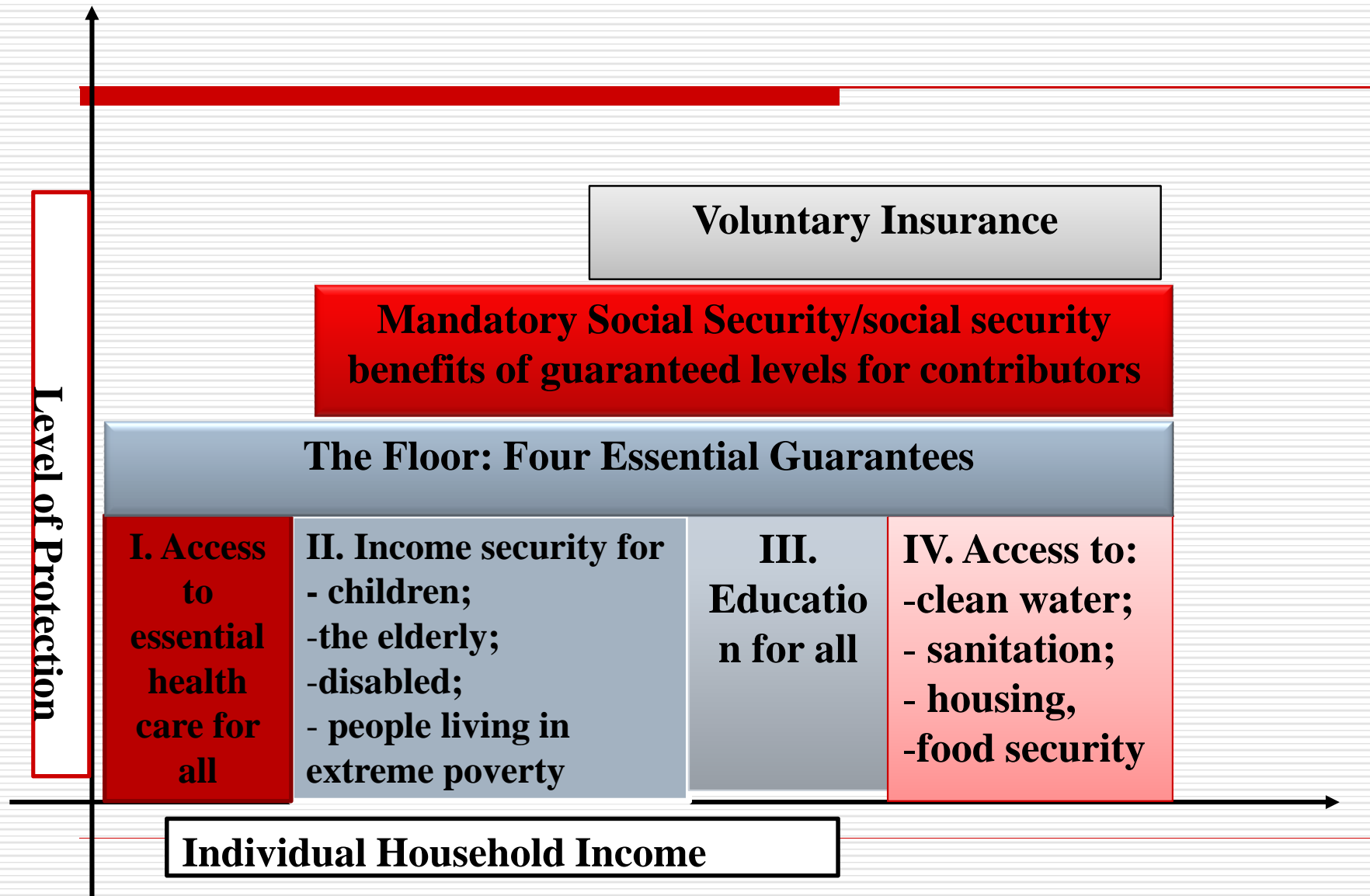
# The Key of Success

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## UN INITIATIVE

### Social Protection Floor in the overall National Social Protection Architecture



**“Become more solidary, for the sake of humankind.**

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**We need to define standards, equalize terms, identify and elect methods, procedures, and above all, re-organize the concept and the model”.**

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Source: Eurostat, EU labour force survey (LFS), 2007, date of extraction May 2008