PENSION REFORMS IN THE COUNTRIES OF THE WESTERN BALKANS FROM A EUROPEAN PERSPECTIVE

INDEX

CHAPTER ONE

National Reports

THE OLD-AGE PENSION SYSTEM IN CROATIA

1. Socio-economic background:

- ☐ Employment rate: 2005=55.0%; 2010=54.1% (Eurostat)
- ☐ Economic growth rate: 2000=3.8 %; 2005=4.3%; 2010=1.2% (Eurostat)
- ☐ Inflation rate: 2000=4.6 %; 2005=3.3%; 2010=1.1% (Central Bureau of Statistics)
- ☐ Consolidated debt rate (in % of GDP): 2000=34.3 %; 2005=38.2%; 2010=42.6% (Central Bureau of Statistics)
- ☐ Interest rate paid on loans for 10 years taken up on the capital market: app. 8%
- ☐ Budget deficit (in %): 2000=3.4%; 2005=1.5%; 2010=4.5% (Central Bureau of Statistics)
- ☐ Degree of dependency of World Bank, IMF and EU; Croatia is in the process of accession to the EU; no stand-by arrangements with the IMF.

2. Current old-age pension system:

☐ **Current structure of the old age pension system.**

- The Croatian pension system has been established on three levels: 1st pillar – the public pension system, a compulsory pension insurance on the basis of intergenerational solidarity (pay-as-you-go); 2nd pillar – compulsory pension insurance on the basis of individual capitalized savings (funded); 3rd pillar – voluntary private pension insurance.

☐ **1st pillar: the public old age pension**

- Field of application: All employed persons of the private and public sector, craftsmen, self-employed, agricultural workers
- Economic support ratio: 121 contributors per 100 pensioners

- Who manages the system: The Governing body of the Croatian Institute of the Pension Insurance has 13 members, and is comprised of the representatives of the executive power (4), Croatian Employers' Association (3), trade unions (3) and pensioners (3). The Public pension system is fiscalized, contributions are paid into the State Treasury and the Tax Administration is in charge of monitoring the contributions. The income and expenditure plan is determined by the Government within the State Budget, and adopted by the Parliament.

- Conditions for full old age pension: 65 years of age (male) and 60 years (female) and 15 years of service. By decision of the Constitutional Court, women will come progressively under the same age conditions as men by 2029.

- Conditions for early retirement: 60 years of age and 35 years of service (male) and 55 years of age and 30 years of service (female). The "penalization" per month of earlier retirement is 0.34 till 0.15 percent (depending on the years of service). By decision of the Constitutional Court, women will have equal requirements for early retirement as men ; (progressively; until 2029).

- Progressive retirement: is there possibility for combination of partial pension and part-time employment? No, but pensioners can (besides the pension) work part-time on the basis of a service contract (not in an employee relation).

- How are public pensions financed? The public pension fund is financed by the workers from their wages, and the contribution amounts to 20% for the older workers who are only in the 1st pillar, i.e. 15% for those who are insured under 1st and 2nd pillar. The public budget covers the pensions based on special regulations (the so-called "beneficial or privileged pension") and the pension bonuses[1].

- Pension benefits:
  - Average gross old age pension: 323.63 EUR (with pension bonus: 402.80 EUR)

[1] The pension bonuses (4% to 27% increase of public pensions) were introduced to compensate for the negative consequences of the pension reform of 1999.

- Level of minimum pension: the law stipulates the amount of the minimum pension per year of service amounts to 7.68 EUR (for minimum 17 years of service it amounts to 115.20 EUR; for 40 years of service 307.20 EUR). The entitlement to the lowest pension is granted to a pensioner whose pension, calculated on the basis of the pension formula (including the pension bonus), would be lower than the minimum pension. The system of the minimum pension is the only redistributive factor to the advantage of workers on low wages.
- Level of maximum pension: 1 195 EUR
- Gross and net replacement rate: For a worker who has received the average wage over the career and who has 40 years of service, the pension in relation to the average gross wage amounts to 30.56%, and in relation to the average net wage 43.7%. With the pension bonus received by insured persons under the 1st pillar the replacement rates are higher: gross replacement rate for the said worker amounts to 38.8% and the net replacement rate to 55.5%.
- Calculation base: last salary or average salary over the career? The calculation base is the average wage over the career.
- Non-contributory periods (e.g. unemployment, sickness, career break) taken into account for calculation of pensions? Career breaks and unemployment are not taken into account for calculation of pensions. Sickness and maternity leave are (and contributions are paid as well), because sickness does not interrupt an employment relationship.
- Adjustment of pensions (price indexation or adjustments to salaries)? Price indexation according to the Swiss formula: 50% of the wage, 50% of the living costs. Currently adjustment of pensions has been suspended by the law (in 2010, 2011 and 2012) due to the crisis and “savings”.
- Restrictions on wage income parallel to pension income: if a pensioner decides to work under an employment contract, his/her pension is frozen. Part-time work on the basis of a service contract can be combined with a pension.

- Tax regime of pensions: Pensions above 434 EUR are subject to taxation.
- Social contributions paid on pensions: Pensioners whose pension is above 720 EUR are paying health contribution in the amount of 3 percent.

- **2nd pillar: mandatory private pension insurance**

  The Croatian pension system does not have the so-called occupational pensions. In 2002, the compulsory private pension insurance was introduced on the basis of individual capitalized savings for all workers younger than 40 at the time. These workers pay 5 % contributions to the personal saving account in the chosen obligatory private pension fund (in 2009, these funds had about 1.5 million members). The amounts paid out on the basis of investments will depend on the amount of paid contributions, duration of capitalization and fund yield. Each member of a pension fund is guaranteed a yield of the pension fund in the amount of the reference yield, determined by the Croatian Financial Services Supervisory Agency, reduced by 6 percentage points.

- **3rd pillar: voluntary private pension insurance**

  The similarity with occupational pensions in the Croatian pension system is the **3rd pillar** voluntary insurance in closed funds at the company level, regulated by collective agreements and with state incentives for the insured workers. Only a small number of workers are members of these voluntary private funds.

3. Reform proposals submitted or adopted by the government

In 2010 the trade unions managed to alleviate some of the measures proposed by the Government: levelling the retirement conditions of men and women will be done in the following 20 years (the Government had proposed in 10 years); permanent reduction of pensions (so-called penalization) due to earlier retirement depends on years of service (e.g. reduction in case of worker with 40 years of service amounts to 0.15 % per month of early retirement or 1.8 % per year of early retirement), and in case of worker with 35 years of service 0.34 % per month or 4.08 % per year of early retirement). The Government proposed the same penalization (0.34 % per month, i.e. 4.08 % per year), regardless of the years of service. An agreement has been reached according to which trade union representatives participate in the working groups of the Government which prepare amendments and design the pension system in Croatia.

4. Trade union reactions/positions on these reform proposals/decisions

Representatives of the trade union confederations are involved in working groups of the Government; it was agreed that a wide expert and public discussion will be carried out on all aspects of the pension system in Croatia. The issue of pension reform has been included, on the trade union initiative, as priority issue in the Decent Work Country Agenda between the ILO and the Republic of Croatia, to be tackled on a trilateral basis. The positions of the trade union confederations have been jointly agreed and the unions will also act jointly. Difficulties are expected concerning the so-called “privileged pensions”. The trade union position is clear: everyone should fall under the general regulation and the Government should decide if and which groups should be granted pension bonuses financed from the public budget. This problem is especially linked to the pensions of the “political elites”: they have also privileged conditions for achieving pension entitlements and pensions far above the average pensions. There doesn’t seem to be a real political will to change this: therefore strong trade union action will be necessary.

THE OLD-AGE PENSION SYSTEM IN MONTENEGRO

1. Socio-economic background:

- ☐ Employment rate: 2000=54.9%; 2005=41%; 2010=48.1%
- ☐ Economic growth rate: 2000=3.1%; 2005=4.2%; 2010; 1.0%
- ☐ Inflation rate: 2000=24.8%; 2005=1.8%; 2010=0.7%
- ☐ Consolidated debt rate (in % of GDP): 2005=42.7%; 2010=42.0%
- ☐ Budget deficit: 2005=1.92%; 2010=4.51%

2. Current old-age pension system:

Current structure of the old age pension system

The system of pension and disability in Montenegro is organised by the law on pension and disability insurance in force since 1st January 2004. This law reformed the pay-as-you-go system of pension and disability insurance, and established the legal framework for the overall reform of the system of pension and disability insurance. The law determined that the system of pension and disability insurance includes:

- A mandatory pension and disability insurance on a pay-as-you-go basis (1st pillar)
- A mandatory pension insurance based on personal capitalised savings (2nd pillar)
- A voluntary pension insurance based on personal capitalised savings (3rd pillar)

This created the legal possibility to introduce the multilayer pension system based on three pillars. While the 1st pillar of the pension system is fully organised by the law on pension and disability insurance, the other two pillars of the pension system are subjects of separate legislations.

The voluntary pension insurance (3rd pillar) is based on the law on voluntary pension funds. This law defines the conditions for the establishment of companies for the management of pension funds and the organisation of these funds as well as their business operation. The bylaws required for the implementation of this law were adopted as well. The first three voluntary pension funds managed by private companies are already established.

It is not yet sure when the law on the mandatory pension insurance (2nd pillar) will be adopted, and when that part of the pension system will enter into force. A series of conditions has to be accommodated before this can happen: the most important are the economic situation and a solution for the transition expenditures, meaning the amounts required for servicing the duties arising from the 1st pillar, given that part of the contributions paid for the 1st pillar pension will be used for the mandatory pension insurance based on personal capitalised savings for those insured persons who are also insured in the 2nd pillar.

On 22 December 2010 the Parliament of Montenegro adopted the law on amendments to the law on pension and disability insurance, which came into force on 6 January 2011. With the adoption of this law Montenegro continued the reform of the system of pension and disability insurance, which started in 2004.

1st pillar: the public old-age pension

The 1st pillar pension system is based on the principles of intergenerational solidarity and of advance payments (PAYG) with the application of the prescribed formula.

- **Field of application:**

  All workers of the private and public sector, the self employed and the agricultural workers.

  The law on pension and disability insurance is based on the principle that an insured person may only be insured on one ground (principle of avoidance of double insurance). If a person meets conditions for insurance on more than one ground, the ground for insurance is determined in a way that the insurance under a previous paragraph excludes the insurance under the following paragraph(s). In this way, the law set the priority of grounds for insurance in the given order: 1/ employment; 2/ independent activities; 3/ agricultural activities.

  This means that dependent employment, as the basis for insurance, excludes insurance on the ground of independent activity or of agricultural activity, and independent activity excludes the possibility of insurance based on agricultural activity.

- **Types of pension:**

  The number of old-age pensions is about 45% of the total number of pensions paid out by the fund; disability pensions and survival pensions both count for approximately 27.5%.

- Economic support ratio: 1.7 contributors per pensioner. This ratio is somewhat better than before the adoption of the law of 1st January 2004, but it is still insufficient. In order to guarantee the sustainability of the current pension insurance, the employment rate should increase to 62.7% (under the condition of a stable number of pensioners).

- **Who manages the system?**

  The system is managed by a tripartite board of 7 members: one representative of the most representative trade union, one representative of the association of employers, one of the association of the pensioners, and four members nominated by the state authorities, representing the pension and disability insurance.

- **Conditions for old age pension:**

  Under the new pension and disability law of 2010, the (alternative) conditions for the old-age pension are the following:

  - 67 years of age and at least 15 years of pension contributions (increase of age conditions to be introduced gradually by 2025 for men and 2041 for women);
  - 40 years of pension contribution, irrespective of age;
  - 30 years of pension contribution, of which at least 20 years of effective work experience in mines where the pension contribution is calculated with increased benefits.
  - The most recent reform of the pension system (December 2010) has equalised the old-age retirement conditions for men and women. The transitional period, which started on the 1st January 2004 after the adoption of the reform law on pension and disability insurance in 2003, was extended until 31st December 2024 (for men) and the 31st December 2040 (for women). During that period, the earlier and more

beneficial old-age retirement conditions remain valid, but the age conditions will increase gradually (65 for men and 60 for women by 2013).

  - Conditions for early retirement: Early retirement is possible from the age of 62 with 15 years pension contributions (for both men and women). In case of early retirement the pension is reduced by 0.35% per month of earlier retirement.

- **How are public pensions financed?**
  - Pensions in Montenegro are financed by social contributions of employees (15% of gross wage) and employers (5.5% on gross wage) and by the state budget. In 2010, 60% of the expenditure for net pension (10.94% of GDP) was covered by social contributions and 40% by state subsidies. In 2003 these figures were respectively 80.5% (social contributions) and 19.5% (state subsidy). Social contributions are paid on income until a ceiling (43 000 euros in 2011).

  - Pension benefits:

    – Average old-age pension in 2011: 324 euros (318.07 euros in 2010)

    – Average pension in 2010: 268.51 euros

Changes in average pensions in Montenegro (in euros)

	Old age pension	Disability pension	Survivors pension	Average pension	Average earned net income from work
2001	110.32	84.07	82.46	92.82	107.88
2005	154.92	115.27	102.06	123.91	213.14
2010	318,07	239.69	212.88	268.51	479

– Level of minimum pension: a nominal amount of 97.86 euros (in 2011), or if it is more advantageous, a pension calculated on the basis of the ordinary formula: personal coefficient (guaranteed minimum 0.5) x contribution period (in years) x value of one personal point (6.39674 euros)[2], whereby the personal coefficient expresses the relation of the personal earned income to the average income in the country.

- Level of maximum pension: On the basis of the new legislation, the maximum pension is 1.023 euros (2011). This amount is calculated as follows: limited personal coefficient (maximum 4) x 40 years of contribution x value of one personal point (6.39674 euros).

- Replacement rates: During the second half of 2010 the net replacement rate of the old-age pensions, measured by comparing the average old-age pension to the average net income (in fact the net benefit ratio) was 66.41%. The net replacement rate of the average pension was 56% in 2010.

- Calculation base: in 2004 (start of the transitional period) the personal coefficient (that is to say, the figure expressing the relation of the personal income to the average nationwide income) was calculated on the basis of the best 12 consecutive years ; since then, the number of years which are taken into account for calculating the personal coefficient went up with 2 per year; by 2019 the personal coefficient (and thus the old-age pension) will be based on the earned income throughout the whole career.

  - Non-contributory periods:

    Female beneficiaries will be credited six months insurance (contributory period) per child in case of motherhood.

- Adjustment of pensions:

As of the 1st January 2011 the value of one personal point for the calculation of the pension is 6.47350 euros. This amount remains valid throughout 2011. On the 1st January 2012 this value will be adjusted on the basis of the changes in the cost of living (counts for 75%) and the evolution of the average wage in Montenegro (this element counts for 25%). Until 2010, pensions were adjusted twice a year on the basis of a slightly

[2] The value of one personal point is fixed on the 1st January each year on the basis of the evolution of the cost of living and the increase of salaries during the previous year.

different formula: 50% of growth of average wage and 50% of growth of the cost of living. Since 2011 pensions are adjusted once a year.

- Restrictions on wage income parallel to pension income:

  An employed pensioner does not have the status of an insured person in the mandatory pension and disability insurance; however, the employer pays the contribution for this insurance, for the pensioner at work, on the basis of their wage. After a year of working under these conditions, this contribution results in a revalorisation of the pension.

- Social contributions paid on pensions:

  in 2009 the average cost of health care for a pensioner was 441 euros per year. From the average gross pension in 2009 (equal to 100%), 9.78% went to the contribution for health care and 90.22% to the pension benefit.

2nd pillar: the mandatory pension insurance based on personal capitalised savings

This part of the reform law of 2003 is still not operational for the reasons explained under point one of chapter 2.

- The basic principles of this 2nd pillar pension insurance as described in the law are the following:

  - in this insurance every insured person will have their own personal savings account with a private pension fund to which the contributions will be paid. These funds will be invested and the profit will be added to the assets on the personal account of the insured;

  - this system will be based on individual savings to be capitalised and it will be operating as a defined contributions system;

  - contrary to the 1st pillar system, based on intergenerational solidarity, the 2nd pillar system will function on market principles. Where the 1st pillar has a public legal character, the 2nd pillar will be of a private legal nature with private legal persons as operators;

- this system will also be transparent, meaning that the insured person will be able to see at any moment the amount on their personal account (something which is not the case with the 1st pillar pension fund);
- finally, if a member of the mandatory fund should die, the total of the capitalised savings in their account will be inherited by their legitimate successors.

The same principle applies for the 3rd pillar voluntary pension funds.

- **3rd pillar: the voluntary pension insurance based on personal capitalised savings**

The law on voluntary pension funds was adopted by Parliament on 12 December 2006. The first company for the management of voluntary pension funds, “Atlas Penzija AD Podgorica”, was funded by the Atlas group, the Confederation of Trade Unions of Montenegro and the Confederation of Employers of Montenegro and licensed on 18 March 2008. This company manages one of the voluntary funds, “Penzija Plus”. Three companies got licenses for pension fund management and two funds operate in Montenegro. All natural persons may join these funds irrespective of age or work. Investment policies of the funds are rather conservative. Money can be withdrawn from the account once the member reaches 50 years of age. This can be done in two ways: 30% of the assets can be paid in cash with the remaining portion being paid in monthly or periodic annuities during a maximum of three years, or the assets can be transferred to the “company registered for securing the payment of pensions”.

3. Reform proposals submitted or adopted by the government

The adoption (in 2010) of the law on amendments to the law on pensions and disability insurance was preceded by an analysis of existing solutions and trends both in the pension system in Montenegro and in neighbouring and EU countries. The main novelties of the law of 2010 are the following:

- equalisation of old-age retirement conditions for men and women;
- increase of the age for the old-age pension to 67 years by 2025 (for men) and by 2041 (for women);
- adoption of the provision that a person with 40 years of pension contributions has the right to the old-age pension irrespective of their age (before, men needed 40 years of contributions and women 35 years, and both had to be 55 years of age);
- introduction of the possibility of early retirement at the age of 62 with 15 years of pension contributions. However, the pension will be reduced by 0.35% per month of earlier retirement;
- the possibility to reduce the pension age below 55 years for jobs for which the pension contributions are calculated with increased benefits;
- change of the indexation system of pensions: in future, pensions will be adjusted once at the beginning of each calendar year on the basis of 75% of the growth or fall of the cost of living and 25% of the growth or fall of wages in the previous year;
- people who work and contribute longer than 40 years will benefit from a higher revalorisation of their pension;
- female insured persons are recognised a special pension contribution of six months for every new-born child: under the law of 2003, women didn't enjoy any benefit on the grounds of maternity.

Due to the fact that the transitional period of the law of 2003 will end in 2013, the gradual increase of the pension age will only start in 2014.

4. Trade union reactions/positions on these reform proposals/decisions

The law on amendments to the law on pension and disability insurance was drafted by the Minister of Finance and submitted for adoption to Parliament without any transparency in the process and without social dialogue ex-ante. The draft text was very rigid. The Confederation of Trade Unions, confronted with this situation, organised a series of public debates and round tables in an attempt to prevent the adoption of this law in its original form. The Confederation also threatened to organise public protests if no fundamental changes were made to the draft. After these reactions, a new innovative proposal was tabled and adopted by Parliament in December 2010.

In this new law, several key issues defended by the trade unions were upheld: e.g. 15 years of pension contributions as a requirement for old-age retirement (initially it was proposed to raise this condition to 25 years); the adoption of a modified Swiss formula for the indexation of pensions (it was proposed to index exclusively on the basis of the evolution of the cost of living) and the introduction of a special pension contribution period for women who gave birth to children.

The trade unions continue to press for economic recovery measures and for a better collection of social contributions (by the implementation of incentives and the reduction of unregistered work, by levying contributions on the real salaries instead of on the minimum salaries and by the introduction of sanctions in case of non-payment of social contributions).

THE OLD-AGE PENSION SYSTEM IN SERBIA

1. Socio-economic background:

- Employment rate: 2005=51.0%; 2010=47.1%
- Economic growth rate: 2005=5.6%; 2010=1.7%
- Inflation rate: 2005=17.7%; 2010=10.3%
- Public debt: 2000=169.3 %; 2005=52.2%; 2010=42.9%
- Budget deficit: 2010=4.0%
- Degree of dependency of World Bank, IMF and EU: Serbia has negotiated stand-by arrangements with the IMF (in November 2009 the credit amounted to 2.9 billion euros).

2. Current old-age pension system:

Current structure of the old age pension system

The Serbian pension system has been established on two levels: 1st pillar – the public pension system, a mandatory pension and disability insurance on the basis of intergenerational solidarity (pay-as-you-go); 3rd pillar – a voluntary private pension insurance (private pension funds). In Serbia there are no occupational pension insurances (2nd pillar).

1st pillar: the public pension system

- Field of application: All employed persons in the private and public sector, the self-employed and agricultural workers.
- The public pension system insures three basic risks: old age; disability; death.

Table 1: Number of pensioners per category of the insured and type of insurance - December 2010

Pensioners	Total	Employed	Self-employed	Agricultural workers
Total	**1 626 581**	**1 345 733**	**58 368**	**222 480**
Old-age pensions	**919 711**	708 934	26 711	184 066
Disability pensions	**352 961**	322 934	16 805	13 222
Survivor's pensions	**353 909**	313 865	14 852	25 192

- Economic support ratio: 1.4 insured workers per pensioner. The low level of this support ratio is due to the low official employment rate and the high share of the grey economy: it is estimated that more than 700 000 people work in the informal economy in Serbia.
- Conditions for old age pension: Until 2010, insured persons in Serbia could get the old age pension on the basis of the following criteria:
  - at the age of 65 (men) and 60 (women) and at least 15 years of pension contributions.

- with 40 years (men) and 35 years (women) of pension insurance and at least 53 years of age.
- with 45 years of pension contributions.

The Law on Amendments to the Law on Pension and Disability Insurance of 2010 increased the minimum retirement age, for both genders, from 53 to 58 years; the number of years of pension contributions for women was increased from 35 to 38 years. These increases will be gradually implemented. The increase in age starts in 2011 for men and in 2013 for women.

Table 2: Alternative conditions for old age retirement in Serbia

	MEN			WOMEN		
	Year of retirement	**Age**	**Minimum years of contribution**	**Year of retirement**	**Age**	**Minimum years of contribution**
First condition	**2011**	65	15	2011	60	15
Second condition	**2011**	53y 4m	40	2011	53y	35y
	2012	53y 8m	40	2012	53y	35y
	2013	54y	40	2013	53y 4m	35y 4m
	2014	54y 4m	40	2014	53y 8m	35y 8m
	2015	54y 8m	40	2015	54y	36y
	2016	55y	40	2016	54y 6m	36y 4m
	2017	55y 4m	40	2017	55y	36y 8m
	2018	55y 8m	40	2018	55y 6m	37y
	2019	56y	40	2019	56y	37y 4m
	2020	56y 6m	40	2020	56y 6m	37y 8m
	2021	57y	40	2021	57y	38y
	2022	57y 6m	40	2022	57y 6m	38y
	2023	58y	40	2023	58	38y
Third condition	45 ears of pension contribution					

- **How are public pensions financed?**

Public pensions are financed on the basis of social contributions (22% of gross wages: 11% by the employer and 11% by the employee) and transfers from the state budget (close to 50% of the total expenditure of the Pensions and Disability Insurance Fund is financed by the state budget). The pension system of Serbia suffers from a low contribution discipline: social contributions for pensions are often not paid and when they are paid, they are often paid on the basis of the minimum salary (160 euros net/month) instead of on the basis of the real salary.

- **Pension benefits:**
  - The average pension in Serbia for an employed worker was 22.205 dinars (222 euros) in 2010; in July 2011 this figure was 23 435 dinars (234 euros).
  - The average old-age pension for employees was 25 224 dinars (252 euros) in 2009; in July 2011 it was 26 963 dinars (270 euros).
  - The minimum pension for workers was 115 euros in 2010.
  - The replacement rate in Serbia refers to the ratio of average pension to average wage: for the employed, the net replacement rate of the average pension was 56.1% in 2010; in July 2011 it was 59.9%. The gross replacement rate was 40.4% in 2010 and 43.3% in July 2011. If we look to the replacement rate of the average old-age pension in Serbia, we see that the gross replacement rate in 2009 was 49.3% and the net replacement rate 68.6%. In July 2011 these figures were, respectively, 49.8% and 68.9%.

Table 3: Amounts of the average wages and average pensions in Serbia in December 2008, 2009 and 2010 and in July 2011 (in dinars)

Year	Average gross wages	Average net wages (without taxes and contributions)	Average pensions					
			Employed		**Self-employed**		**Agricultural workers**	
			Dinars	**%**	**Dinars**	**%**	**Dinars**	**%**
2008	53 876	38 686	21 713	56.1	21 248	54.9	8 126	21.0
2009	51 115	36 789	21 726	59.1	21 291	57.8	8 148	22.2
2010	54 948	39 580	22 205	56.1	21 736	54.9	8 344	21.2
2011	54 164	39 127	23 435	59.89	22 944	58.64	9 235	23.6

- Calculation base:

  The amount of the pension is determined on the basis of a system of personal points. These points depend on the number of years of insurance (contributions) and the salary of the worker over the whole career.

- Adjustment of pensions:

  In accordance with the Law on Amendments to the Law on the Pensions and Disability Insurance of 2010, pensions are indexed:

  - On the 1st April of each year in line with the changes in consumer prices during the previous six months; exceptionally, if GDP increased more than 4% in the previous calendar year, pensions will be indexed on the 1st April with a percentage which represents the sum of the increase or decrease of the consumer prices in the previous six months and the difference between the real GDP growth rate in the previous calendar year and the rate of 4%;

  - On the 1st October of each year in line with the changes in the consumer prices during the previous six months;

  - Exceptionally, on the 1st April 2011 in line with the changes in consumer prices during the previous three months and on the 1st October 2011 and 1st April 2012 in line with the percentage which represents the sum of the increase or decrease of the consumer prices during the previous six months and half of the real GDP growth rate in the previous calendar year, in case the growth was positive.

  - Tax regime of pensions: pensions are not taxed in Serbia.

  - Social contributions paid on pensions: none.

☐ **2nd pillar: occupational pensions**

In Serbia there are no occupational pension insurances (2nd pillar pensions).

☐ **3rd pillar: voluntary private pension insurance**

The Serbian pension system has made provisions for a voluntary private pension insurance (3rd pillar pensions based on private pension funds). Nine private companies manage the property of ten funds. The total net property of the funds amounts to 6.5 billion dinars (0.2% of GDP). The number of beneficiaries is 163 000, out of which number 40% are women. The average amount of funds per beneficiary is about 39 000 dinars, while the average contribution per month is 3 200 dinars (contributions below 3 528 dinars per month are tax-exempt).

3. Reform proposals submitted or adopted by the government

The most important reform proposals submitted by the working group of the Council for the reform of the pension insurance in January 2010 (Draft law on the Amendements to the Law on Pension and Disability Insurance) incorporated most of the IMF requests in the field of pensions. As explained in chapter 2, under the first pillar paragraph, the Draft Law foresaw an increase of the minimum retirement age for both genders and an increase of the required number of years of contributions for women.

The Draft Law also proposed a new pension indexation formula.

4. Trade union reactions/positions on these reform proposals/decisions

The principal aims of the Federation of Independent Trade Unions of Serbia and of the Unified Branch Trade Unions “Nezavisnost”, as the representative trade union centers in Serbia, in terms of reform of the system of the pension and disability insurance, are the following:

- more efficient control and collection of contributions for the mandatory pension and disability insurance;
- establishment of appropriate control mechanisms to reduce the grey economy;
- creation of a Central Register of Companies liable to pay pension contributions;
- appropriate amendments to the Law on Pension and Disability Insurance, with the aim to protect the rights of the employees who meet the retirement requirements against the consequences of employers who failed to pay contributions for the pension and disability insurance;

- identification of the ownership of the rehabilitation and spa centres and allowing the Pension and Disability Fund to manage the assets and property;
- return of resources earned by the use and the privatization of the facilities built with resources of the Pension and Disability Fund;
- indexation of pensions twice a year in line with the changes in the cost of living and the average salary during the previous six months, in the percentage which represents the sum of 50% of increase or decrease of living costs and 50% of increase or decrease of wages ("Swiss formula");
- introduction of protective provision and/or extraordinary indexation of pension in case the average pension is less than 60% of the average income in the Republic;
- introduction of protective provision and/or extraordinary indexation of the lowest pension in case it is less than 25% of the average income in the Republic.

THE OLD-AGE PENSION SYSTEM IN THE REPUBLIC OF MACEDONIA

1. Socio-economic background:

- Employment rate: 2005=33.9%; 2010=43.5%
- Economic growth rate: 2000=13.1%; 2005=4.0%; 2010; 0.7%
- Inflation rate: 2000=5.8%; 2005=0.5%; 2010=1.6%

2. Current old-age pension system:

- **Current structure of the old age pension system**

The present pension and disability insurance consists of three pillars:

1st pillar – the public pension system, a mandatory pension and disability insurance on the basis of intergenerational solidarity (pay-as you-go);

2nd pillar – a mandatory private pension insurance (private pension funds);

3rd pillar – a voluntary private funded pension insurance.

1st pillar: the public pension system

- Field of application: All employed persons in the private and public sector, the self-employed, the farmers, elected officials, military personnel and unemployed persons receiving compensation.

- The public pension system insures three basic risks; old age; disability; death. Old age pension represents 56.54% of all pensions; disability pensions 21.70% and survival pensions 21.76% (figures for 2009).

- Economic support ratio: 1.65 contributors per pensioner.

- Who manages the system? The state pension fund is managed by a management board whose members are appointed by the Government. There is no representation of trade unions or insured people on the board. Nor is there a trade union representative in the management bodies of the 2nd pillar funds.

- Conditions for old age pension: in Macedonia there is only a standard pension.

    - Men: 64 years of age and at least 15 years of service.

    - Women: 62 years of age and at least 15 years of service.

- Conditions for early retirement: there is no such right.

- Progressive retirement: there is no such right.

- **How are public pensions financed?**

  Public pensions are exclusively financed by employers' social contributions (18% of gross wage, of which 65% goes to the 1st pillar pension and 35% to the 2nd pillar pension) and by the state budget (32% of total costs of the public pension were financed by the state budget in 2010). The share of the state subsidies is increasing.

Social contributions are collected by the tax authority on the basis of an electronic submission of data by the employers. This new method of collection resulted in an increase of declared contributors[3]. Employers transmit the social contributions to the pension fund but only the employees pay for them.

- Pension benefits:

  The average gross old age pension in Macedonia is 11 771 denars (191.40 euros).

  The minimum pension is 5 634 denars (91 euros) (July, 2010).

  The maximum pension is 554 euros. The levels of minimum and maximum pensions differ slightly by salary level and by year of retirement.

  Replacement rates: the gross replacement rate (called “pronominal rate”) has been set at 80%. One of the amendments to the pension law adopted in 2000 and 2002 foresaw a progressive reduction of this rate from 80% to 72% between 2016 and 2040: in practise, this reduction started much earlier.

  The gross benefit ratio of the old-age pension (average old-age pension compared to average wage) was 70.91% in 2009; the ratio of the average pension was 62.86%.

- **Calculation base:**

  Pensions are calculated on the basis of the average wage over the whole career.

  Non-contributory periods: periods of unemployment and career-breaks are not taken into account for the calculation of pensions.

- Adjustment of pensions:

  Pensions are indexed on the basis of the Swiss Formula:

  - 50% of the increase of the cost of living (during the previous 6 months)
  - 50% of the increase of the gross wages (during the previous 6 months).

[3] The number of insured workers who paid contributions went up from 1.3 per pensioner in 2005 to 1.65 per pensioner in 2009. There remain about 57 000 insured workers for whom the contributions are not paid.

- **Restrictions on wage income parallel to pension income:**

  since the 1st of January 2009, restricted to three average salaries.

- **Tax regime of pensions:**

  the tax is calculated but not levied.

- **Social contributions paid on pensions:**

  - 120 denars (1.95 euros) for the solidarity fund.
  - 30 denars (0.50 euros) as membership fee for the Association of Pensioners.

2nd pillar: mandatory private pension insurance

Since 2003, Macedonia has a legal three pillar pension system with a compulsory private pension insurance for all newly employed as from the 1st of January 2003; for all other workers, the second pillar insurance is optional (they can stay in the 1st pillar on the basis of the full contribution of the 18% of the gross salary).

There are two private pension funds with 267 000 members[4] (figures for 2010).

As to the financing of this private insurance, the rule is that 35% of the social contribution of 18% of the gross wage is transferred to the 2nd pillar pension fund. The 2nd pillar pension insurance substitutes in this way part of the pay-as-you-go 1st pillar insurance instead of being complementary. The first pension of the second pillar will be paid in 2018 (as minimum 15 years contributions are required). It was announced that 42% of the replacement rate of the pension ("pronominal rate") would be derived from the 2nd pillar against 30% from the 1st pillar public pension.

The law provides for a state guarantee to the insured for 80% of the announced return of the 2nd pillar pension insurance.

The 2nd pillar pension will be calculated on the basis of the average wage over the whole career.

[4] The total number of employed was 475 780 in 2009

After reaching retirement age, the worker will have the option to take up the private pension capital; either as a life annuity, or as a lump sum (capital pay out), or as programmed withdrawals, or as a combination of different ways.

- **3rd pillar: the voluntary private pension insurance**

  The reform of the pension system of Macedonia foresaw as of 2003 a three pillar system. The voluntary pension system began to function as a 3rd pillar insurance in 2009. In February 2010 the fund had 1 836 insured members.

3. Reform proposals submitted or adopted by the government

Since the first significant reform of the pension system in 1993, several amendments and new laws were introduced, amongst which the law on the funded pension insurance. The most important reform started in 2003 with the launching of the compulsory private pension insurance which would be financed by the transfer of 35% of social contributions of the workers from the 1st pillar to the 2nd pillar.

Another dramatic change from the 1st of January 2008 was the abolition of the retirement condition based on the number of years of insurance (work): before 2008 men could receive their pension after 40 years of insurance and women after 35 years.

Also important to mention is the gradual reduction of the replacement rate of the pensions from 80% to 72% by 2040.

And last but not least one should mention the integrated collection of the social contributions and the personal income tax as from 2009 onwards, this with the aim of ensuring timely collection of contributions.

4. Trade union reactions/positions on these reform proposals/decisions

The trade unions of Macedonia want first of all that all necessary measures be taken to overcome the shortage of funds in the 1st pillar due to the transfer of 35% of the social contributions to the 2nd pillar.

They also want to stop the further reduction of the replacement rate of pensions (the so-called “pronominal rate”) at the beginning of 2015.

Workers and their trade unions should also be able to participate in the management of the pension funds.

The administration costs of the 2nd pillar funds should be further reduced (these costs have already fallen from 9% to 4.5%).

The collection of contributions should be further intensified and, very important, more retirement conditions should be offered.

In Macedonia, there is for the moment only one retirement condition (age of 62 for women, age of 64 for men, and at least 15 years of work experience): that is not sufficient and does not offer the possibility of choosing other retirement conditions which exist in several countries of the European Union.

There is a need for various retirement conditions because the current one does not take into account the specific working conditions in different sectors; it offers neither a solution in case of work incapacity caused by certain health conditions and of problems caused by the transition (dismissal due to insolvency, redundant workers and social cases with no possibility to find a new job because of their age, or due to the lack of qualifications demanded by modern technologies).

For that purpose, the Federation of Trade Unions of Macedonia CCM and the Confederation of Free Trade Unions of Macedonia KSS submitted on the 1st of February 2011 to the Macedonian Government **an Initiative for the introduction of various retirement conditions in the Law on Pension and Disability Insurance**.

In addition to the current condition, the initiative proposed the introduction of the following new retirement conditions:

- Old-age retirement – period of paid contributions
    - Women: 35 years of contributions, regardless of age
    - Men: 40 years of contributions, regardless of age
- Old-age retirement – age or work experience by sector.

  Workers in different sectors (construction workers, textile workers, miners, administration employees, etc...) execute different tasks under very different conditions. Therefore it is necessary to have legally determined specific retirement conditions for them. If such specific retirement conditions would be determined, they should not be obligatory but optional.

- Early retirement

  It is proposed to introduce the right to early retirement at the age of 60 and with a minimum of 15 years of contributions. Beneficiaries of early retirement would be employed people who cannot continue to work due to different reasons (health condition, working conditions, people who cannot be declared as disabled, bankruptcy or insolvency), or who are unemployed but have already 15 years of contributions. This type of retirement would be applied exclusively on the worker's demand.

- Incomplete careers

  The proposal is to give workers the possibility to pay themselves the contributions for the pension and disability insurance in case they don't fulfil the condition of 15 years of contributions.

  The right to pay missing contributions for pension and disability insurance should be awarded to only those workers who are missing a maximum of 3 years of the required minimum of 15 years, and who fulfil the condition of age (62 and 64 years).

THE OLD-AGE PENSION SYSTEM IN BOSNIA AND HERZEGOVINA

Until 1992 there was one single pension fund for the whole territory of BiH. From 1996 onwards, each entity, the Federation of Bosnia and Herzegovina and the Republika Srpska, has their own pension fund based on their own legislation. Although there are a lot of similarities between the two systems, there are also important differences, e.g. concerning the financing of the pensions. Both systems face the same problems: an underdeveloped economy, very high unemployment rates, huge debts and violation of pension laws.

I. The old-age pension system in the Federation of Bosnia and Herzegovina

1. **Socio-economic background:**

- Employment rate: 2007=31.2%; 2010=32.5%
- Economic growth rate: 2005=3.9%; 2010= 0%
- Inflation rate: 2010=3.6%
- Consolidated debt rate: 34% of GDP
- External debt rate (in % of GDP): 2005=25.3%; 2009=21.7% (strong dependency upon loan from the IMF and London Club)
- Interest rates paid on loan for 10 years taken up on the capital market: 2005=7.93%; 2010=8.26%
- Budget deficit: 2008=2.2%; 2009=4.5% of GDP
- Particularity : the Federation of BiH has an extremely high unemployment rate of 43.2% (2010).

2. **Current old-age pension system:**

- **Current structure of the old-age pension system**

  The pension and disability insurance in the Federation BiH is regulated by a law which entered into force in 1998. For the moment there is only the compulsory 1st pillar pension, on a PAYG basis, covering the risks of old-age, disability and death.

  The 3rd pillar exists on an individual basis, but only very few people have savings in private pension funds.

  Currently, there is not yet a 2nd pillar pension.

- **1st pillar: the public old-age pension**

  - Field of application: All workers in the country are entitled to a public pension if the necessary conditions are met. The law of 1998 stipulates that persons who are not compulsorily insured can insure themselves voluntarily. The coverage of the public pension system is practically limited to the formal economy sector, which means to the registered employed person for whom the contributions are paid.

- Types of pension: In 2009 the pension fund paid out 44.5% old age pensions, 22% disability pensions and 33.5% survivors' pensions.

- Economic support ratio: 1.2 contributors per pensioner. In 2009 there were 426 624 insured persons and 348 268 pensioners.

- Who manages the system? The pension fund is exclusively managed by the government.

- Conditions for old age pension: The standard pension can be claimed at the age of 65 (equally for men and women) with a minimum of 20 years of insurance (meaning years for which contributions have been paid to the PIO, that is, the tax authority). The insured person is also entitled to the old-age pension on the basis of 40 years of insurance, irrespective of age.

- Conditions for early retirement: During the transitional period running until 2016, male workers can go on early retirement when they reach the age of 60 with 35 contribution years; female workers need only 30 contribution years.

- How are public pensions financed? In the Federation, the financing of the public pension system relies exclusively on social contributions: 24% of declared gross wages of which 17% is taken from the gross wage (worker's share) and 6% are paid by the employer on the wages.

  Only the beneficiary pensions are partly financed from the federal budget. For a great number of employees the social contributions are not paid or are paid on a lower basis than the real wages. Aside from the employers, the greatest responsibility for this situation lies with the tax authorities who are responsible for the collection of contributions.

- Pension benefits:

  - Average pension: in 2009 the average pension (gross and net since pensions are not taxed) was 178.70 euros.

  - Minimum pension: 152.10 euros, received by 50.8% of all pensioners.
  - Maximum pension: 1 014.20 euros, received by 0.04% of pensioners.
  - Replacement rates: in 2009 the net replacement rate (in fact net benefit ratio) was 43.9% (average pension compared to average net wage).

- Calculation base: before the changes adopted in 1998, pensions were based on the revaluated average wage during the ten consecutive best years for the worker. From 1998 onwards the number of years taken as calculation base increases and from 2016 onwards the pension base will be the average wage earned during 40 years of insurance. In addition the percentage of the pension base used for the calculation of the pension has been gradually decreased from 85% in 2000 to 75% after 2005.

- Non-contributory periods: non-contributory periods are not taken into account for the determination of the insurance period (with the exception of war periods for war victims).

- Adjustment of pensions: currently pensions are adjusted according to the income collected by the pension fund. Theoretically pensions should be indexed on the basis of net wage increases: this happened for the last time in 2006.

  - Restrictions on wage income parallel to pension income: people are allowed to work after meeting the full retirement conditions if they have a contract with an employer. This is often the case in BiH with university professors and politicians.
  - Tax regime of pensions: pensions are not taxed.
  - Social contributions paid on pensions: there are no social contributions levied on pensions.

3. Reform proposals submitted or adopted by the government

Research in the framework of the SITAP project (2003-2007) resulted in a document entitled “Strategy of the Pension System in the FBiH” which, after the first stage of public debate, was adopted as a draft in the Parliament.

- The proposed strategy foresees the introduction of three insurance pillars:
    - The first pillar, the compulsory pension insurance, would be financed by current public revenues and consist of two parts: a social pension (part of the pension up to the current amount of the lowest pension) and an earnings-related pension (based on the insurance period).
    - The second pillar, based on voluntary capitalised savings, would cover two categories of insured persons:
        - Persons for whom the employer, on the basis of an agreement, pays a premium on an individual pension account for an additional insurance. The participation in this scheme becomes compulsory upon signing of a collective agreement between the employers and the employees and a contract with the insurance holder.
        - Persons retired under more favourable retirement conditions.
    - The third pillar would be a voluntary long-term savings system on an individual basis.

After the adoption of the draft in Parliament, the reform process came to a halt. The draft is currently under review.

II. The old-age pension system in the Republika Srpska

1. Socio-economic background:

- Employment rate: 2006=30.9%; 2010=36.6%
- Economic growth rate: 2005 = 7.1%; 2010 = 0.8%
- Inflation rate: 2009=deflation of 0.4%; 2010=2.5%
- Consolidated debt ratio (in % of GDP): 2005=57.7%; 2010=46.9%
- Particularity: The Republika Srpska has an extremely high unemployment rate of 38% (2010)

2. Current old-age pension system:

Current structure of the old-age pension system

The pension system of the Republika Srpska is exclusively based on the 1st pillar, a compulsory PAYG system of intergenerational solidarity (law on pension and disability insurance of 2000, amended several times since then). This law covers the risks of old age, disability and death.

1st pillar: the public old-age pension

- Field of application: Obligatory insured persons are all employees, all self-employed persons and all persons in clerical service. People who are active in the agricultural sector are not covered by the mandatory insurance: they can affiliate to the voluntary insurance.

- Types of pension: 48.3% are old-age pensioners, 18.06% are disability pension beneficiaries and 33.46% of pensioners enjoy a survival pension.

- Economic support ratio: there are 1.2 insured persons for one pensioner.

- Who manages the system? The government appoints the members of the three governing bodies of the pension fund. These bodies are: the Management Board (with nine members, including president, of which four are representatives of the beneficiaries and five represent insured persons), the Supervisory Board (with three members, including president, of which two are insured persons and one is a beneficiary) and the Funds' Director.

- Conditions for old age pension:
  - 65 years of age with at least 20 years of contributions; or
  - with 40 years of pension contributions, irrespective of age

- Conditions for early retirement:
  - exceptionally, insured women can get their pension "on request" when they reach the age of 60 with at least 20 years of contributions or with 35 years of contributions, irrespective of age.
  - early retirement is also possible for persons with disabilities.

- How are public pensions financed?

  Pensions in the Republika Srpska are financed by social contributions from the workers (18% of gross wages), by subsidies from the state budget and other sources. The social contributions are deducted from the gross salary and transferred to the tax authority by the employer. Contributions cover 68% of total expenditure, the state budget covers 22%; 10% is derived from different sources.

  In January 2010 the so-called “Unified System” for the registration, the collection and the control of contributions was introduced. This system, operated by the tax administration, allows better and more efficient control of the payment of contributions, simpler procedures for registration of employers and a reduction of administrative costs.

- Pension benefits:

  Average pension: 160 euros (2010)

  Level of minimum pension: 80 euros (earned by10% of pensioners).

- Net replacement rate: average net pension compared to average net wage in 2010 was 40.92% (net benefit ratio).
- Calculation base: pensions are calculated on the basis of the average net wage over the whole of the career (only years from 1970 onwards are taken into account).
- Non-contributory periods: periods during which the social contributions are not paid are not taken into account for the determination of the contribution or insurance period.
- Adjustment of pensions: pensions are theoretically indexed annually in line with the changes in net wages. However, the latest adjustment to the wages was in 2006.

- Restrictions on wage income parallel to pension income: working after retirement is allowed, but during the employment period the beneficiary will not receive their pension.

3-4. Reform proposals submitted or adopted by the government and Trade Union reactions

On the 18th May 2010 the Parliament adopted the Strategy for the pension system reforms. The main strategic goal of this Strategy was to secure the long-term sustainability and the financial stability of the pension system. Other objectives of the Strategy were: the enhancement of the efficiency in the collection of contributions; to contribute to economic growth and national savings; to increase the individual responsibility and the risk of the insured person; to reduce poverty in old-age and to restore trust in the pension system.

The Federation of Trade Unions of the Republika Srpska raised objections against the increase of the retirement age and of the contribution period. These objections were included in the Strategy.

After the adoption of the Strategy, the government appointed a working group to draft a new law on pension and disability insurance. This working group produced a zero version of the new law. The basic requirement for retirement, according to this working version, was 65 years of age and 15 years contribution, while the law gave the possibility to the worker to continue to work for 45 years. The objective was to reduce the future number of pensioners.

As a result of the Trade Union reaction, which took the position that the general requirement for retirement has to be 40 years of work experience, irrespective of age, the working group drafted a new working version of the law on pension and disability insurance. The general requirement in this new draft was 65 years of age and at least 15 years of contribution period. In addition, the prescribed general requirement for the old-age pension is: 65 years of age and 40 years of work experience. The insured person, in order to earn the entitlement to the old-age pension, has to observe both conditions – the age and the period of contribution.

The Federation of Trade Unions of the Republika Srpska still demands;

- that the basic requirement for retirement should be 40 years of work experience, irrespective of age;

- that the worker shall be entitled to retirement at the age of 65 with 15 years of contributions; that the female insured person can get the entitlement to retirement with 35 years of contribution, irrespective of her age and free of any penalization;

- that the pensions are paid in accordance with the decision, not that the payment of pension depend on resources in the Fund;

- and that the State should guarantee the payment of earned pensions (based on the current legal rules, the worker bears the consequences of the employer who failed to pay the contributions and the Tax Administration did not control or sanction them).

The objective is to reform the 1st pillar so that the pension system may finance itself. It is the position of the Trade Unions that the conditions for the introduction of the 2nd pillar have not yet been met.

CHAPTER TWO

Comparison between the countries of the Western Balkans and the European Union and Norway

Following the presentations of the old-age pension system in the countries of the Western Balkans, we want to compare these systems with the situation in the European Union and Norway.

The reason for this comparison is that most of the Western Balkan countries are engaged in pre-accession reforms in order to come closer to the prevailing policies in the EU countries. A good example of such a project is the Serbian ten-year plan Serbia 2020, intended to be closely connected with Europe 2020.

Although this comparison is difficult, among other things due to the differences in definitions used and the availability and reliability of relevant statistics, we think that the comparative exercise can be useful for both sides to understand better the reasons behind the reforms and to get an impression of the living conditions of pensioners in their respective countries.

As for the EU27, we will make use of global figures as well as of data for individual countries. We will look at some relevant countries, taking into account the differences in pension systems and geographical distribution.

1. Socio-economic background

If we compare the socio-economic indicators of the Balkan countries with those of the EU countries, we can see that the major difference can be found in the employment rates. All transition countries in the Western Balkans suffer from a structural employment problem. Low levels of employment, high levels of unemployment combined with high levels of inactivity are all connected with the structural changes in the economy: transition from mainly public to private sector employment and the emphasis on productivity and efficiency in the market economy. Croatia, with an employment rate of 54% and an unemployment rate close to the EU average, is in a relatively better position than the other Balkan countries. Bosnia and Herzegovina is worst off with employment rates close to 50% of the EU average, which is 64.6%.

It is generally acknowledged that low employment levels are problematic for pension systems' sustainability, especially in countries with Bismarckian systems.

Behind these low levels of employment are hidden high levels of "undeclared work" and "informal economy". In the national report on Serbia we learn e.g. that 700,000 people (around 30% of the workforce) work in the informal economy. This phenomenon seems to be linked to a lack of trust in the institutions of the country.[5]

2. Current old-age pension systems

- **Current structure**

The structure of the pension systems in the Western Balkan countries shows some similarities to what we can observe in most of the EU countries, but there are also important differences.

The most important similarity is that all countries of the Western Balkans – like the EU countries – give priority to the 1st pillar pensions financed on a pay-as-you-go basis. These insurances, which cover all workers of the formal economy, are mainly financed by social contributions.

In some countries, however, legally compulsory 2nd pillar private pensions (with individual capitalized savings) substitute part of the public 1st pillar pensions: this is the case in Croatia and in Macedonia (for the youngest workers). In Serbia and in the two entities of Bosnia and Herzegovina there are no 2nd pillar pensions; in Montenegro the law on the 2nd pillar pensions is foreseen but not yet adopted.

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[5] A report from Eurofound (2008) entitled Measures to tackle undeclared work in the European Union, shows that in the countries of East and Central Europe 68% of all employees receive envelope wages, compared to only 6% in Nordic countries.
This report also indicates that in the EU27 the rate of undeclared work is highest in Romania, Lithuania and Bulgaria. In Bulgaria more than 40% of GDP is produced in the shadow economy (Eurofound News, issue 7, 2010). The Eurofound report Quality of life in Croatia, the former Yugoslav Republic of Macedonia and Turkey (Dublin 2011) states that in Macedonia and Croatia the average trust in institutions (e.g. governments) is very low: 3.5 on a scale of 10 in Croatia and 3.7 on a scale of 10 in Macedonia. This figure is 4.8 on average for the EU27, which not very high either.

Table 1: Socio-economic indicators: EU27, Norway and the Balkan countries

Country	Employment Rate (15-64) (2009) %	Economic Growth Rate (% GDP) (2010)	Inflation Rate (2010) %	Public Debt Rate (2010) %	Budget Deficit Rate (2010) %	Unemployment Rate (Sept.2011) %
Germany	70.9	3.7	1.2	83.2	3.3	6.0
Italy	57.5	1.8	1.6	119.0	4.6	7.9
Netherlands	77.0	1.7	0.9	62.7	5.4	4.5
Czech Rep.	65.4	2.7	1.2	38.5	4.7	6.7
Sweden	72.2	5.6	1.9	39.8	0	7.2
Poland	59.3	3.9	2.7	55.0	7.9	9.4
EU 27	64.6	1.9	2.1	80.0	6.4	9.5
Norway	76.4	2.1	2.4	48.9	0.3 (2011)	3.6 (2010)
Macedonia	43.5 (2010)	0.7	1.6	/	/	32.1 (2010)
Serbia	47.1 (2010)	1.7	10.3	42.9	4.0	20.0 (2010)
BiH – Feder.	32.5 (2010)	0	3.6	34.0	4.5	43.2 (2010)
BiH – Rep. S	36.6 (2010)	0.8	2.5	46.9	/	38.0 (2010)
Montenegro	48.1 (2010)	1.0	0.7	42.0	4.51	19.1 (2009)
Croatia	54.1 (2010)	1.2	1.1	42.6	4.5	9.1 (2009)

Sources: EC (2010), Employment in Europe 2010; Eurostat (2011), Unemployment statistics; IMF (2011), World Economic Outlook; National reports for Balkan countries.

In most EU 27 countries 2nd pillar pensions are also private but based on collective agreements between social partners; in general they complement the 1st pillar pensions. Some countries, e.g. Sweden, have introduced a funded tier in their public pension system.

3rd pillar voluntary private pensions are not very important in the Western Balkans. They operate in Serbia, Montenegro and Croatia. In Croatia the 3rd pillar pensions are similar to the 2nd pillar occupational pensions, based on collective agreements which exist in many EU countries.

2.2 1st Pillar pensions

- **Coverage**

A specificity of the pension systems in the Western Balkan countries is that, unlike in EU countries with a Bismarckian tradition, all employed persons from the private and public sectors, the self-employed and mostly also agricultural workers are covered by the same pension system.

Another characteristic of the pension systems in the Balkans is the high proportion of disability pensions (in general over 20% of all pensions).

- **Economic support ratio**

If we compare the economic support ratios, i.e. the number of contributors in relation to the number of pensioners, we see important differences between the Balkan countries and the EU on average.

The EU average economic support ratio was 1.56 contributors for each pensioner in 2010: this is exactly the same number as in Macedonia. Serbia, Croatia and Bosnia-Herzegovina (both entities) are in a much weaker position, while Montenegro scores slightly better. The figures for the Balkan countries (Table 2) indicate an unfavourable overall balance between contributors and pensioners: there are simply not enough contributors.

Table 2: Economic support ratios in the Balkan countries (2010)

Macedonia	1.65
Serbia	1.40
BiH - Federation of BiH	1.20
BiH – Republika Srpska	1.20
Montenegro	1.70
Croatia	1.21

Source: National reports

A recent opinion of the European Economic and Social Committee (SOC/400 of 13 July 2011) states: “The key factor in financing the social security system is not the demographic dependency ratio, but rather the economic dependency ratio.” In order to measure the sustainability of pensions one should indeed focus on the economic support (or dependency) ratios and not on the demographic support (or dependency) ratios. The main reason for that is that not all people in the age bracket 15-64 are at work and contribute: think e.g. of students, the unemployed, invalids, the inactive ….

Another reason is that, contrary to what is the case with demographic ratios, the economic ratios can be influenced by economic development (more people at work) and by appropriate policy measures aimed at increasing the financial and contribution discipline of employers and of workers (undeclared work, informal economy).

Table 3: Economic and demographic support ratios in EU27

	2010	**2050****	**Change (%)**
Economic support ratio	1.56	1.28	-17.95%
Demographic support ratio*	3.85	2.00	-48.05%

Source: AK-Wien (2011), Dependency ratio calculator

* The demographic support ratio indicates the number of people in age bracket 15-64 relative to the number of people 65+

** In the EU2020 scenario the assumption is that the employment rate in EU27 goes up from 64.1% in 2010 to 76.1% in 2050.

Comparing the decrease in economic support ratios between 2010 and 2050 with the decrease in demographic support ratios in EU27 (Table 3) one can see that the decrease of the economic ratio is much less dramatic than the decrease of the demographic one. This comparison highlights the huge impact of employment levels on the evolution of the support ratios.

Besides the increase in employment, also productivity growth and increase in earnings can contribute to secure the sustainability of pensions.

Given the low employment rates in the Balkan countries and the high levels of employment and undeclared work, these countries have a huge potential to increase the economic support ratios in their respective economies. Or, as the Demographic Report 2008 of the European Commission puts it (p.144), “Raising employment levels … is arguably the most effective strategy with which countries can prepare for population ageing.”

- **Management of the system**

  The management of the pension systems in the various Balkan countries is different: in some, the social partners are represented in the governing boards (e.g. in Croatia and Montenegro), in others the management is fully in the hands of the government (e.g. in Macedonia and BiH). This same situation can be observed in the EU. In the Bismarckian system the social partners have a strong say and are co-responsible for the decisions.

- **Conditions for retirement**

  As to the conditions for old-age and early retirement, we see that in the Balkan countries the conditions are being changed and gradually tightened as is also the case in most EU countries.

  Contrary to what is the case in a majority of EU countries where the legal retirement age is already equal or gradually equalized for male and female (mostly 65 years of age, and in some countries (gradually) up to 67 or even 68), gender differences subsist in a number of Balkan countries (often still 65 years of age for male and 60 years for women). In Macedonia it is 64 years for male and 62 years for female; in the Federation BiH it is 65 years for male and female. The same applies, but to a lesser degree, for the required number of years of insurance for early retirement (still 40 or 35 years of insurance contributions for male and 35 or 30 years for female in Serbia, Croatia and BiH).

  Also an important aspect of the pension system in Balkan countries is that often (early) retirement is possible either on the basis of age (65 for men and 60 for women) or on the basis of number of years of insurance contributions irrespective of age (40 or 45), or on the basis of a combination of the two criteria. In Macedonia there is no choice in retirement formula and the trade unions are asking for different options. Also in several EU countries workers have the option to retire (early) in a flexible way on the basis of a (minimum) age and/or a minimum number of years of insurance (contribution years, assimilated periods or residence in the country).

  Vesting periods in the Balkan countries are in general 15 years of insurance (in BiH 20 years). In the EU the picture is very different country by country: there are countries with 15 years (e.g. Hungary and Austria) but also countries with lower (e.g. Germany – 5 years) or no minimum (e.g. Belgium).

Special retirement conditions are often foreseen for persons with arduous working conditions (e.g. miners in Montenegro). Also, EU countries have similar provisions. A contested issue (e.g. in Croatia) is the question of so-called “privileged pensions”.

Table 4: Conditions for old-age and early retirement in EU countries and in Norway

Germany	Old-age pension	• For workers born after 1963: at age 67 (male and female) • For workers born in 1947 and after: gradually from age 65 to age 67 between 2012 and 2029 • For workers with 45 years of insurance: at age 65
	Early pension	From age 63 with minimum 35 years of insurance
Italy	Old-age pension	Male at age 65; female at age 60 Civil servants: 65 male and female from 2018 onwards
	Early pension	Flexible early retirement from age 59 onwards with minimum 36 years of contributions, or with 40 years of contributions record, independent of age.
Netherlands	Old-age pension	Flat rate public AOW pension at age 65 for men and women; for full AOW pension: 50 years of residence (insurance) required between ages 15 and 65 Increase to 67 for men and women is in the pipeline
	Early pension	No early pension
Czech Republic	Old-age pension	Men 62 and 2 months Women 56 and 8 months up to age 60 and 8 months, depending on the number of children For workers born after 1968 the retirement age will be gradually increased to 65 for men and women with 1 child and to 64 for women with 2 or more children
	Early pension	Available up to 3 years prior to standard retirement age with minimum 26 years of insurance
Sweden	Old-age pension	Sweden has a compulsory universal public scheme consisting of three parts: A tax-financed guaranteed pension for all residents with a low or no earnings related old-age pension (available from

		age 65) An earnings-related old-age pension and an earnings-related supplementary pension financed by social contributions on a pay-as-you-go basis A fully-funded reserve pension with individual accounts For a full guaranteed pension 40 years of residence is needed There is no concept of “full pension” for the other two pension types Retirement age is flexible: between 61 and 67
	Early pension	There is no early pension
Poland	Old-age pension	Men 65, women 60 For women the retirement age is gradually rising to 65 by 2020 There is no concept of full pension
	Early pension	For people born after 1st January 1949 there are no provisions for early retirement
Norway	Old-age pension	Norway, like Sweden, has a compulsory universal public scheme consisting of three parts: A basic pension based on duration of residence; An earnings-related supplementary pension based on pension points (reflecting income); A special supplement for those with no or low supplementary pension; The system is financed by taxes and social contributions and is pay-as-you-go. Recently (2006), a mandatory occupational pension system, financed by the employer, was introduced in the private sector as a top-up of the pensions of the National Insurance Scheme: A full basic pension requires 40 years of residence; A full supplementary pension requires pension points for 40 calendar years earned between ages 17 and 69. In 2011 the universal public pension scheme introduced a flexible retirement age between 62 and 75 on an actuarial neutral basis in terms of expected pension capital.
	Early pension	There is no early pension.

Source: Missoc Database 2010; OECD (2011) Pensions at a glance 2011

- **Average exit age from the labour market**

  The legal retirement age does not give a picture of the real situation: in fact the effective exit age from the labour market is in almost all countries lower than the legal retirement age. In Table 5 we present some examples from EU countries of "what is and what should be". We do not have data available for the Balkan countries.

Table 5: Standard pension eligibility age and average labour market exit age in some EU27 countries

Country	Average exit age in 2008	Statutory retirement age M/F (2009)
Germany	61.7	65/65
Italy	60.8	65/60
Netherlands	63.2	65/65
Czech Rep.	60.6	62/60y 8m
Sweden	63.8	61-67/61-67
Poland	59.3*	65/60
EU average	61.4	

* 2010 Source: Eurostat, Missoc, EC (2010) Green Paper

- **Financing of public pensions**

  In the Balkan countries the financing of public pensions differs from country to country: in Croatia and in the Republika Srpska the financing is mainly based on social contributions of the workers only, besides the state subsidies. In Macedonia the employer pays the whole social contribution and in Serbia, Montenegro and the Federation of BiH workers and employers each pay a part of the social contribution, the workers paying the biggest part in the Federation BiH and in Montenegro, whereas in Serbia it is 50-50. It is important to note that in most countries the state budget subsidy to the pension system is increasing rapidly (in Serbia the subsidy covers nearly 50% of the total expenditure).

  As for the EU countries and Norway, there is more or less a general pattern: public pensions are in general financed by social contributions of employers and employees and also by subsidies from the state. In most countries the employers pay the biggest part of the social contribution; in Germany and Poland this is 50-50. Certain pensions are 100% tax financed, e.g. the social pension in Denmark and Italy and the guaranteed pension in Sweden. In certain countries the old-age pensions are exclusively financed by social contributions: this is the case in e.g. the Czech Republic.

In the Netherlands the public AOW pensions are exclusively financed by employees' contributions with a small state subsidy on top of it.

If we look to the trend in the financing of public pensions in the EU, we see in the long run (2004 – 2010 – 2030) a rather general decrease of the share of social contributions (and consequently an increase in the share of the state subsidies). The European Commission foresees that additional financing needs will grow markedly in most countries.

Table 6: Share of social contributions relative to gross public pensions (%)

	2004	**2010**	**2030**
Germany	68	68	68
Italy	72	74	68
Netherlands	88	84	61
Czech Republic	105	108	93
Sweden	72	74	67
Poland	55	71	87
EU25 average	80	81	74

Source: European Commission (2006), Adequate and Sustainable Pensions. Synthesis report 2006.

Table 7: Public pension contribution rates (as % of gross wages) – figures for 2009

Germany	19.9
Italy	32.7
Netherlands	17.9
Czech Rep.	28.0
Sweden	18.9
Poland	19.5
Belgium	16.4 (estimated part of global social contribution)
Norway	Global social contribution

Source: OECD (2011) Pensions at a glance 2011

- **Pension benefits**

Looking at the pension benefits in the Balkan countries, we can say that they are low and certainly too low to guarantee a decent standard of living in old age. Especially for those people who have to live on a minimum pension, the income situation is dramatic in all Balkan countries.

Macedonia (2010):	Average old-age pension:	€191.40
	Minimum pension:	€91.00
	Maximum pension:	€554.00
Serbia :	Average old-age pension for employees (July 2011):	€270.00
	Minimum pension for employees (2010):	€115.00
Bosnia & Herzegovina:		
Federation BiH:	Average pension (2009)	€178.70
	Minimum pension:	€152.10
	Maximum pension	€1 014.20
Rep. Srpska	Average pension (2010)	€160.00
	Minimum pension	€80.00
Montenegro	Average old-age pension (2011)	€324.00
	Minimum pension	€97.86
	Maximum pension	€1 023.00
Croatia	Average old-age pension	€402.80
	Minimum pension (40 years of service)	€307.20
	Maximum pension	€1 195.00
		(monthly amounts)

Pensions are adjusted according to the Swiss formula (partly on wage developments and partly on consumer prices) in Macedonia, Montenegro and Croatia (suspended currently). In BiH pensions should follow wage developments (last adjustment in 2006) and in Serbia pensions follow the consumer price index and partly GDP growth.

Comparison with EU countries and Norway is not easy because of the differences in provisions within the pension system and the social assistance schemes. Nevertheless we can give some indications for EU countries and Norway.

Germany	No statutory minimum pension but a social assistance provision for pensioners on a low income. In the western Länder € 8 172 / year (2006) No statutory maximum pension. Adjustment to wage developments.
Italy	No minimum pension for new pensioners (since 1986). There is a means-tested social assistance benefit of € 5 130/year (65-70y) or € 7 167 (over 70y) (figures for 2006) No maximum pension Adjustment to consumer prices: full price indexation for lower pensions; partial indexation for higher pensions.
Netherlands	AOW – flat rate pension in cases of 50y residence in NL (2009): € 1 011.64/month for a single person € 1 388/month for a couple Adjustment to wage developments
Czech Rep.	Minimum pension (2009): € 112 /month No maximum pension Adjustment to consumer prices 100% and one-third of real wage growth.
Poland	Minimum pension € 165.00 / month (2009) Maximum pension: 100% of reference wage (average wage of best 20 years) Adjustment to consumer prices
Norway	Guarantee pension for single person with 40 years of residence: € 17 447 / year (2009) Maximum pension (earnings related supplement included): € 41 230 / year (2009) Adjustment to increase of wages -0.75% points and a life expectancy

	adjustment
Belgium	Minimum pension for full career (45 years insurance) (2011): € 1 332.50 /month (couple) € 1 066.33 /month (single) Maximum pension for full career (45 years) (2009) (private sector): € 28 132.81 / year (for a household) € 22 506.25 / year (single) Minima and maxima must be increased with a pension bonus of € 2.2 /working day. Adjustment to consumer prices; oldest pensions also to evolution of standard of living
Sweden	No statutory minimum pension. Guaranteed pension for those with a small or no pension: full amount is € 8 860 per year for a single person, and € 7 903 per year for a married person (figures for 2009). No statutory maximum pension. Adjustment of the guaranteed pension on the basis of the price index. The earnings-related old-age pension follows the income index with a deduction of 1.6% points.

As for the tax regime of pensions in the Balkan countries, the general rule is that pensions are not taxed (with the exception of the higher pensions in Croatia). The same principle applies concerning social contributions levied on pensions: only in Croatia a 3% health contribution is charged on the highest pensions. In Macedonia pensioners pay a symbolic solidarity contribution of about 2 euros.

In the EU countries it is very common to tax pensions, be it at a favourable rate in some countries. Pensioners also pay social contributions on their pension in most countries: in Germany pensioners pay 7% for sickness insurance and 1.95% for long-term care; in France pensioners pay 7.1%, in Norway 3%, in Belgium 3.55% plus up to 2% solidarity contribution. There are no social contributions levied on pensions in Sweden, Italy and the Czech Republic.

Even more important than the nominal amount of pensions are the replacement rates of pensions. The theoretical replacement rates compare the first pension with the last received salary of a hypothetical person with a full working life (40 years of contributions) who retires at 65. In the Balkan countries the data provided compares the average pension with the average wage: this is the benefit ratio rather than the replacement rate. The benefit ratio compares the average pension with the economy-wide average wage.

The data provided in the national reports permits us to conclude that the gross benefit ratio for an average old-age pension is highest in Macedonia and lowest in Croatia. The net benefit ratio is highest in Serbia and lowest in Croatia (we have no data on the net ratio for Macedonia). For BiH we have only figures for the average pension, not for the average old-age pension.

If we compare the data with the replacement rates in the EU and Norway we can conclude that the benefit ratios, particularly in Bosnia and Herzegovina, are low in comparison to replacement rates in the selected EU countries and Norway. At the other end, Macedonia seems to score high.

Table 8: Gross and net benefit ratios for old-age pensions in the Balkan countries

	Gross benefit ratio (%)	Net benefit ratio (%)
Macedonia	70.91 (2009)	
Serbia	49.8 (2011)	68.9 (2011)
BiH (for average pensions):		
Federation BiH		43.9 (2009)
Rep. Srpska		40.92 (2010)
Montenegro		66.41 (2010)
Croatia	38.8	55.5

Source: National reports

Table 9: Gross and net pension replacement rates (for an average male wage earner) in EU countries and Norway (all mandatory pensions)

	Gross replacement rate (%)	Net replacement rate (%)
Germany	42	57.9
Italy	64.5	75.3
Netherlands	88.1	99.8
Czech Rep.	50.2	64.4
Sweden	53.8	53.6

Poland	59	68.2
Belgium	42	64.1
Norway	53.1	62.2
OECD	57.3	68.8

Source: OECD (2011), Pensions at a glance 2011

For the future it is important to take into account the changes in benefit ratios and in replacement rates. For the EU countries the European Commission has calculated the changes we can expect over the period 2005-2050. In most countries the gross replacement rate of statutory pensions will go down in the long run.

Table 10: Evolution of theoretical replacement rates from 2005 to 2050 (change in percentage points)

	Change in gross replacement rates of statutory pensions	Decline in net replacement rates 10 years after retirement
Germany	-9	0
Italy	-15	No data
Netherlands	0	-10
Czech Rep.	-8	-13
Sweden	-13	-10
Poland	-27	-26
Belgium	-2	-4

Source: EC (2006), Adequate and sustainable pensions – Synthesis Report 2006

Looking at the calculation base of the pensions, we see a general trend towards lifetime earnings: in most countries of the Balkans the earning during the whole career are already used as a calculation base; in the Federation BiH this will be the case by 2016 and in Montenegro by 2019.

In the EU most countries have also developed towards a lifetime-earnings system: Italy applies it for young workers (from 1996 onwards); Germany, Belgium, Poland look at the whole career; Norway takes the 20 best years into consideration; Czech Republic refers to the last 30 years.

An important difference between the Balkan countries and most EU countries can be observed in relation to the non-contributory periods: in the Balkan countries there are almost no such periods assimilated with insurance periods (except for sickness and maternity leave, e.g. in Croatia), we see that in most EU countries which we examined non-contributory periods are credited for reason of unemployment, sickness, study, child raising, maternity, elderly care, training and retraining.

Also different from most EU countries under review is the allowed cumulation of work (earned income) and pension. Work after retirement can lead to a freeze of the pension in Croatia and in the Republika Srpska; in Montenegro it is allowed without restriction and in Macedonia and the Federation BiH there are restrictions or certain conditions which have to be observed.

In Norway, Germany, Italy, Czech Republic, and Poland there is no restriction on the cumulation of pension and earned income after having reached the statutory retirement age. Belgium has still a limitation, but it is reduced progressively.

- **2nd and 3rd pillar pensions**

According to the OECD (Pensions at a glance 2011), private pension plans can be funded in various ways. In 2009, 74% of the OECD private pension assets were held by pension funds, 19% were held in pension insurance contracts run by life and pension insurance companies, 4% were held in retirement products held by banks or investment companies and 3% were book reserves (provisions sponsoring employers' balance sheets).

In the Balkan countries, 2nd pillar pensions exist today only in Macedonia (since 2003) and in Croatia (since 2002). These systems are mandatory and based on personal accounts in private pension funds. They do not complement, but replace a part of the 1st pillar social security pension, since their funding is based on part of the statutory social contribution. The trade unions have no representation on the boards of these pension funds. In Montenegro 2nd pillar pensions are foreseen by not yet operational.

As to the 3rd pillar voluntary pensions, they are mainly developed in Croatia (164 000 fund members) and in Serbia (163 000 fund members) but exist also in Montenegro and Macedonia. The assets of these funds are still low since they were created rather recently (e.g. in Serbia in 2005). Both in Serbia and in Croatia these pension systems are supported by the state by tax incentives. In Croatia the closed pension funds of the 3rd pillar are based on collective agreements at company level. In this way they are similar to the occupational pension schemes (2nd pillar schemes) in EU countries.

Contrary to what we observed in the Balkan countries, 2nd pillar occupational pension systems are very developed in the EU countries: they can be mandatory or voluntary. In most countries they are voluntary. Amongst the countries with mandatory or quasi-mandatory occupational schemes we find Denmark, the Netherlands, Norway and Sweden. In these four countries the coverage is nearly universal. Voluntary occupational schemes can be found in Germany (coverage 64%), Belgium (55% coverage) and Italy (10% coverage). Norway has, besides the mandatory occupational schemes, also voluntary occupational schemes for about 60% of the workers in the private sector (new AFP pension). Poland has mandatory personal pension insurances for 71% of the workforce and the Czech Republic has opted for voluntary pension plans (both occupational and personal for 60% of the workforce).

It is interesting to note that Sweden and Denmark have developed, in addition to mandatory occupational pension plans, mandatory personal accounts systems with a quasi universal coverage.

In OECD countries occupational pensions are overwhelmingly funded through pension funds. In some countries, however, pension insurance contracts play a larger role: this is the case in Belgium, France, Denmark, Norway and Sweden.

The quasi-mandatory and most of the voluntary occupational pension schemes are all based on collective agreements between the social partners. These agreements most often provide for influence and representation of the social partners in the management boards of the pension funds.

Table 11: Coverage of private pension schemes (% of employees) and assets in private pension funds and in public reserve funds (in % of GDP)

	Mandatory/quasi mandatory		Voluntary		Assets in private pension funds	Assets in public pension reserve funds
	Occupational	Personal	Occupational	Personal		
Germany			64.0	44.0	5.2[6]	n/a
Italy			10.6	5.1	4.1	n/a
Netherlands	Over 90				129.8	n/a
Czech Rep.			45.0		6.0	n/a
Sweden	Over 90	Over 90			7.4[7]	27.2
Poland		71.7	1.0		13.5	0.5
Belgium			55.6		3.3	5.0
Norway	Over 90		60.0	3.0	7.3[8]	5.0

Source: OECD (2009), Pensions at a glance 2009; OECD (2011), Pensions at a glance 2011

[6] Pension funds' data refer to autonomous occupational funds only. In addition, the total assets managed by occupational pension insurance contracts amounted to 13.3% of GDP in 2008.

[7] Besides these assets of the autonomous occupational pension funds, there are the assets managed by premium pension systems (8.9% of GDP) and those of the occupational pension insurance contracts (38.9% of GDP in 2008).

[8] The figure in this table only refers to the Government Pension Fund – Norway. By contrast, the total assets of the larger Government Pension Fund – Global amounts to 109.8% of GDP.

Chapter Three

Conclusions and the Way Forward

1. General considerations

In previous chapters we have presented the pensions systems in the countries of the Western Balkans with their strengths and weaknesses. We saw that these systems have been reformed continuously and it is very probable that more reforms will be needed in order to shape them for the future.

The pension system is part of the socio-economic model of a country, and as such, important for the type of society people want to live in. The European social welfare state is based, among other things, on strong social protection systems and on the objective of an inclusive society. Building up a strong social protection system implies that all members of society should have the chance and the duty to contribute to the socio-economic development of the country and that in times of hardship people should be able to count on the social protection system in order to maintain their standard of living and to have access to good healthcare.

If the countries of the Western Balkans wish to be part of the European social welfare state, they should also accept the logical consequences of it: that means an active and redistributory role for the state, and a solid economic and labour market foundation for the state. A social welfare state cannot be built on an economic graveyard: but a prosperous economy also needs customers with purchasing power, be it through employment or through social benefits.

If the objective of the public pension system is to guarantee the pensioners a decent standard of living and not just a minimum income, the government should realize that full employment and progressive taxation of income are necessary conditions which have to be met.

In times of global competition and profound societal and labour-market changes, social protection systems have to be adapted, to be made more efficient, transparent and socially just. The more economic insecurity in the labour market, the more important it is to provide social security in order to bridge transitional periods of e.g. sickness and unemployment, and to guarantee a decent standard of living in old age.

In order to achieve these objectives of social inclusion, it is also necessary to succeed in economic inclusion, that is to say to succeed in mobilising and integrating all the productive factors of society into the formal economy. The informal economy, undeclared work, envelope salaries etc. are all phenomena which undermine the social welfare state and are in the end also detrimental for the economic development of a country, since they overburden the formal economy, the companies who respect tax and social rules, and the workers who declare their income correctly.

2. Main conclusions and possible actions

The description of the old-age pension systems in the Balkan countries and their comparison with the systems in major EU countries allows us to say that much needs to be done in order to make the systems sustainable, adequate and up-to-date. Action will be needed, not only in the field of pension policy itself, but also in the area of economic and employment policy, taxation and training.

Sustainability of the old-age pension systems

If we look at the economic support ratios in the different Balkan countries, it is clear that they are too low to support a solid pension system. The major causes of these low support ratios are the high unemployment rate and the volume of the informal economy. What makes things worse are widespread contribution fraud (withholding social contributions by employers) and declaring only part of the real salary instead of the total salary. As a consequence, state budgets have to contribute more and more to the financing of pensions. Given the increasing costs of ageing and the critical situation in the labour markets, it can be expected that the share of state subsidies will further increase.

Urgent action is needed to strengthen the financial base (income) of the pension systems. Besides the country-specific measures described in the national reports, we can think of:

- Dynamic economic and investment policies oriented towards more economic growth and demand for labour;

- Active employment policies targeted towards the mobilisation and activation of the huge labour potential available on the labour markets;

- Preventive and curative measures aimed at the reduction of the informal economy;

- Preventive and curative measures to strengthen the contribution and collection compliance (financial discipline) of employers and employees;

- Consolidation of the state budgets by measures to combat tax fraud and tax evasion and to guarantee a progressive taxation of incomes;

- Searching for alternative earmarked resources for the pension systems (e.g. certain consumer taxes, taxes on luxury products, taxes on capital income);

- Making sure that the employers (companies) contribute at least 50% of the social contribution;

- Taxing (higher) pensions above the average pension;

- Reconsidering the concept and the way in which second pillar pensions are financed at the moment, in order to strengthen the financial base of the public 1st pillar pensions (which are the core of the European welfare state): instead of transferring part of the social contributions to the 2nd personal accounts pillar, the total social contribution should remain available for the first pillar; besides this, a 2nd pillar of occupational pensions should be developed by including in company or sectoral collective agreements the necessary provisions for the setting up of private pension funds or private pension insurance schemes. The social partners should be represented on the supervisory boards of these funds and the contributions should be tax-deductible;

- Allowing private pension funds and pension insurers to invest in the international capital markets in the safest products;

- Association of national social partners in the management of the national pension system through board representation: this is important as a confidence-building measure;

- Major efforts for administration and institutional capacity building (better data management, linking of databases of tax and social institutions, upgrading of qualifications of the pension officials, international traineeships);
- Better coordination between social and tax authorities which are involved in the running of the pension system;

As for the expenditure side of the pension system, positive budgetary effects can be expected from measures to stimulate and allow older workers to stay longer in the labour market, e.g. substantial pension bonuses and tax benefits for workers over 55 or with 35 years of insurance, flexible and progressive retirement options, gradual reduction of working time with income compensation, flexible work organisation, more autonomy at work, home working, child- and elderly-care facilities, better health and safety protection at work, training and retraining in order to keep workers employable. Also, the employers should be stimulated to hire and maintain older workers in the company.

A progressive harmonisation of retirement conditions for male and female accompanied by measures to ease the reconciliation of work and family life, e.g. pension credits for parental leave, maternity leave, career breaks for elderly or sick care, can also contribute to higher employment rates and have a positive effect on the growth of the expenditure of pension systems.

The regular adaptation of retirement conditions to increases in life expectancy (be it automatically as in Norway, Sweden and Germany, or through social negotiations as in Spain) could be a further step to relieve the financial pressure on pension funds.

All these measures aim at an increase in the effective exit age from the labour market and can contribute to a strengthening of the sustainability of the pension systems. Also, the switch towards lifetime earnings as a calculation base for pensions will result in slower expenditure growth.

- **Adequacy of the old-age pensions**

In the Balkan countries the level of old-age pensions in relation to average earnings is very different from country to country: the replacement rate (benefit ratio) of the pensions is highest in Macedonia and lowest in BiH and Croatia. In general, benefit ratios are not lower than in the selected EU countries. But what makes the difference is the calculation bases of these ratios, namely the gross and net salaries which are for most EU countries higher than in the Balkan countries. The result of this is that the average old-age pensions in the Balkan countries are in nominal terms much lower than in most of the selected EU countries. Globally we can say that the average old-age pensions in the Balkan countries are not adequate.

It is also important to note that the replacement rates of the public old-age pensions in the Balkan countries are on the decrease: this phenomenon can also be observed in the EU countries. But, contrary to what is the case in a number of EU countries, in the Balkan countries the decrease in the value of the public old-age pensions is not (yet) compensated for by (an increase of) complementary occupational or personal pensions.

Efforts should therefore be made to guarantee workers in the Balkan countries net replacement rates of at least 65% to 70% after a full career. The development of complementary pension schemes through social dialogue and collective bargaining can be helpful to reach this objective.

Looking at the minimum pensions, it goes without saying that these pensions are extremely important in the Balkan countries and in the EU countries as a buffer against poverty. These pensions are particularly important for workers with an irregular and incomplete career: and given the fact that in most Balkan countries non-contributory periods, e.g. during unemployment, are not considered as insurance periods, these minimum pensions have a higher relevance than in most EU countries. It is therefore important to guarantee a decent level of minimum pensions and to protect their purchasing power parity.

Another important element in the debate about the adequacy of pensions is the adjustment of the pensions. By suspending the adjustment during 3 years in Croatia, the real value of the pensions in that country will decrease considerably. Also, in BiH the announced adjustment to wage developments has been suspended since 2007. In Macedonia and Montenegro the Swiss formula is used (partly indexed to wage developments and partly to the increase of the cost of living) and in Serbia the pensions are in reality linked to the consumer price index (with, in 2011 and 2012, a small supplement in line with GDP growth, if there is any). This mixed situation is comparable with practice in the EU countries: some countries maintain more or less the adjustment to wage developments (Germany, Norway, Netherlands), others switched completely to price indexation (Poland, Italy) and still others have a mixed system (Belgium, Czech Republic).

In countries with a high inflation rate it is very important to adjust the level of the pensions twice a year: this is for the moment the case in Serbia.

- **Modernisation of the old-age pension systems**

Given the fact that society changes and that pension systems become more complex, it is important to examine if the pension rules have been adapted to these societal and systemic changes. The question must be raised whether the pension systems are suited to respond to the needs of monoparental families, of part-time workers, of multiple job holders, of internationally mobile workers, of people with an extended study duration, of victims of restructurings, closures and privatisations, etc. The questions must also be raised if the introduction of new pension rules and structures has been communicated clearly enough to all the workers, if the necessary control and supervisory structures, with representation of the social partners, have been foreseen to oversee and monitor the private pension funds, if the necessary transparency and reporting rules are in place, e.g. concerning the risks, the return on investments, the costs/fees, the payout method, and if the current trend towards individualised defined contribution schemes should not be corrected by collective risk sharing, e.g. on the basis of minimum return guarantees. Shifting choices and responsibilities to the individual requires that people understand the information in order to allow them to make the best choices. Given the growing complexity of pension systems, it is equally important that people have a competent body that they can trust and that can answer their questions relating to pensions: the trade unions can be such a body.

Martin Hutsebaut
Aalst (Belgium), 14 November 2011

ANNEX: Comparison of average gross wage levels in selected EU countries and Norway (December 2010)

Germany	41 750 EUR
Italy	27 827 EUR
Netherlands	44 858 EUR
Czech Republic	11 381 EUR (288 492 CZK)
Sweden	40 415 EUR (365 930 SEK)
Poland	8 515 EUR (37 665 PLN)
Belgium	41 407 EUR
Norway	58 867 EUR (456 268 NOK)

Source: OECD (2011), Taxing wages 2009-2010