

Pension System in Albania

By Dr. Albana Demi (Mosho)¹

Abstract

This paper presents the pension system in Albania, the strengths and the weaknesses points provided by the last changes of the law. Research is used to collect data from the institute of social insurance in Albania, expectations for and assumption about the social insurance in Albania. The results of the research provide an overview of what types of reform should receive priority for the future elderly in Albania. Despite the youthfulness, Albania still faces pension problems arising from a number of historical events. In the communism time, all individuals of the working age, male and female, were required to work if able and most of elderly have the rights in the pension systems and received from the public pensions. Transition to the market economy has resulted in closing down state-owned enterprises, which workers have been compensated of early pensions. The program of the social insurance in Albania is partly inherited from the past. As a result of this, in Albania there is left a large number of beneficiaries in their pension systems and few contributors to finance those beneficiaries. By paying social security contributions and health insurance all citizens are sure to benefit during the third age.

Keyword: Social insurance, unemployment, employment, self-employed, pension system, contribution, health insurance.

1. Introduction

The purpose of this study is to present the economic and historical Albania's phases on the pension scheme. The first part of this paper will describe the pension system during the communism period, followed by the transition period and with all the present the reforms. In this contains this study will provide answers to some questions that aimed to analyze and evaluate the system of pension. This study includes the employment and the unemployment rates in between 2008-2013. This review is requested to know even the labour market in Albania. In the end, based on the reforms realized on the Albania's pension system this paper will provide some conclusions and recommendations.

2. Methodology

The data are useful collected to recommend conclusions and recommendations concerning Albania Pension system. Also, this study includes the employment and unemployment rate in between 2008-2013. This review is requested to know the labour market in Albania.

Calculation of a supplementary old-age pension:

$$PSP = PMRMN \times VSH \times 1\%$$

PSP: Supplementary old-age pension

PMRMN: Reference Average Net of Monthly Salary

VSH: Years of Service

The measure resulting from this formula must not be more than 50 percent of the old age pension.

3. Literature Review

A social insurance contribution is a way to save money and will give you income later in your life. People pay a fixed amount of money every month to contribute for a pension in the future. Social insurance contributions and health are compulsory payments to all economically active persons, including the self-employed. By paying social insurance contributions and health you are sure to benefit from social insurance law and health insurance law. In Albania during the time of communism, all individuals of working age, male and female, knows that they received the pension amount from the public system and they didn't know that they pay exactly as followed:

1. For the urban the Social Insurance contribution was 15% until 1991,
2. For the rural the percentage of Social Insurance contributions has been divided by type:
 - Lowland 6%,
 - The hilly 5%,
 - Mountainous 3%.

The percentage was calculated on the planned annual income of the cooperative.

- ✚ Pension measures for the city had been 70% of salary.
- ✚ Minimum limits 350 lek and maximum limit 700 lek,
- ✚ Even for salaries over 1,000 lek the maximum limit was also 700 lek.
- ✚ Pension measures for the rural have been in between 200 lek to maximum 500 lek.

At the end of 1991 until the entry into force of Law No.7703 dated 11.05.1993 "On Social Insurance in the Republic of Albania" social insurance contribution was 19%.

In 1991 there Law 7541 dated 12.18.1991 that says that the provisions of this law extend on private farmer and a decision by the Council of Ministers had defined the extent and spill criteria that contribution.

The Albanian government has proposed three main keys to reform the pension system. Firstly to increase of the retirement age, secondly, the transition countries including Albania have to try to increase the participation in the pension system among the working age. Thirdly, these countries are trying to access how best to provide adequate, affordable pensions. About the pension reform in Albania the World Bank has provided technical support. It has completed a regional report on the pensions called "The Inverting Pyramid" which highlights similar issues about the pension system. According to the World Bank¹, the Europe is aging. For instance, in 2010, 15 % of the population was over the age of 65. Concerning the statistics of Social Insurance Institution of Albania by 2050, 27% of the population, almost double, is expected to be over the age of 65². Albania is young today, with only 12 % of the population over the age of 65. In 2050, it is expected that the old age over 65 to be more than double. For instance, today almost one of 8 Albanians is over the age 65 while by 2050 two of every 8 Albanians will be over this age. These data show that the aging will happen even faster in Albania than in some of the older countries such as Serbia, France, Sweden and Montenegro. Also, the working age population is shrinking. Albania is expected to have a percentage of 14% between 2010 and 2050, but this is after a 91% growth in working age population between 1970 and 2010. It is very significant, as the future elderly run a serious risk falling into poverty. Countries such as Montenegro, Macedonia, Bosnia and Serbia have recently increased retirement ages to 67 which show an increased retirement age in the other countries.

¹Albania's Pension Reforms, Tahseen Sayed, Country Manager for Albania, Albania Pension Reform, Tirana, Albania April 29, 2014

² Albania Pension Reform, Tirana, Albania April 29, 2014

4. Albania Pension Scheme - Background

Albania with very dynamic demographic indicators needs to pay more attention to reforming the system of collecting contributions and establishing a more new distribution scheme. In this contests Albania still faces pension problems. Transition to the market economy has resulted in closing down state-owned enterprises, which the workers have been compensated of early pensions. In the private sector, the workers see few benefits from contributing to a system with high contribution rates. Finally, there are a number of factors which have led to a large number of the disabled among the working age population who need to be supported by the pension system. The program of the pensions in Albania is partly inherited from the past. As a result of this, in Albania there are a large number of beneficiaries left in their pension systems and few contributors to finance those beneficiaries. In order that the individuals can profit the pension they have to contribute in the social insurance scheme. In Albania the social insurance is divided into three types: obligated social insurance, voluntary social insurance, and supplementary social insurance. The obligated social insurance is unprofitable and it includes employees that are temporarily unable to work due to illness, maternity leave, old-age, accidents at work and occupational diseases, unemployment, and disability. The volunteer social insurance is possible even during studies, with the main condition that the person has to pay contribution during this period of time and before the beginning of the date of the rights of the income. The supplementary social insurance benefits people who have special functions, special obligations and people with science titles.

The scheme of the Institute of Social Insurance in Albania is defined by incomes by the social Insurance³which is mentioned below:

- Benefits from pension
- Benefits from the insurance branch of accidents and occupational diseases
- Benefits from the insurance branch maternity leave
- Benefits from the insurance branch of diseases

From the participation of the scheme insured people can profit from all these kinds of pensions:

1. Full elderly pension: it is for people who are insured and they have the right for the full elderly pension. The required age for men is 65 years old and the required ago for women is 60 years old. They should complete 35 years of the insurance period and they shouldn't participate in economic activities. Mothers who have more than 6 children have the right to retire when they 50 years and they should complete 30 years of the insurance period. The arrangement of monthly pension for the elderly is given to all people that are insured.
2. Reduced elderly pension: it is for people who are insured and they have the right for reduced elderly pension when they complete not less than 35 years insurance period. The required age for men is 65 years old and the required age for women is 62 years old. They don't have to participate in economic activities as employees, employers and self employed.
3. Partial elderly pension: According to the law, nr 7703, date 11.05.1993 "for social insurance in the Republic of Albania", it is changed. People who are insured have the right to obtain partial elderly pensions. The required age for men is 65 years and the required age for women is 60 years old. The period of contribution is not less than 15 years old and the insurance period is not more than 35 years.
4. Full pension for mothers with a lot of children: the sum of the general pension is not more than the double of the base sum, or 75% of the net salary average of the three last years and the last 10 years to be insured. The pension is determined by the decision of the Council of Ministers.
5. Full disability pension: it is determined by the condition that these people are disabled for every

³Obtained by the Law nr. 7703, date 11.05.1993 "For Social Insurance in Albanian Republic"

economic activity because they have physical impairments. It is divided in full disability pension, reduced disability pension and partial disability pension. People that should apply for full disability pensions should have the minimum years insured, which is equal with the half of the difference of the age of the person who is insured in the period that is disabled. For instance, if a person who is disabled is 38 years old, to profit full disability pension is done via this calculation $38-20/2 = 9$ years insurance.

6. Family pension: the condition required to benefit from this pension is a widow, she should be unable to work, and the required age is more than 50 years old. Also, a man can benefit, when he is widower, he should be unable to work and the required age is 60 years old to benefit profit from family pension.

7. Payment for death: the payment for death is given to a person who is insured or a retired person when his/her closer member has died.

Participation of the labor force from women has been significantly lower in comparison to men. The retirement age is typically 65 for men and 60 for women which increases the number of pensioners and reduces the contributors to the system.

Table: 1. Employment and unemployment

Unemployment rate

indicator	2006	2007	2008	2009	2010	2011	2012	2013
Unemployment rate	13.8%	13.5%	13.2%	13.1%	12.8%	12.6%	12.4%	12.2%

Unemployment rate in Albania

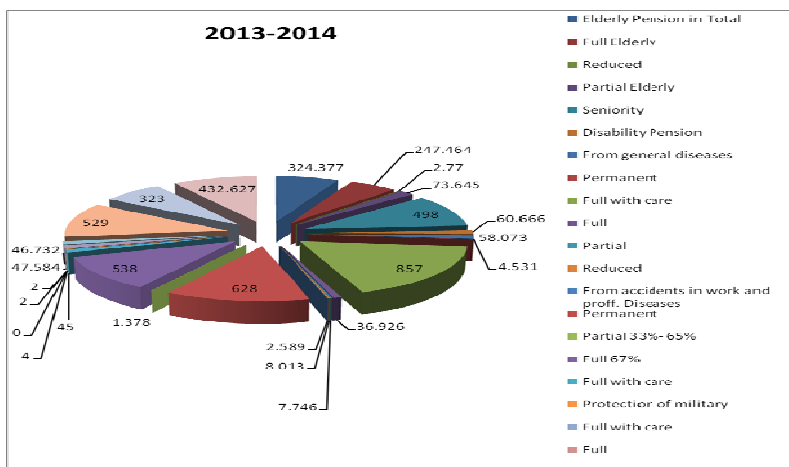
Indicator	2006	2007	2008	2009	2010	2011	2012	2013
Employment rate	49.6%	50%	50.8%	52.1%	53%	54%	55%	56%

The number of qualified unemployed job seekers in training courses

Indicator	2006	2007	2008	2009	2010	2011	2012	2013
Qualified		4.500	5.000	5.500	6.000	6.500	7.000	7.500

Number of employed after training program

Indicator	2006	2007	2008	2009	2010	2011	2012	2013
Employed		2.000	2.400	2.800	3.200	3.600	4.000	4.600



Graph.1 Presentation of types of pensions (Albania, 2015)

Table: 2 Conditions to profit the pensions' Insurance, I. o. (2015). *www.issh.gov.al*

MALE						
Actual Period	Category I		Category II		Category III	
	AGE	Working period	AGE	Working period	AGE	Working period
01.07.2014 - 31.12.2014	60y 6m	35	65	35	65	35
01.01.2015 - 31.12.2015	61	35y 4m	65	35 y 4m	35y 4m	65v

Table: 3 Conditions to profit the pensions' Insurance, I. o. (2015). *www.issh.gov.al* (Insurance, 2015)

FEMALE						
Actual Period	Category I		Category II		Category III	
	AGE	Working period	AGE	Working period	AGE	Working period
01.07.2014 - 31.12.2014	55y 6m	35	60y	35	60 y	35
01.01.2015 - 31.12.2015	56y	35	60y 2m	35y 4m	60y 2m	35y 4m

Private Pension funds are institutions that represent a structure and build long-term savings schemes based on collective accumulation of free capital. As such, they compete in the creation of capital through interest rate to offer investors and encourage investments in financial instruments like bonds or securities representing a major source of investment to secure more lucrative projects, aiming at preserving and creating an efficient portfolio. Each person named insured, if the age of 18, has permanent residence in the Republic of Albania and has a contract with the Institute of pensions. For people who do not live in Albania, the contract signed in order to apply the Albanian legislation in case of dispute. Under the legislation supplementary pension benefits are not taxed. Insured persons in a private pension fund may transfer their contributions to a pension fund another.

5. Data Analysis

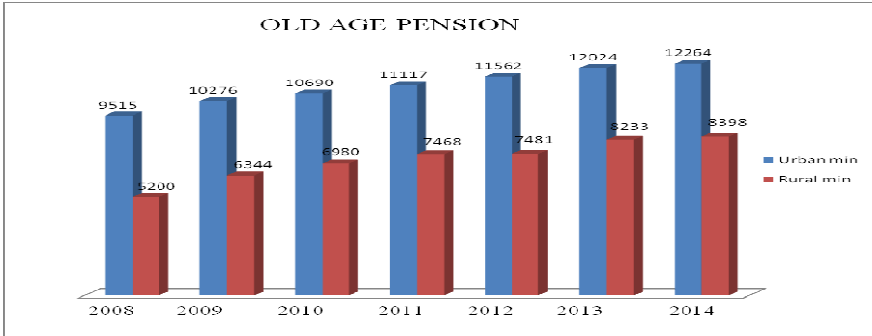
This study include information by different institutions such as: a) Ministry of Finance, as the institution that deals with the design and implementation of legislation, b) public and private pension institutes, c) institutions serving in this field. Specific objectives are: to study the history of the organization in stages having passed the Albanian state, in terms of social security system; to analyze the processes followed in the pension system, in order to reflect the best practices in our country; to analyze the economic development of the country, as well human resources, social, economic and natural, in the economic development; to assess the sources of contributions and the contributors rights; to study the performance of the social security system along transition period with a view to identifying obstacles and ways to overcome them; to provide a clear picture of the demand for development of the pension market.

Pension system in Albania is facing a wide variety of interrelated problems. Albania has experienced a high level of informal labor markets as the contributions are low and this situation has brought to limited income from the wage contributions within the country itself. A large percentage of the working population is not making contributions and there are fewer workers that support the older age even nowadays. For instance, the 'urban' people have to pay high contributions for limited pensions and non-urban people pay low contribution to take low pensions, which is overall relatively high in comparison to what they should pay.

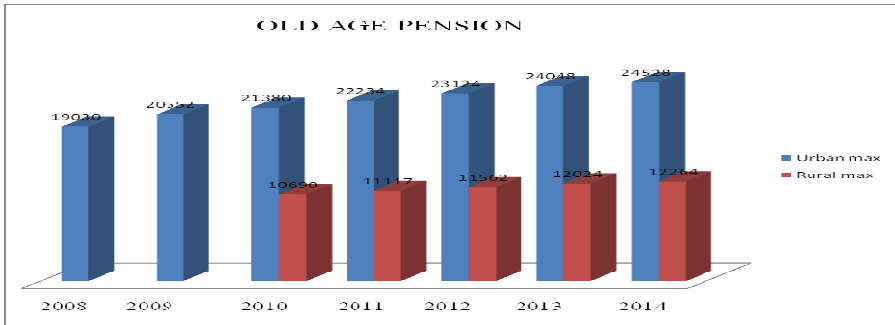
Furthermore, low rates of participation in the system suggests that when these workers retire a lower percentage of the elderly which will be covered by the pension system. Significantly, when workers with few contributions reach the retirement age, they will be ineligible for benefits, which show an increase of the number of elderly facing poverty in the nearer future. According to the data presented by the World Bank, between 35 to 50 percent of the future elderly will have no pensions, compared to nowadays where almost all elderly persons can set-up and collect pensions.

Table4. Old age pension (Urban & Rural)⁴

Year	Urban min	Urban max	Rural min	Rural max
2008	9.515	19.030	5.200	
2009	10.276	20.552	6.344	
2010	10.690	21.380	6.980	10.690
2011	11.117	22.234	7.468	11.117
2012	11.562	23.124	7.481	11.562
2013	12.024	24.048	8.233	12.024
2014	12.264	24.528	8.398	12.264



Graphic: 2 Old age pension (minimum pension for Urban and Rural zone)⁵



Graphic: 3 Old age pension (maximum pension for Urban and Rural zone)⁶

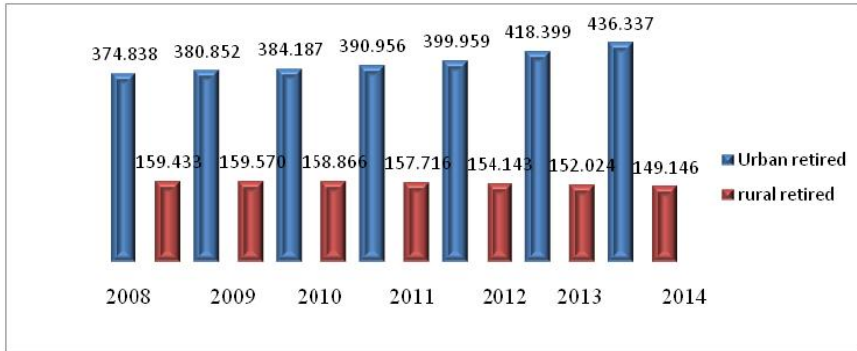
Table: 5 urban retirees compared with retirees in total

Year	2008	2009	2010	2011	2012	2013	2014
Urban retired	374.838	380.852	384.187	390.956	399.959	418.399	436.337
Rural retired	159.433	159.570	158.866	157.716	154.143	152.024	149.146
total retired	534271	540422	543053	548672	554102	570423	585483

⁴ Source: Social Insurance Institute of Albania, Annual statistic's report 2014

⁵ Source: Annual statistic's report 2014, Social Insurance Institute of Albania

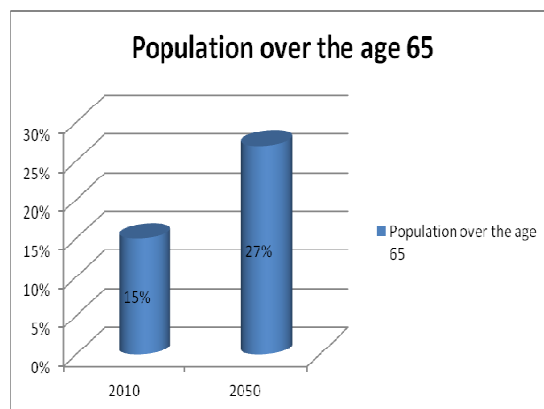
⁶ Source: Annual statistic's report 2014 Social Insurance Institute of Albania



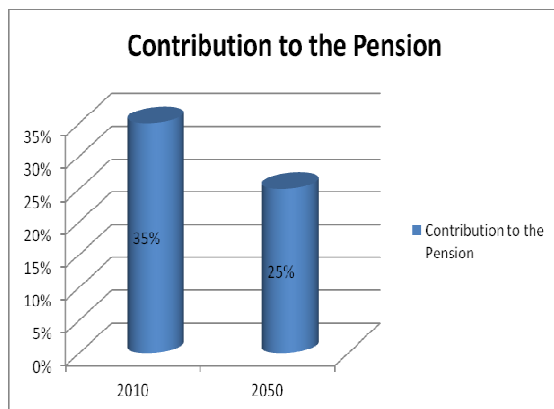
Graphic: 4. urban retirees compared with retirees in total

6. Conclusion

As a conclusion, the current pension system in Albania is facing problems as a result of historical developments. The Albanian government needs to focus on how to design the system for the future. Reforms and the conditions of benefits, the contributions and the management of the funds are very important to implement properly for the equality. Also the informal labour market should be fought in order to have more contribution from the people. The pensions are lower compared to the living standard. So, we stress that the future development of the pension system and increasing financial stability is closely linked to the functioning of private pension schemes. In addition to the negative impact of the aging trend of the population and size of the external migration, especially the youngest age group, there are also influential evasion schemes, especially in the rural and private sectors of the economy. People pay a lot of money and they don't take what they deserve. The future of elderly shows a serious risk of falling into poverty. Combining all these factors, Albania will face a future with many elderly receiving no benefits from the pension system, high contribution rates, and mounting fiscal costs as well. As a result of this, the Albanian pension system is in need of major reforms and implications of changes towards contribution.



Graphic: 5 Populations over 65 in between 2010-2050



Graphic: 6 Contribution to the pension 2010-2050

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