Pension system in a comparative analysis

Bora Angjele

Abstract

This article is about the reform of the pension system in Europe and Albania.The social security system in Albania has evolved. The system's initial format was comprehensive, covering third-party risks, disabilities, head of household death, short-term illness, and maternity leave, unemployment, and health costs. These benefits were financed through payroll contributions and were assessed by both the employer and the employee, but at different rates for various benefits. However, our country as well as many other transition countries has experienced an increase.Level of labor informality has led to limited income from wage contributions, while facing the burden of supporting older generations, many of whom enjoy full pension rights. Albania has managed to avoid a financial crisis in the social security system. In the current model of the pension system there are major deficiencies. The article introduces systems and reforms and reflections on the elections.

Keywords: pay as you go system, multipurpose pension system, contributory system, social system.

Introduction

Social security, as a massive collective security scheme, guaranteed by the state, started for the first time in Germany in the years 1817-1823. On the basis of this principle, for the first time in 1839 Von Bismarck in Germany formulated the so-called social insurance scheme on the principle of solidarity and continuity of generations, whereby all employed persons made contributions up to a certain age backed by old people's income. Later we find such schemes in Austria in 1888, Luksuzburg 1901, Serbia 1910, Russia 1911, Britain 1911, Romania 1912, Poland 1920, Greece 1922 etc.,. For the first time the special pension was given to writer William Shekspir in 1566. Pension benefits were first born in France in 1910 for workers, earlier this pension existed for war soldiers (Bundo, 2012).

There is an evolution of social problems in our country and the legislation of this problem has been developed following these social problems.

Thus, Social Security in Albania was created in 1947, but we have found elements of social security in our country since 1923 (Kepi, 2007, 13-22).

For the first time in its history Albania had a public social security system in 1927, at the time of King Zog. The system, which benefited only civil servants, was set up according to the model that was created in 1889 by the German emperor Bismarck, the prominent German man of the 19th century. The engine of that system was the principle of solidarity between generations.

The system today is represented by the Social Insurance Institute, an independent public institution, run by an Administrative Council and controlled by the Ministry of Finance.

New social elements have been added to the current legislation and others are expected to increase by enriching this legislation and bringing new development stages. The new draft law drafted by the Ministry of Finance and its co-operative partners in this project is another challenge that is worth discussing today.

Development in pensions in different countries pension systems in the sites of south Eastern Europe

Pension systems in Europe and beyond have been subjected to profound reforms during the last years

Table No. 1: Implementing multicast system reforms in some countries.

(Holzman and Hinz, 2006)

State and system status	*Initial date*	*First pillar*	*Second degree measure as% of salary*	*New system strategy*
Bulgaria, operating	January 2002	PAYG, defined benefit	5 %	Compulsory for age<42
Croatia, operating	January 2002	PAYG defined benefit	5 %	Compulsory for age <40, Volunteer for age 40-50
Estonia, operating		PAYG defined benefit	6 %	Volunteer (ops –out +2 %)
Hungary, operating	January 2002 January 1998	PAYG defined benefit	8 %	Compulsory for new retirees, volunteer for others.
Kosovo, operating		Minimum pension	10%	Compulsory
Latvia, operating	January 2002	PAYG Unreal account	9 %	Compulsory for age <30, Volunteer for age 30-50
Lithuania, operating	June 2001	PAYG defined benefit	2.5 %	Volunteer, but defined only once.
Macedonia, operating	January 2004	PAYG defined benefit	7 %	Compulsory for new retirees
Slovakia, operating	January 2006	PAYG defined benefit	9 %	Compulsory for new retirees
	January 2005			

Formerly based on the pay-as-you-go (PAYG system), today the relevant authorities in these countries are trying to support their pension systems in several pillars. This is about the so-called second and third pillar, which provide for the provision of pensions based on personal and capital accounts (Banerji, 2009).

Despite the critical voices of these alternative forms of pension insurance, fiscal pressures and demographic developments in SEE countries seem to make them inevitable. Funds accumulated in so-called pension funds are invested for a long-term period to provide a safe income with retirement.

One of the main reasons for this transition is the aging of the population. Demographic developments in recent years as well as future tendencies show that the pay-as-you-go deposit base is shrinking as the number of beneficiaries is increasing. For government budgets in these countries this would create an explosive situation. For this reason, the IMF and the World Bank have continually encouraged SEE countries to undertake the necessary reforms in their pension systems. Capital-based pension systems are not directly affected by aging populations. Macedonia is the most successful model in the region. It divides the contribution of 21% of the salary to 14% for the state scheme and 7% for the private scheme. In this way, each retired individual benefits from both schemes. The establishment of minimum pensions of less than 100 euros in Albania will be made possible by the application of exactly three schemes, as is the case in most EU countries and the region.

An interesting case is that of Kosovo

In 2002, it was decided that payments of today's pensioners in Kosovo are fully covered by the state budget, while the contributions of today's employees are managed by a pension fund in individual accounts. In this way the money remains the contributor's own property and the latter will retire what he has saved over the life plus the interests. This scheme makes every employee interested in paying social security because he has not transferred from the poorest to the poorest. Though private property, the mandate of these savings is specific - they can only be used for retirement. Pension Fund invests contributions and adds interest to the contributor. There are two main types of social systems: one based on the transfer (PAYG) and the invested system. The transfer based system is a state program funded by taxes or contributions collected by the population and transferred to particular groups in the population. Under this scheme, workers fund pensioners. In Kosovo, the transfer system has been eliminated. The total revenues of the Kosovo Budget fund the basic pension. To finance this, no other income taxes have been empowered; the priority of the strategy has been to keep taxes on low wages so that Kosovar workers are competitive and there is no incentive to hide in the gray economy. The word "invested" goes to each program in which money is collected and stored on an account over time, which is invested in capital markets to secure future earnings. The main difference between the typical transfer-based system and the invested system is that the money accumulated under the invested system is saved and invested rather than being spent immediately. Under the invested system, contributions are transferred to individual participants' accounts, invested in financial portfolios, and accrued throughout the participant's employment time by earning a percentage of the investment. The collected money is safe and completely separate from the state budget. This system is more transparent to participants than allows a clear definition of ownership rights on contributions and accumulated. When participants retire, their retirement will depend on the contributions they have made to their account. In Kosovo, such system will be represented by Individual Savings Accounts maintained by the Kosovo Pension Savings Trust (KPST). This model can also be adapted in Albania.

Greece and the economic crisis

Greeks are faced with problems that have seriously been threatened to ruin not only the image of the country itself but also the image achieved in recent decades as a member of the European Union which may serve as an example of young people or those who like to be members of the European Union.

The data is curious and reaches the value of 300 billion euros, because the budget deficit has increased astronomically 12.7% from gross national product, exceeding the four-fold limit allowed by EU members in the "eurozone" using foreign currency. The situation has been rated as the largest debtor crisis in Greece's newest history, which, as announced in Athens, will not immediately call for urgent assistance from The International Monetary Fund, but the government will seek to reform urgently to change the state (and habit) to spend more in the state rather than being produced. This heavy duty lies with the Government, when the culture of tolerance is now governed in the country low rates of change, while major in protests. However, among the changes that are already present is - the change of the pension system. Irony in Greece's fate lies in the fact that the preliminary reforms in Parliament were adopted earlier in March 2008, which was a comprehensive opportunity. Then, one hundred pension funds were reorganized and reduced to only 13, which meant reducing their administration costs, temporary retirement schemes were discontinued, retirement years in 2011 were established at 65 years for men and 60 years For women. As for remembrance, the current reform adopted by the close parliamentary majority caused fierce protests of trade unions and objections. Papandreou then, as opposition leader, underlined that "the government has stolen people's money", while the people "worked hard on their pension rights, and now it's cunningly taken care of". Papandreou is now in another role and should think differently, because it is imperative that the pension system should have been changed immediately, rather than two or three years ago. It is then stated that the system is unmanageable in the long run and if it is not changed it will bankrupt. Now, it is even clearer: if it does not reduce its obligations to users on the one hand, and does not magnify the entry of money on the other hand, the system will be shaken.

The government warned that the new pension system will be launched in the procedure for approval in the middle of the year. It is not known what this implies, but it is foreseen that among the new measures there may be a further reduction of the number of funds, this time from 13 to only three, and the equalization of the old-age limit for active work break for men and for women (65 years).

In the pension sector in Greece, the greatest inequality exists between the needs and opportunities for why pension payments are currently spent almost 12 percent of gross national product. The government has new measures to implement, but it remains to be seen if there are chances in Greece that pose much greater social upheavals. Specifically, Greece is in the Balkans, where it faces the well-known "Balkan syndrome": European prices, while local wages.

Basic system in Albania

The social security program in Albania was partially inherited from the past and was designed in such a way that it provided comprehensive insurance for seniority, disability, death, short-term illness, ill health and unemployment based on the basic contribution of the employee, as well as by the employer.
This kind of system works relatively well in the context of a high participation of the formal labor sector. However, after the transition, the participation in official labor markets in Albania has fallen sharply, raising the question whether the social security framework is actually the right structure for securing the benefits of future social protection for the entire population.

Problems of the current system can be summarized as follows:

1. Insufficient cover for the elderly in the long run, where the elderly in the future will not be able to benefit from the pension system.
2. Significant decline in benefits arising from the connection to the maximum pension with inflation.
3. High contribution rates that are not a stimulus for formalizing the labor force.
4. Lack of incentives in the benefit formula for individuals to declare full salaries or work throughout their working age.
5. Promotion of employees in the rural sector.

Project law for the most cleaning system of pensions

Pensions, how will the three-pillar system work?
The pension scheme in our country will undergo changes. Social Security experts have been thinking of changing the current pension scheme by adapting it to other developed world countries operating under a couple of pillars. The multilayered system, which will be applied in our country, is comprised of three main pillars. The three new pillars proposed for changing the pension scheme will only be effective after a few years. The Ministry of Finance, as the initiator of reform, has not yet determined the conditions, but one thing is certain that the generation of the population currently receiving a pension will not benefit from reform.
The current scheme is based on the solidarity system. So, the money held by the salary of an employee does not serve for his retirement but for the payment of the retired elderly. This scheme is also provided with the support of the state budget and has defined maximum and minimum pensions in city and village. According to

specialists, but also from our study and the World Bank, the current pension scheme presents problems and therefore another system is proposed, with three pillars:
1. The zero pillar is for the elderly, regardless of whether they contribute or not. In some countries this pillar applies only to the poor elderly and in some others to all older people over a certain age. The purpose of this column is to provide a basic level of income for all the elderly.
2. The first pillar is the contributory pension system that currently exists in Albania. This is a public system based on solidarity, but where the pension depends on the years and the level of contribution.
3. The second pillar has entered some countries as a savings system, where employees and employers are required to place a percentage of the salary on specialized savings accounts, which are then invested. After retiring, the employee benefits from the contribution and interests generated by this system. This pillar can be managed publicly or privately and does not rely on the solidarity system.
4. The third pillar is similar to the second pillar, but employees and employers may voluntarily make additional contributions in order to increase their future pension level. The current pension system in Albania focuses mainly on poverty reduction and has a tight structure of pension benefits compared to the wide range of contributions paid into the system.

Conclusions and Recommendations

Preparing the system to move to a multiple system will be done through:
- strengthening the measures for the legal enforcement of the payment of social security contributions:
O Improve methods to identify, control and punish cases of non-enforcement;
O Implementation of relevant penalties in cases of evasion.
- Reforming the current system through:
O The best link between contributions and pensions;
O Enhance the management of the scheme by strengthening control over social security payments and overall image change for social security, raising awareness of the implementation of laws regulating the system.
- Drafting the legal framework for a controlled multi-pillar system well-functioning:
O Drafting the strategy of reforming the current system and determining the form of the multiplier system (contribution rate, age and year of entry of second pillar), by a technical working group with the participation of representative representatives of government, opposition political parties such as even non-governmental organizations;
O Preparation of the law and normative acts for licensing and multipurpose system operation standards;
O Licensing institutions with sufficient and secure capacities to invest pension funds;
O Creation and strengthening of a modern supervisory system for the performance of pension fund investment institutions.
- Strengthening the third pillar.

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