Albanian Pension System

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Some facts - Albania

- Albania has 4.2 millions citizens
- Resident in Albania (Census 2011) are 2.82 millions people
- Average age of population 35.3 years
- Actually, unemployment rate is 17%
- Public pension scheme financed on PAYG principle started on 1947
- No second pillar
- Third pillar - voluntary pension scheme
- 600 thousand pensioners
- 720 thousand contributors
- Dependency rate 1: 1.20
Problems identified

- Low participation in system due to high informality
- Low pension amount
- Weak links between paid contributions and calculated pension
- Financial instability and high level of scheme deficit till 2% of GDP
- Very high level of income redistribution
- Lower incentives to declare real wages especially for medium and high earners due to administrative ceiling of maximum pension (max pension was twice min, while max contribution was five times min)
- Low replacement rate, 40% in average
- Ageing of population rapidly
- High levels of emigration
Demographics developments

Population age-groups

- 0 - 14
- 15 - Retirement age
- Retirement age +
Demographics developments

Demographics Dependency Ratio

Retirement age + / 15 - Retirement age
Pensioners as % of population

The graph shows the percentage of pensioners relative to the population from 2012 to 2080. The percentage starts at around 10% in 2012 and gradually increases to reach approximately 25% by 2030, after which it stabilizes and remains relatively constant until the end of the period in 2080. There is a slight downward trend in the percentage after 2050.
Balance over GDP
Possible Reform Options

- Implementations of the mandatory Second Pillar
- Notional Defined Contributions (NDC)
- Parametric reform of existing PAYG scheme
Why not Second Pillar

- High transitional cost due to high subsidy from general revenues
- Volatility of labour market and high level of unemployment
- Lack of financial market and investment instruments
- No space for increasing the contribution rate and taxes
Why not NDC

- Lack of personal accounts for contributions
- Impossibility for creating individual accounts based on insurance contributory periods during communism regime
- Frequent changes of contribution rate over the years giving different results in the personal accounts
- During the transitional period, the majority of contributors have paid based on minimum wage; so low accumulations generate low pensions
- Big difference between pensions amount pre- and post-NDC, which creates discrimination and social problems
Parametric Reform of PAYG

Pension Formula

\[ P = PS + Sh \]

- **P** – Monthly pension amount
- **PS** – Social Pension, which is not higher than incomes of partial pension obtained from contributory scheme
- **Sh** – Supplement, 1% of assessment base for each year of insurance period
Parametric Reform of PAYG

- Keeping the same system
- Redesign of pension formula by reducing the fixed (granted) amount and increasing the specific weight of supplement, which is depended by paid contributions amount and insurance years
- Removing administrative ceiling of pensions (max pension twice of minimum)
- Provide the Social Pension which is income tested, residential based, age 70,
- The gradual increase of the retirement age until age equalization for both men and women at 67
- Strict rules for pension indexation only by inflation
Parametric Reform of PAYG

- Discourage early retirement
- Incentives to continue working longer, even after retirement age
- Elimination of privileges for certain categories
- Unification of urban and rural schemes in a single one
- The gradual increase of farmer contributions till urban self-employed contributions and removal of farmer state subsidy
- Maintenance of the earned rights and only indexation
- Stimulation of Professional Private Funds
- Equilibrium between sustainability and adequacy
Pre- and Post- Reform

Replacement Rate

- 0.0%
- 5.0%
- 10.0%
- 15.0%
- 20.0%
- 25.0%
- 30.0%
- 35.0%
- 40.0%

- 2015
- 2020
- 2025
- 2030
- 2035
- 2040
- 2045
- 2050
- 2055
- 2060
- 2065
- 2070
- 2075
- 2080

- post-reform scenario
- base scenario
Pre- and Post- Reform

Coverage Rate

- **post-reform scenario**
- **base scenario**
Pre- and Post- Reform

System Dependancy Ratio

base scenario
post-reform scenario
Reform results

- Higher pensions amounts, more than previous maximal pension
- Social pensions
- Moderate reduction of deficit
- Increase of participation in the scheme and declaration of real wages due to direct link between paid contributions and calculated pension
- Increase of reliability to the scheme and transparency
Development of Third Pillar

- Defined contributions
- Voluntary contributions
- 3 Pensions Funds
- Low participation (only 2% of contributors)
- Number of contributors in private pension funds during 2015 was 18% higher than previous year
- Fiscal incentives for participation on third pillar
- Supervised by AFSA, independent body
Thank you for your attention!