

The Albanian Pension System: The Need for Reform

Areti Stringa ¹, Raimonda Duka ², Kiti Stringa ³

¹ *University Tirana, Faculty of Economy*

² *University Tirana, Faculty of Economy, rajmonda.duka@unitir.edu.al*

³ *Bocconi University*

Abstract. This paper focuses on the pensions system in Albania. The economic, political, and social changes that occurred in the nineties put the whole country's economic development under pressure and especially the pension system. This paper analyzes how the challenges brought by both the demographic transition and the economic transition were faced. It discusses the different reforms undertaken up to now and their impact on the pension system sustainability, equity, and the fiscal burden to the state.

The parametric reforms of 2002 had a positive effect on the financial situation of the pension scheme. Yet further reforming of the current scheme is necessary to address ongoing concerns. The high rate of unemployment and the informal labor market reduce the amount of contributions. The "aging" population, which increases the fiscal burden, continues to challenge the pension system.

Keywords: pension; contribution; pension reform.

1 Introduction

Pensions are the primary means by which an individual stretches income over the lifecycle. In most of the cases the pension is the only mean of income for the old-aged individuals. Many countries depend on pay-as-you-go (PAYG) pension system, defined as the system in which current pensions are paid from the tax receipts. This is also the case for Albania. The focus of this paper is the Albanian pension system. The reform of the public pension system and more generally the review of the old-aged income support are on the reform agenda worldwide and Albania is no exception.

The Albanian social security system is characterized by a very low rate of contributions collected. Today Albania collects contributions amounting around 3.7% of the GDP (SII), which are lower compared to either an average of the Europe and Central Asia (ECA) or an average of European Union (EU) countries. According to the World Bank (WB) the ECA countries (including Albania) collect around 6% of the GDP in contributions (WB, 2009) while the EU-10, 7.2% of the GDP (European Communities, 2009). The main characteristics of the Albanian economy that lead to this situation are summarized as follows:

- The heavy contribution of the agricultural sector in the GDP of the country, 22% of the GDP (INSTAT). For the members of the EU it is considerably lower, it amounts to 5.5% for Bulgaria and 6% for Rumania and only 1% for the EU-15 (Eurostat).
- The labour market structure characterized by a high rate of migration.
- The high informality in the economy.
- The wide spread of tax evasion, the Albanian tax authorities collect only 25-26% of the GDP in taxes (Ministry of Finance).
- The high solidarity in the Albanian family, where the link between the old parents and the strong and young children is still very tight, lowering so the importance of pensions as a mean of income.

2. From the past to nowadays

Albania is one of the youngest countries in Europe, which makes its social security case different from the western countries. The communist regime, the transition policies and the politics altogether have a voice in the pension system in Albania.

Even though the first legal act on social security, the Act “Civil Pensions” No.129, dates back on 28.10.1927, the first establishment of the social security system in Albania happened on August, 1947. It covered mainly two groups, employees working in the state sector and the members of agricultural cooperatives. After this the main law governing the social insurance in Albania was the Act No. 4171 of the Peoples’ Socialist Republic of Albania. Following the soviet pattern, on one hand it was very generous while on the other it could not provide a full social protection (Luci, 2007).

In the period of 1991-1993 an economic collapse occurred. In 1992 we have the final dissolution of the agricultural cooperatives. This led to a drastic fall in the number of contributors. While during the nineties the rate of contributors to beneficiaries was four to one, in 1993 it reached 0.75, the lowest rate ever (SII, 2004). Even though in the period 1990-1993 the Government took some measures in respect of indexation and increase of the monthly pension amount, once again due to the general economic collapse and high inflation, the replacement rate suffered a continuous decrease. This is why the reform in the Social Security System came as a necessity at those times.

On 11 May of 1993 the law No. 7703 came into force. According to this law the social security system in Albania is composed of:

- The obligatory social security system (First Pillar)
- The voluntary privately run social security system (Third Pillar)

Also, at currently only the first and the third pillar exist. The largest part of the old age insurance system is publicly run and it pays „defined benefits” under a pay-as-you-go system. It makes the first pillar of the system in Albania. While the voluntary supplementary pillar has its own role to play in the pension system in Albania, it is still in its embryonic stage.

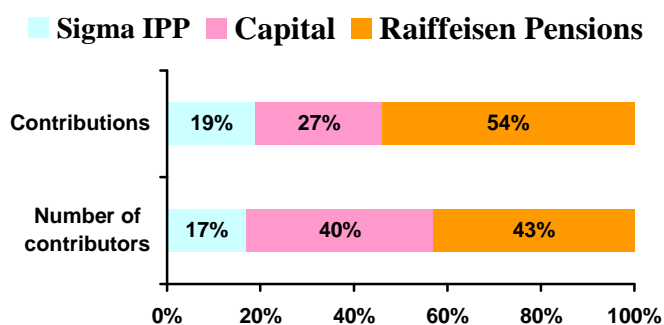
3. The introduction of the voluntary (funded) pillar

The voluntary funded system and the activities of the private pension institutes are regulated by the Law No. 7943 dated 1 June 1995 (amended by the Act No. 8393 in 1998 and by the Act No. 9181 in 2004), on “Supplementary pensions and private pensions institutes”. According to this law, the voluntary system accomplishes two purposes. The first purpose is to provide supplementary pensions and the second to provide for better provisions of pensions than those offered from the obligatory scheme. In order to foster the development of this market, the income generated from these funds is not taxed. But the absence of an attractive financial environment and the lack of trust in such agreements

due to the bitter history of the population's investments of saving in 1997 have left this pillar in an embryonic stage (5-7% of the financial market) (Luci, 2007).

It was only in 2004 that real measures to develop and regulate the market where the private pension institutes operate were taken. The Council of Minister (CoM) established The Inspectorate of Private Supplementary Pension Institutes. A year after the Albanian Financial Supervisory Authority (AFSA) was established as a public independent institution. AFSA is responsible for the regulations and supervision of the non-banking financial sector, including the private supplementary pensions market and its operators. Last year the Parliament enacted the Law No. 10197, 10/12/2009 on "Voluntary Pension Funds". This is the main development in the year 2009 done upon the World Bank assistance and in compliance with international standards (AFSA, 2008). The purpose of this law is to give fiscal incentives and stimulate the development of the non-banking financial market.

There are only three operators exercising their activities as supplementary pension funds, respectively Raiffeisen PENSIONS, Capital and Sigma IPP. They have 4,429 members and a total accumulated fund of Lek 72.9 million (AFSA, 2009). All of them started their activity in 2006. At the end of the year 2009 the share of the number of contributors and the share of the contributions between the three funds was as shown below:



Source: AFSA 2009

At the end of the year 2009 the amount of contributions of the private pensions institutes reached Lek 370 million, an increase of 19% compared to the previous year (AFSA, 2009). However this amount is insignificant compared to the amount of Lek 43,331 million contributions collected by the general obligatory system. Even though the private pensions may constitute a good option of reform for Albania, the obligatory insurance schemes continue to dominate the market. The lack of a midterm strategy for the development of the pension market leads to the impossibility of initiating a „real” reform of the pension system, a situations which becomes even worse and hopeless in a labor market where both unemployment and informality are high (Hasa, 2005).

4. The obligatory social insurance scheme: Institutional characteristics

The obligatory social insurance scheme is managed by the Social Insurance Institute (SII). It covers employees in the public and private sector and self-employed both in urban and rural areas provided that they have contributed to the scheme for a defined period of time. The voluntary scheme affects those who are no longer insured, those who have been and want to be insured, those who are not covered by law and the university students. The supplementary pensions are directly financed by the state budget funds. They go to employees who have served high constitutional functions, civil and military services. Finally the specific pensions go to those who have taken part in war, or to pensioners who carry titles in the area of culture, art, economics and politics and to the persons who have been

politically persecuted by the communist regime. These pensions are also directly financed by the state budget (Law No.7703).

After the financial and administrative reform of the social insurance system in 1993 the task of implementing the social security policy is on the Social Insurance Institute. The SII is an independent public agency under the control and co-ordination of the Ministry of Finance. The SII is responsible for the management of the Social Insurance Fund. The social insurance Fund is divided into 5 main branches: diseases, pregnancy, pensions, accidents and professional diseases and unemployment. The pension system provides for three types of pensions, old age pensions, invalidity pensions and family pensions. Currently 16.9% of the population receives a pension (SII).

For 2009 the rate of contribution for social insurance is 24.5% out of which 21.6% is paid to the pension branch (table 1). The employer pays 15% of the total amount of social insurance and the employee pays 9.5%.

Table 1. The rate of contribution for social insurance

Insurance Branches	Total %
Pensions	21.6
Disease	0.3
Pregnancy	1.4
Accidents at work	0.3
Unemployment	0.9
Total of Social Ins.	24.5%

Source: ISSH

As it concerns the retirement age, the reform of 1993 did foresee a gradual increase in the retirement age and insurance years according to a determined scheme. This transitory scheme was to continue up to the year of 2004. Also the reforms of the 2002 considered the gradual increase of the retirement age by six months per year up to the age of 65 for men and 60 for women. This gradual increase will be complete in 2024.

Currently, in order to be entitled to a pension each individual has to contribute for a period set by law at 35 years. Men can claim pensions at the age of 65 while women at the age of 60. Considering the legislated reforms, a person can retire up to three years earlier provided he has contributed for 35 years.

The monthly old-age pension is calculated as follows:

$$P = Bp + 1\% \times N \times Wc$$

The benefit formula calculates the full monthly old-age pension as the sum of a basic pension and an increment of 1% for each year, N, of service. The basic pension provides a minimum living standard and it is determined by the CoM. The increment is different for every individual and it is calculated on the contributory wage. The contributory wage is the average wage during the time contributions are paid. Given that there is no data on individual wages available before the period of 1994 the increment is calculated on reference wages set by the CoM.

The total amount of the old-age pension is subject to a ceiling and a floor. The minimum pension is decided each year by the CoM. The maximum pension is subject to a floor, it is either twice the minimum pension or 75% of the net average wage of any three successive years in the last ten years of

employment, whichever is less. The minimum rural monthly pension for the year 2009 was Lek 10276 (less than Euros 100) and the maximum was Lek 20552.

According to the current legislation, the pensions should be indexed to price changes. What happens in reality is different. Indexation of the pensions is nothing but an ad hoc decision of the CoM considering the drafted budget (WB, 2006).

5. Main Reforms

The reform of the 1993 - The financial and administrative structure of the social insurance system was reformed in 1993. According to the law the initial strategically objectives of the new system aimed at:

- The substitution of the social insurance system inherited from the communist regime with a more suitable system to the changing economics, politics and social order in Albania.
- The protection of the social and economic rights of the individuals granted by law and guaranteed by International Conventions.
- The guarantee for the necessary funds to constantly finance pensions received by about 1/6 of the overall population.
- The gradual unification of retirement age as well as the contributions in a specific period of time.
- The establishment of a new unemployment insurance scheme, to create the opportunity to shift from the budgetary financing of unemployment benefits to
 - a contributive one.
- The reduction of the State contributions financing social security in general and social insurance in particular.
- The creation of the space needed to establish other social insurance systems as an emergency of the market economy.

Several years of experience has already been gained since the launching of the reformed system. The main reforms that followed and their impact on the system are analyzed below.

The reform in the rural pension, 1998 - Ongoing reforms in the social insurance system came as a necessity in the period 1994- 1998. This was an economic transition period, many state-owned companies closed down leading to massive unemployment. They introduced for the first time the survival pension. The individual, dependent upon the insured person who dies, was made eligible to a survivors' pension, provided that the deceased had paid contributions to the obligatory scheme until a year before his death. For the first time the legal connection between the right of receiving contributions and the obligation to pay contributions was ignored. Moreover for the same reasons, they introduced the employment diseases pensions.

Contributors	1994	1995	1996	1997	1998	1999	2000	2001	2002
Urban	438,107	416,586	399,637	321,315	323,860	309,049	328,091	342,318	347,764
<i>increase over previous year</i>		95.1%	95.9%	80.4%	100.8%	95.4%	106.2%	104.3%	101.6%
Rural	42328	43881	32563	26723	38537	113894	171994	160645	126559
<i>increase over previous year</i>		103.7%	74.2%	82.1%	144.2%	295.5%	151.0%	93.4%	78.8%

Source: Statistics reports of ISSH

But the main change in this period is the rural reform of 1998. The table above shows the number of the contributors in the pension system during the year 1994-2002 both for the urban and rural schemes. In 1992 we have the final dissolution of the agricultural co-operatives. Before that period there were almost no contributors in the rural area. Even today the Albanian Social Insurance system runs slightly separate schemes in the urban and rural areas. The difference is both in terms of the contributions paid and the benefits received. Rural workers are divided in 2 groups, lowland workers and highland workers. The CoM decides every year a flat contribution for the self-employed in the rural areas, where the rate for the highland workers is lower. After that, the government pays the difference between this rate and the minimum rate of contributions required to be paid by a worker receiving the minimum urban salary as contributions to SII.

The increase in the number of contributors in the urban area from 1998 and afterwards is a result of one of the fundamental changes approved in 1998. This was connected with the reform in the rural pensions and aimed at the gradual equalization of the rural pension to the urban one. The path followed was a promotion of the social insurance scheme in order to increase the incentives of the self-employed in the rural areas to contribute in the system. Before this period a person who had worked in ex-agricultural cooperatives and had contributed to the new social insurance scheme could not receive a pension higher than one fifth of the urban pension. The reform approved a new formula for the calculation of the pension for the self-employed in agriculture. The pension consists of 2 parts, a rural base pension (to be determined by the CoM) and an increment equal to 1% of the minimum urban wage for every year of contributions paid. The equation of the pensions is supposed to be achieved in 2012.

This reform aimed not only at equity of the two pensions but also equity of contributions. Even though, the reform achieved its aim of increasing the number of rural contributors, this did not decrease the fiscal burden of the urban system to the state. Rural worker pay minimum contributions and the majority are paid by the Government.

For the year 2009 the monthly amount (determined by the CoM) to be paid by the lowland workers was Lek 1200 (less than 10 Euros) and for the highland workers only Lek 780. The government pays as contributions all the remaining part to equalize rural contributions with the contributions paid by workers with minimum wage in the urban area.

Today the average monthly rural pension represents about 70 % of the average monthly urban pension and contributions paid by the rural workers are less than 1/5 of the contributions paid by the urban workers (SII). This shows that things have not moved in the right direction. There is still a very weak relationship between the contributions paid by the rural workers and the pensions received. Given this and the low amount of contributions paid by the self employed in the rural area, the financial stability for the urban system demands further reforms.

The parametric reforms of 2002- These reforms are considered to be very important in the pension system in Albania. The main factors that led to the need for these reforms and the main changes in the functioning of the pension's scheme are listed below.

In 2001 the deficit of the system was very high amounting almost to 1% of the GDP and projections indicated even a worsening of the situations in the years to follow (SII, 2003). The number of contributors fell from 502,963 during 2001 to 474,323 during the 2002. This amounted to a decrease of 5.69% in the total number of contributors. The amount of pensions to be paid followed its normal increasing path leading to an increase in the expenses of the pensions system amounting 5.55% of GDP. What is to be noted is that the rural pensions accounted for a large part of this deficit (SII, 2003).

Moreover the contribution rates were considered to be very high. They amounted to 42.5% of the payroll. Out of this, 31.7% would go for pensions. These high contributions gave people no incentive to join and contribute to the pension scheme. Under these circumstances the Parliament, after consulting the World Bank and the International Monetary Fund passed the laws in order to reform the system. At that time the retirement age was 55 for women and 60 for men. The first main reform legislated was the increase of the retirement age to 60 for women and 65 for men by 2012. The increase was to be done gradually, by raising it every year by six months. Moreover the right to receive partial pensions was recognized in order to smooth the increase in the retirement age. Individuals cannot retire earlier than three years of the retirement age and the benefits are reduced by a coefficient of 0.6 per year. Also the compensation scheme covering pensioners' dependants was changed completely reducing the number of the latter.

All of these parametric reforms had a positive impact on the finances of the system, except the decreases in the contribution rates. This reduction in contribution rates were accompanied by an increase in the ceiling of the contributory wage from three times to five times the minimum wage. This was done to avoid the financial problems of the scheme due to the decrease in the amount of contributions. Changes in the contribution rates were adopted both in the urban and rural areas but in different directions. While in the urban scheme the amount of contributions was reduced by 4%, in the rural one the amount of monthly contributions paid by the farmers was raised 2.4 times. In the 2001 it was Lek 135 (1 Euro using today's exchange rate) and Lek 81 for the lowland and highland workers respectively. In 2002 it was 324 LEK and 195 LEK. After 2002, following the strategy for social insurance in rural areas, the contributions rates for the rural workers have increased every year.

Finally, the responsibility to collect the contributions for the urban contributors was transferred from the SII to the Tax Directorate. The SII still collects contributions from the rural areas.

This is the main reform undertaken until now. It had a direct effect on the fiscal sustainability facilitating both the SII and the Government's Budget. Still, the high level of unemployment and informality which distort the labour market demand our attention. The informal economy affects the labour market in many ways, breaking the laws concerning labour relationships, wages, taxes, including here the contributions paid for the social security system, competition etc.

As it concerns the social security system, the impact of the informal economy is firstly noticed in the difference between the number of entities that operate in Albania and the number of these registered under the Tax Authorities (Luci, 2007). Other differences are noticed in the total number of employees in the private sector and the numbers of employees in the private sector that pay contributions. According to the Ministry of Labour Statistics for the year 2009, the number of employees in the urban private sector was 246,975. On the other hand, from the statistics made available by the SII the number of contributors from the private sector was only 158,785, or only 64.3%. Even though total private sector contribution to GDP is estimated at 75% (EBRD, 2004), the contributions collected from the private sector are lower than those collected from the public one.

Finally, there exist differences between the actual level of wages and the level of wages reported to the SII. An "agreement" exists between the employees and the employer to declare minimum wages (Luci, 2007). According to the estimations done by the OECD (2005), 30% of employees in formally registered enterprises are not registered and do not pay social security contributions, and those that pay generally do so at the minimum wage level. This has a direct effect on the amount of contributions collected and it reduces considerably the amount of revenues collected by the SII. On the other hand the labour market in Albania is characterized by a high rate of unemployment. Even though progress has been made in this regard, unemployment remains a serious problem influencing the budget allocated to the social protection.

For the year 2009, the registered unemployment rate (share of labour force that is unemployed) is 12.7% (ISSH). The European Commission report, 2009, states: “Overall there were some improvements in the labour market outcomes. However, unemployment remained high and labour market data continued to be poor...The budget allocated to social protection in the 2009 budget increased and reached 7.7% of GDP. However, further reforms are required to insure sustainability of social protection policies...”

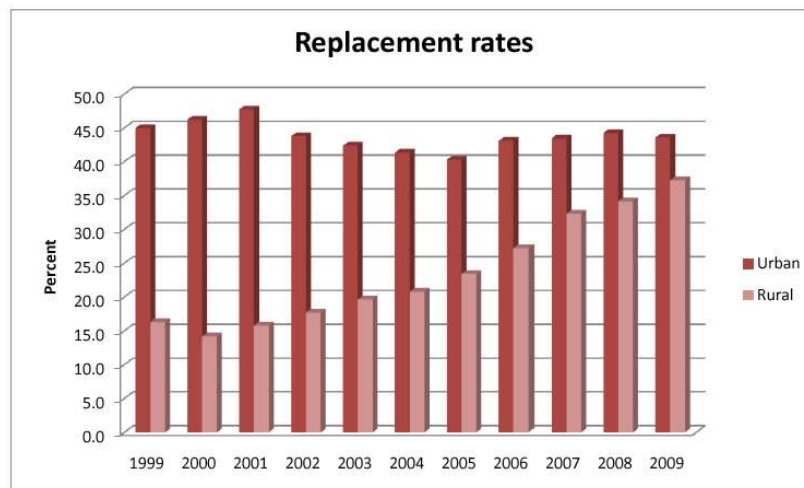
6. The attempt to abolish inequalities in the pensions amounts of individuals with similar contributions

Inequities arose in the pension system due to the changes done to the benefit formula during the years. Workers that paid the same contributions but retired at different periods received different amounts of pensions. The main reasons why these differences emerged are the different legislations and pension indexations at unequal rates.

The law governing the social security system before September 1993 provides a pension equal to 70% of the net average wage of any three successive years in the last ten years of employment, while the new law provides a pension equal to 75% of this net average wage. Moreover, during the difficult economic transition in the period 1990-2002, because of the need to reduce poverty among the elderly receiving minimum pensions the government set as a priority the increase of the minimum pension (SII, 2007). This process started in 1991, where the minimum pension was increased by 88% while the maximum pension by only 50% (SII, 2003). During the years, they kept on increasing the minimum pensions by using different rates of indexations. This is why in 2000 the maximum pension was not twice the minimum one as it is defined by law, but it was only 1.27 times the minimum pension (SII, 2003).

Between the years 2000 and 2005 some special measures were undertaken in order to restore equity. These measures were organized in 4 stages. Firstly the Council of Ministers implemented two decisions (No.104 date 09.03.2000 and No. 518 date 21.09.2000) that diminished considerably the difference between the pensions received under the two different laws. These decisions improved the ratio between the old maximum pensions and the new one from 68% to 85% (SII, 2003).

But this reform did not address the root of the problem, being the weak relation between the contributions and benefits. This can be observed also in the following table that shows the replacement rate (defined as the ratio between pensions and wages) during the year 1999-2009.



Source: SII statistics

As it can be observed this ratio has increased both in the urban and rural areas from the year 2000 to the year 2001. After this, until the year 2005 we have a decreasing replacement rate in the urban area and an increasing one in the rural area. An explanation to this phenomenon is the difference in calculating these two ratios from the SII. While for the calculation of the Urban Replacement rate the SII uses the average contributory wage as the denominator, for the calculation of the Rural Replacement rate it uses the minimum contributory wage. The contributory wage is nothing but the average wage during the time contributions have been paid and it is obviously higher than the minimum contributory wage. Moreover the rate at which the average contributory wage has increased in the urban areas is considerably higher than **Percent** the one in the rural areas. This is why the change in this rate has been positive for the rural areas and negative for the urban one.

It should be noticed also that even if the replacement rate for the urban pensions is satisfactory from a first look, this is not really the case. As noted in the World Bank Report, and things have not changed much from the time the report was written, the difference between the replacement rate and the ratio of the basic pension to the average contributory wage is not substantially higher. For the 2009 the average pensions amounts to only 43.6% of the average contributory wage while the basic pension stands at 38.8% of this wage (SII). The different limits of the maximum pensions mentioned above and the decisions taken by the Government to index the minimum pension more than inflation led to a situation where many people receive the minimum pension regardless of their contributions.

In conclusion, the attempt to abolish inequities in the pension's amounts of individuals with similar contributions has led to other inequities, putting high-income workers in an unfavorable position. There is a need for a final legal draft considering all the different parties and their needs in the security system. It should consider the differences created from unequal indexation and other phenomena or shortcomings that have weakened the link between the period during which contributions are paid, the amount of contributions paid and the amount of pensions benefited.

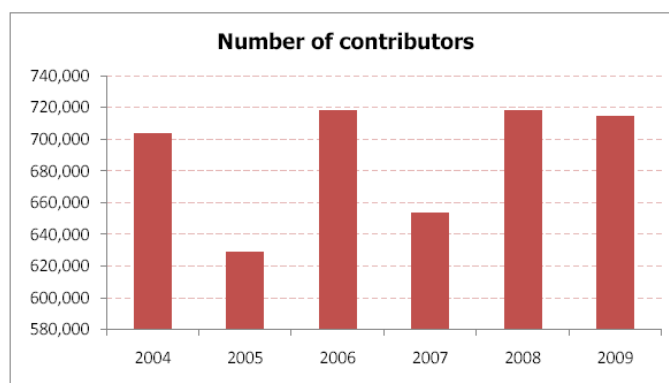
7. The Reduction of the contribution rates in 2006 and 2009

As noted in the World Bank Report of 2006 one of the main problems identified in the Albania pension system was the high rate of contributions which provide disincentives to formalization of the labor force. At the end of 2005 the Social Insurance Contribution Rate was 38.5 % of which 29.9% went for pensions. Contribution rates in Albania were high even compared to the OECD averages. With the exception of Italy and Portugal, which had slightly higher rates, Albania had the highest contribution rates in this group of countries (WB, 2006). Albania rates were not completely out of line when compared with the other Central European rates (WB, 2006). Following the suggestion of the World Bank, two reductions in the contribution rates were done in 2006 and 2009.

In 2006 the Social Insurance contribution rates decreased with 9%. It amounted to 29.5%, out of which 20% paid by the employee and 9.5% by the employer. The contribution rates for pensions decreased from 29.9% to 23.9%. Subsequent to this was another reduction done last year. Social Insurance contribution rates decreased to 24.5% where only the contribution rate paid by the employee was reduced to 15%. The contributions rates for pension actually stand at 21.6%, the lowest rate in the years taken in consideration.

Taking a look at the number of contributors in the graphic below, we see that the impacts of these reforms are minimal, not to say inexistent. Even though it looks like from 2005 to 2006 the number of contributors increased by 15.28%, this comes after a previous reduction from 2004 to 2005 of 11.95%. Again in the year 2007 we have a further reduction in the number of contributors to 653,136 due to the reform initialized by the Government for a "small Government". In order to cut the budget deficit they

decided to decrease the number of employees in the budgetary entities .In 2009 the number of contributors is even smaller then in 2008. Up to now the only effect of the reductions of the contribution rates have been an increase in the Deficit of the Social Security Scheme on the country's budget.



Source: SII statistics

8. The Need for Reform

Albania is following the trend encouraged by the World Bank in the last decade, the introduction of multi-pillar pension system. What has been done up to now is the introduction of the voluntary funded pillar and the previously mentioned reforms of the unfunded first pillar.

In order for pension reforms to work, comprehensive reforms of the labor market and the financial market are required. Some of these reforms have already been implemented in Albania. Still the analyzes of the main indicators of the pension system: the extremely high dependency rates, the very low number of contributors, the weak link between contributions and benefits and the low replacement rate, clearly affirm the population who will not be covered by the system in the future. The North grew rich before becoming old while Albania risks becoming old before becoming rich.

A reform option may be the introduction of a mandated and funded pillar as seen in Bulgaria (2002) Croatia (2002), Hungary (1998), Poland (1999), the FYR Macedonia (2006), Romania (2008) and the Slovak Republic (2005) (Holzmann, 2009). In order for Albania to implement this, the financial market must be ready to host this pillar. Considering the ten areas identified by Holtzmann as crucial for readiness of the funded second pillar (tax collection, transaction security, financial literacy, the availability and quality of critical financial services etc). I believe that Albania is not ready to take this step yet. The IT system is being introduced this year for the first time in both the private and public pensions' systems. Moreover the slow progress in the non banking sector of the financial markets (EBDR, 2009) further confirms this conclusion. The undeveloped financial market made Albania relatively "immune" from the economic crisis that occurred, and the economic crisis reopened again the debate of the sustainability of pension system in hard times.

We believe that the policymakers should focus primarily on reforming the first pillar and then on the introduction of the second pillar. A fist option is another set of parametric reforms, for example the equalization of the retirement age for men and women to 65. Moreover, they should focus their efforts and recourses on improving participation rates and building a financial surplus. A reform option could be the introduction of the non financial defined contribution schemes (NDC). NDC are unfunded individual retirement accounts intended to reform the first pillar. Basically employees or employers pay contributions on earning during their whole working career. There is a minimum age at which an annuity can be claimed but there is no „pension age.. Earning generated increase the individual

accounts even if the individual is already drawing parts of it. This account grows with contributions and is credited with a rate of returns (Holzmann et al, 2006).

Some of the advantages the NDC system has (Holzmann et al, 2006), and it may bring to the Albania pension system are:

- The automatic adoption to the changed balance of contributors to pensioners.
- The automatic adoption to demographic changes.
- The avoidance of arbitrariness of benefit indexation rules.
- The transparency added to the PAYG pillar.
- The strengthening of the principle that pensions are based on long life earning.
- The flexibility for employees to chose their retirement age.

Albania policymakers have to decide between introducing the funded mandatory pillar immediately or delay it for later on after further reforming the actual unfunded pillar. Whatever policy is chosen to reform the system, a financial and economical sustainability is required together with a general political consensus in order for the reform to succeed. And Albania has still a lot to do in this direction.

5. Conclusions

The focus of this paper is the pension system in Albania. The paper analyzes how the challenges brought by the changes in the nineties and afterwards were faced.

After looking at reasons that led to the reforms implemented in years and their effects in the system, it can be said that further reforms are needed. The first reform implemented in the rural system did increase the number of contributors, but did not address the root of the problem being the weak relationship between contributions and benefits. Still today rural worker pay very low contributions for the pensions they receive, increasing so the fiscal burden to the state. The other reform aiming to reduce inequities between pension's amounts with similar contributions implemented led to other inequities between low income and high income workers. The reductions in the contributions rates done in 2006 and 2009 in order to increase incentives to participate in the system have not showed their positive effects yet. The most successful reforms implemented were the parametric reforms of the 2002.

However, the high level of unemployment and informality which distort the labour market, and the analysis of the main indicators of the system show that further reforms come as a necessity. Adding to all this the underdeveloped non-banking sector, high rate of tax evasions and the impact of the last crisis on the funded pension schemes it is concluded that Albanian policymakers should first focus on the reformation of the mandatory unfunded pillar. In conclusion, without a general political consensus no policy can succeed.

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