

## Reform of the state pension system in Albania

### Introduction

It is known that the Albanian economy has been, and still is, the most backward in Europe and, despite its recent growth, that it remains the poorest country with a very low standard of living amongst the population.

After the Second World War, a totalitarian communist regime that held sway for nearly fifty years was established in Albania. The Party of Labour of Albania (PLA) led the country with wrong principles such as 'the policy first', 'we don't need credit or help from others', 'self-reliance', etc., which had the effect of isolating the country. The whole of these absurd principles are in opposition to economic laws, the requirements of development and to the principle of the international division of labour as a main factor in increasing productivity and in labour efficiency.

After 1990, following the introduction of political pluralism, the application of the theory of 'shock therapy', mistakes in the process of privatisation and the absurd events of 1997 and 1998 led to a decline in economic development and a deterioration in the living standards of the people.

In a market economy, individuals must take more responsibility on themselves. This principle is enshrined in Law No. 7703 *On Social Insurance in the Republic of Albania*. According to this law, all active individuals, including those who are self-employed and independent farmers – must contribute into the social insurance scheme. Employers, their employees and the self-employed pay a certain contribution based on their salary and benefits, while self-employed individuals and farmers pay a fixed sum contribution as well as a set amount of their profits.

According to the Law, the largest pension amount must not be more than twice the basic pension or 75 per cent of the net average wage.

In analysing the issue of social insurance, it is necessary to mention that everyone has their contribution registered, although the money taken by these contributions are immediately used to pay out benefits. The 'pay as you go' system means that working people contribute into the social insurance scheme the pensions of the current generation of retired people, or those with disabilities, with their pensions after their own retirement paid out in turn by younger generations of workers. It is obvious that, without sufficient contributions, current pensioners can not be paid nor can they receive the other benefits they may require.

The goal of this article is to analyse the current situation of pensions in Albania and to suggest some recommendations for increasing the amount of the state pension. The average monthly state pension is \$84, while rural pensioners receive about \$30.

### The need for reform

The issue of pensions must engage more deeply governmental structures, trade unions, non-governmental organisations and public opinion, for the following reasons:

- pensioners are the poorest class in the country: during the last year, the real pension in urban areas was 13 per cent lower than it was in 1990 while in rural areas the monthly pension is just \$25-30
- based on statistical data, the number of pensioners in our country is about 560 000 individuals, which shows that the majority of families have one or more individuals who benefit from pensions and are likely to be dissatisfied with their actual pension. Pensioners and their families number about 1.5m individuals
- before 1990, the indicator of contributors per one hundred pensioners was 450, but in 2004 it was only 125. This is not only a critical proportion but also, above even that, it is a fictitious one since the majority of contributors, especially those that are self-employed in agriculture, do not pay contributions. This is the main reason why the average pension is so low
- the greatest part of pensioners from urban and, even more so, rural regions have small pensions.

Table 1 shows some data about employment and income structure, taken from last year's budget of the Institute for Social Insurance:

**Table 1 – Employment and income structure**

Sector	Total employment (000)	%	Income (million leks)	%
Public	176	19	32 324	75
Private	755	81	10 859	25
Total	931	100	43 183	100

Source: INSTAT 2004 (2005): *Labour market* p. 12, Tiranë, 2005.

Instituti i sigurimeve shoqerore 2004 (2005): *Statistika* p. 3 Tiranë.

These data can be presented graphically, as follows:

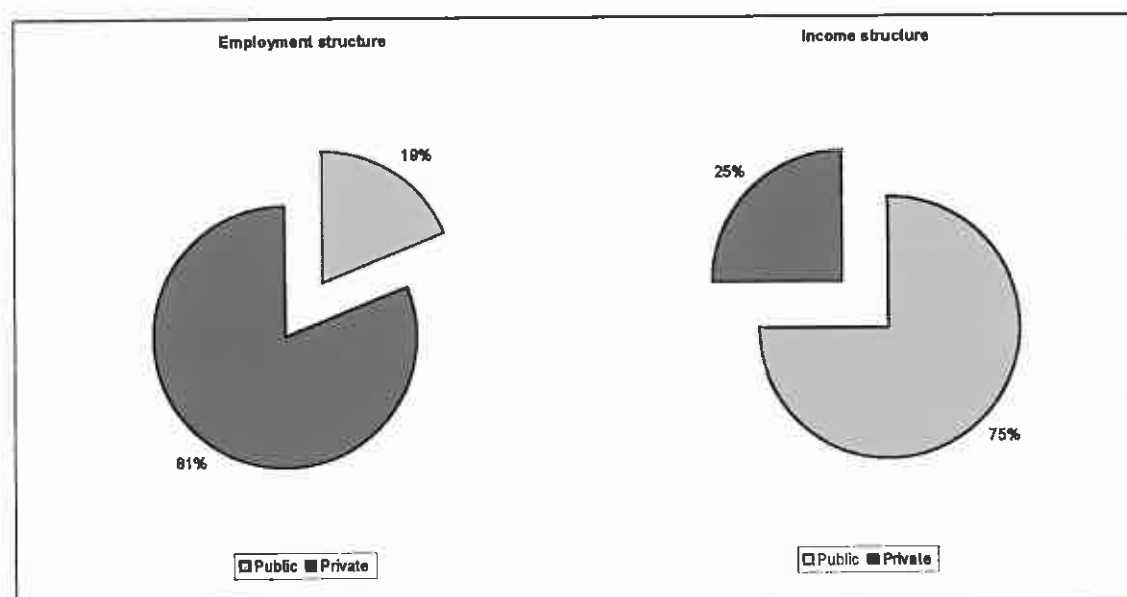
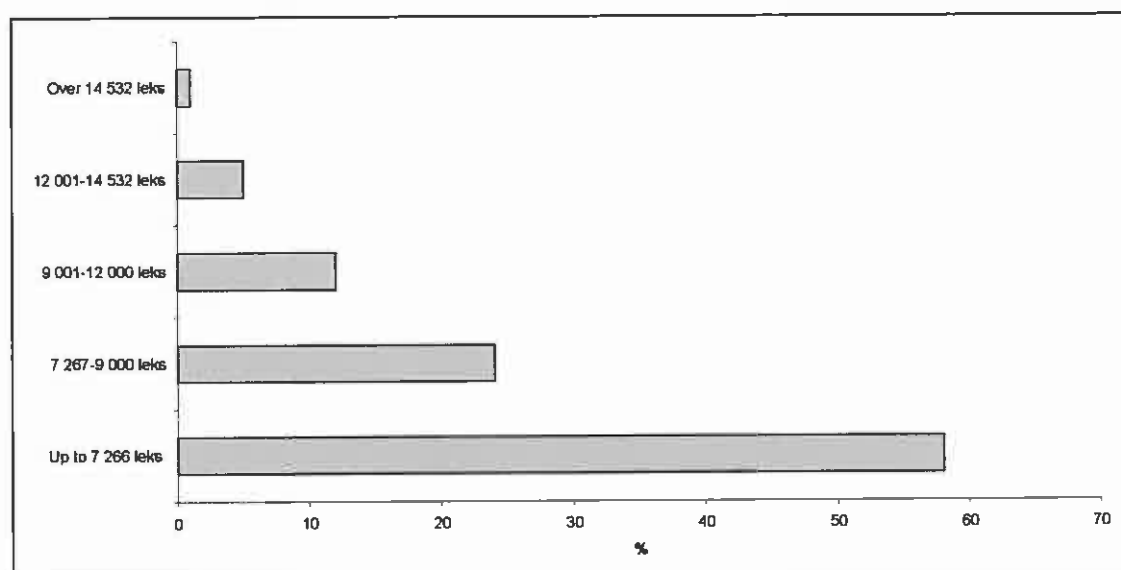


Table 2 presents data on old-age pensions, according to the monthly pension received over the last year.

**Table 2 – Pensioners in urban areas**

Group of pensioners	Number	%
Up to 7 266 leks	164 867	58
7 267–9 000	70 459	24
9 001–12 000	36 101	12
12 001–14 532	15 183	5
Over 14 532	2 664	1
Total	289 274	100

The data in the above table can be presented graphically, as follows:



### **Increasing pensions in payment**

There are several ways to increase the level of state pensions, including the following six measures.

Firstly, the number of employees must be increased. Official statistics dating from the last few years indicate that there are about 160 000 unemployed people in total. On the definition used, this must be people looking for a job and registered with the labour offices. However, we must emphasise that, besides them, there are other unemployed individuals who are not registered with the labour offices. In addition, there exist enormous levels of hidden unemployment in rural areas.

A higher level of employment would increase the number of contributors, raising in this way the revenues of the ISI (Institute for Social Insurance). The result would be that the contributor-earner ratio would be improved and pensions could be increased.

Our country has a wealth of climatic conditions, both over-ground and subsoil, and great possibilities for the development of tourism. The investment of a larger amount of foreign capital and the privatisation of the economy are the main methods of allowing industry, as well as other sectors of the Albanian economy, to function. In future, the structure of employment will change, decreasing the number of employees in the agricultural sector and increasing the numbers employed in services and industry.

Secondly, exact evidence concerning the number of employees needs to be established. Every employer, after obtaining a licence, is obliged by law to declare to the state structures the total number of people employed. Under the Labour Code of the Republic of Albania, we read:

The employer holds the register of employees of the enterprise. The content of this register is determined by the dispositions of this Code and by Decision of the Council of Ministers.

In addition, employers are obliged by the social insurance law to provide information about the number of all individuals employed in their enterprises.

Precise evidence of the numbers of employed people is the first and main prerequisite in determining the unemployment rate, engagement in work, national product profitability and all other economic-financial indices. Without such information, the state structures will not be able to implement their policies on economic development, trade unions will not be able to protect the economic interests of employees and the financial structures (including ISI) can not collect taxes and fulfil their other obligations.

If we analyse the different statistical publications of INSTAT, including the *Albanian Human Development Report*, this tells us that the number of employees is about 130 000 and that the informal labour market is around 40%.

These facts show that the labour administration must strengthen its controls and must use the legal tools at its disposal on employers that break the rules. Even the trade unions must recognise that, in order to protect the interests of employees in the private sector, there needs to be accurate evidence of their real number.

Thirdly, according to the legislation, all employers must pay contributions to the ISI. Last year, the negative trends in the budget deficit occurred also in the budget of the ISI, owing to the structure of the revenues of the Institute and the low contributions from the private sector. Various pieces of research into this sector have also confirmed that employers maintain two accounting balances in order to avoid making payments to the ISI.

The contribution of the private sector is not only small but even the budgeting forecasts, which were also very low, have not been met. This has had a negative impact since it has:

- created difficulties in providing revenues for the ISI budget and in the potential for increasing pensions
- posed difficulties for employees, who will not be able to benefit from a pension during their retirement.

Fourthly, the contributions paid by farmers must be increased. The majority of Albanian people are employed in the agricultural sector. Based on statistical data from recent years, private farmers consist of 58 per cent of the total number of workers, yet their contribution is just 4.5 per cent of the revenues of the ISI. It is the duty of ISI departments, and also the media, to heighten the interest of farmers in contributing into the social insurance scheme.

Fifthly, voluntary contributions must be increased. The majority of Albanian emigrants are clandestine and do not participate in the social insurance scheme in the country in which they are employed; they have no employment contracts, so it is evident that they can not be insured in the country in which they are working. But based on the majority having worked for some years in Albania, and that they are only temporarily and seasonally employed in these countries, they should be more interested in paying contributions into the Albanian social insurance scheme. In return, all the time they spend working abroad should be taken into consideration in their retirement.

This practice, which has a double importance both in increasing the revenues of the budget of the ISI as well as in providing pensions for emigrant workers, is in accordance with the legislation and, indeed, it has started to be implemented.

During the last year, \$273m was provided in voluntary insurance. This is a small amount but, if the ISI administration works harder to educate public opinion, it could be increased through the participation of a greater number of emigrants.

Trade unions, which protect the economic interests of employees, must encourage emigrants to become involved in the social insurance scheme of the country in which they work or be voluntary insured under the Albanian scheme.

Sixthly, the tendency of closing enterprises and increasing the number of workers in retirement or on benefits must be resisted. According to statistical data, there has been an increasing trend of workers retiring during the last years. Following the end of the 1980s, there has been a trend for employees to retire early on 70 per cent of their wage. Latterly, this problem has been made more complicated following the failure of enterprises which were not able to face competition in the market economy. Unfortunately, under these conditions, such enterprises have found the easiest solution to be their liquidation and the early retirement of their workers, and have not been able to be involved in job creation.

It is a misfortune for a country which has high possibilities of creating new jobs, but is unable to realise them, that the number of retirees and unemployed individuals has increased so much. This situation has caused a double aggravation to the ISI budget – in short, it has decreased the ratio of contributors to beneficiaries. The state must economically support employers in order to increase the number of employees. In addition, the government must take protective measures in order to stimulate the domestic production of some imported products.

Based on average life expectancy in our country, and also on the experience of other European countries, employees' retirement periods must also be reviewed.

The accomplishment of these suggestions will not only create new possibilities for increasing the revenues of the ISI but also for raising the real value of the Albanian old-age pension.