



# EPOKA UNIVERSITY

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Master, Department of Banking and Finance**

**TOPIC: PENSION SYSTEM IN EUROPEAN UNION  
AND ALBANIA**

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**Approval Page**

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## **Abstract**

This thesis topic is about "Pension Systems." Approximately 25% of the EU citizens are dependent on pension income. Pension system is like give and take system, meaning when you are during your working period you make contributions and receive them when you retire. Contributions made at a specified time by working people are directly used to cover the expenses for pensions at that time. Due to low birth rates in EU average age for people is getting higher and higher affecting directly the pension system. However it is projected that public expense on pension system will remain approximately same in the incoming decades.

However, Albania like other countries in transition has experienced an increase in the level of informal labor, which has yielded limited by contributions from salaries, and causing insufficiency to provide pensions for generations of elderly, most of whom receive full pension. Albania has managed to avoid a financial crisis in the social insurance system by severely compressing benefits and by transferring funds between branches of social security. The compression of benefits has led to other problems, as individuals, choose to declare lower earnings and spend the bulk of their career employment in the informal sector. In the current model of the pension system has major shortcomings, which evolved as patches to fix previous problems.

**Keywords:** Pension system "pay as you go", multi-pillar pension system, contributions, social system, the Social Security Institute (SSI).

## **Abstrakti**

Tema është rreth "Sistemit të Pensioneve." Përafërsisht 25% e qytetarëve të BE-së janë të varur nga të ardhurat e pensioneve. sistemi i pensioneve është si të japin dhe të marrin, do të thotë kur ju jeni gjatë periudhës tuaj të punës ju japni kontribute dhe për të marrë ato kur ju dalini në pension. Kontributet e bëra në një kohë të caktuar nga njerëzit që punojnë janë përdorur direkt për mbulimin e shpenzimeve për pensionet në atë kohë. Për shkak të normës së ulët të lindjeve në BE moshë mesatare për njerëzit është duke u ngritur dhe e lartë drejtpërdrejt ndikojnë në sistemin e pensioneve. Megjithatë është parashikuar që shpenzimet publike në sistemin e pensioneve do të mbetet përafërsisht njëjtë në dekadat që vijnë.

Megjithatë, Shqipëria ashtu si vendet e tjera në tranzicion ka përjetuar një rritje në nivelin e punës informale, e cila ka dhënë efekt në kufizimin nga kontributet nga paga, dhe duke shkaktuar pamjaftueshmëri për të siguruar pensione për brezat e moshuar, shumica e të cilëve marrin pension të plotë. Shqipëria ka arritur të shmangë një krizë financiare në sistemin e sigurimeve shoqërore nga ulja e rëndë e përfitimeve dhe duke transferuar fondet në mes të degëve të sigurimeve shoqërore. Ngjeshja e përfitimeve ka çuar në probleme të tjera, si individë, zgjedhin të deklarojnë të ardhurat më të ulëta dhe të shpenzojnë pjesën më të madhe të punësimit të tyre në karrierë në sektorin informal. Në modelin aktual të sistemit të pensioneve ka mangësi të mëdha, të cilat evoluojnë si arna për të rregulluar problemet e mëparshme.

**Fjale kyce:** Sistemi i pensioneve, pay as you go, sistemi me shume shtylla, contribute, sigurime shoqerore, instituti I sigurimeve shoqerore.

## **Dedication**

I want to thank the academic staff of Epoka University for their work to help us through these three years. And also I want to thank my family for providing me to finish my studies. Also I want to thank my friends for the support they gave to me to write this thesis.

## **Declaration Statement**

1. The material included in this thesis has not been submitted wholly or in part for any academic award or qualification other than that for which it is now submitted.

2. The program of advanced study of which this thesis is part has consisted of:

i) Research Methods course during the study period

ii) Examination of several thesis guides of particular studies both in Albania and abroad.

Eglant Hoxha

January 2017

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## **List of Abbreviations**

<b>ILO:</b>	<b>International Labor Organization</b>
<b>OECD:</b>	<b>Organization for Economic Cooperation and Development</b>
<b>SII:</b>	<b>Social Insurance Institution</b>
<b>FSA:</b>	<b>Financial Supervisory Authority</b>
<b>PAYG:</b>	<b>“Pay As You Go” system</b>
<b>EU:</b>	<b>European Union</b>
<b>DCM:</b>	<b>Decision of Council of Ministers</b>
<b>NIHSI:</b>	<b>National Institute of Health and Social Insurance</b>

## **Introduction**

Social security as a scheme has started for the first time in Germany in the years 1817-1823. In 1839 Von Bismarck in Germany developed the so-called social security scheme on the principle of solidarity and continuity of generations, where all employees who pay contributions up to a certain age, to be received by elderly persons. There are occurring different provisions in different countries to protect the pensioners, depending cover offered by the country's social security and basic state pension systems. In some countries, pensions are funded largely with previous funding schemes, while in other countries mainly financed by public systems not funded pension. Also, in some countries, state it offers benefits that are often subject to means testing, which are not classified at all as pensions, or provide support for the elderly in the form of goods or services, whether free of charge if the subsidized prices.

Albania implemented public social security system for the first time in 1927. The system was adopted according the German system of 1889 from which only the civil administration officials were benefitting. The very first implemented organism of that system was the principle of solidarity between generations which continues to operate still today. Now days all the system is represented by Social Security Institute (SSI) under the surveillance of Ministry of Finance and its operating by an Administrative Council.

In all Western European countries, the social security system provides a basic pension statutory funded through the budget on an annual basis by contributions or taxes. This form of financing, without preliminary financing known as a system based on the existing number of contributors. Rules vary, but in most countries, pension rights are determined on the basis of years contributions paid during active employment of an employee, as well as on the level / amount of these contributions. In some countries the right to a basic pension depends on the length of stay in the country.

This study begins precisely with the coordination of theoretical and practical social security, then a comparison of the benefits of social security schemes to Albania with EU countries and finally presented the idea that to have a bilateral agreement, the European Council offers the model provisions what are the rules that must be followed for the conclusion of these agreements.

## **CHAPTER 1**

### **European system**

Pensions sometimes described as a system with three layers, wherein the first layer represents systems universal basic state pension status, the second layer are working supplementary pensions and third are personal insurance and other savings. These three layers are interconnected and interdependent on each other, to the extent that it would be more correct to speak of the three segments of a single layer rather than three separate layers. Even in those cases where the relative size of each system is very different in Western Europe can be assumed that similar circumstances individuals want them to provide the same standard of living. Changes in expectations individuals living standards for pensioners like about previous earnings seem to be much smaller than the differences in the pattern and structure of Western European systems provide pension payments.

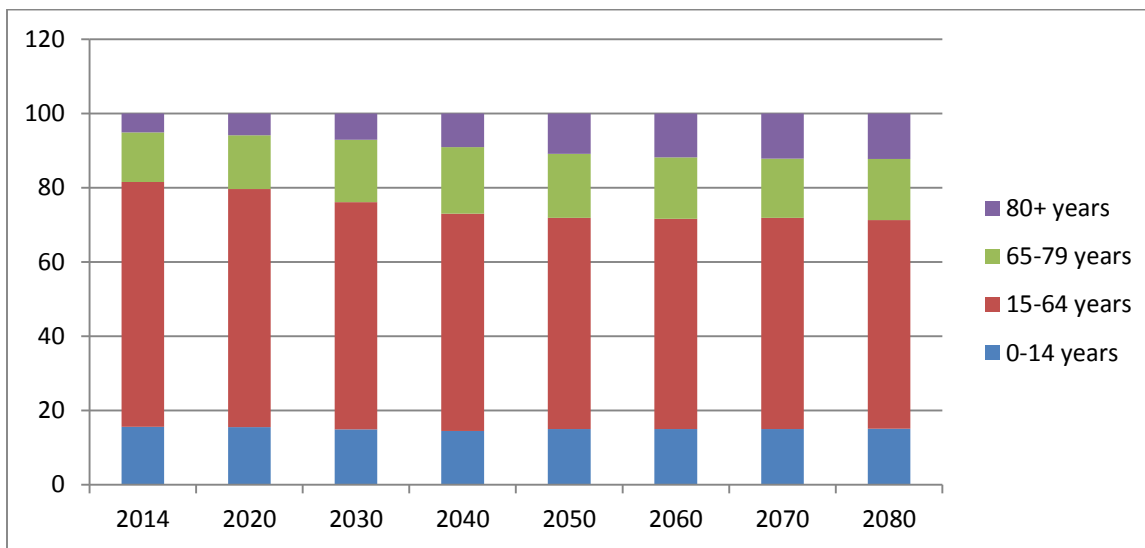
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## Ageing demographics

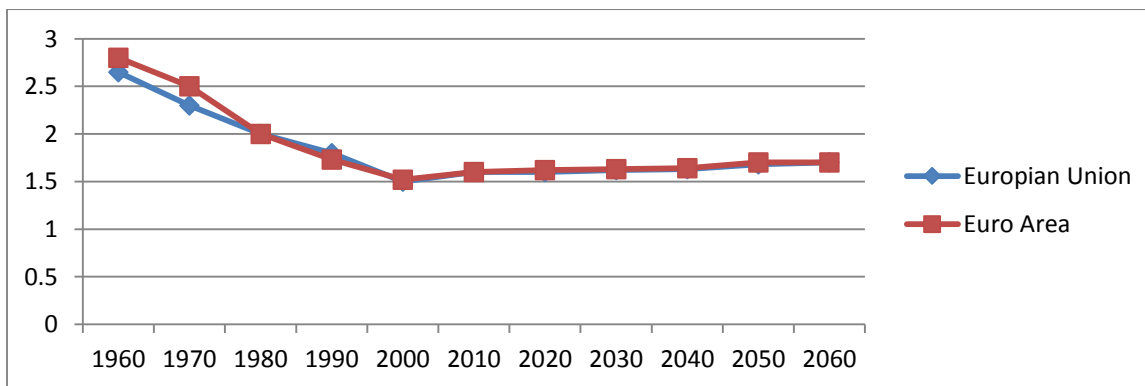
In the EU-27 birth rate in 2008 was 1.52 and there is a projection of 1.62 in the year 2050. Also there will be an expectance for increase of life-time too. Let explain it by a brief example; a man who is 65 years old in 2008 he is expected to live until 81 years old approximately. On the other case if the man is 65 in 2050 he is expected to become 86. Due to increase in life-time period and low birth rates the EU population is ageing.

**Figure 1: Age groups, EU-28, 2014–2080 (% of total population)**



**Source:** Eurostat, July 2015.

**Figure 2: Total birth rate (Past and Projection)**



**Source:** Commission services, Eurostat, EUROPOP2010.

## **Consequences of demographic change**

Because of change on demographic projections there is caused an increase in the pension costs causing a disorder in the budget. There are some ways to stabilize this budget;

- First, cut down the unnecessary parts on the budget to decrease public expenses.
- Second, increase the budget.
- Third, increase the labor force.

In most of the member countries pensions are subject of taxation even if in very low rates approximately 1.5 %, but in countries like Hungary and Slovenia there is no taxation for pensions.

## **Pension systems**

In pension systems there are used different pillars and schemes.

**First pillar** (*public pensions*): it is generally funded by social insurance contributions and it is controlled by state public sector administration. In some cases it is also financed by tax revenues on PAYG.

**Second pillar** (*occupational pensions*): generally it's a prefunded system. It is supplemented in a relationship with private employment. Sometimes the contributions are paid from the employee and sometimes from the employer, but in some cases the contributions are made from both parties depending on the contract or agreement they have.

**Third pillar** (*personal pensions*): it functions like a pre-funded private scheme. It can be implemented as a personal pension fund but it can also be managed by a financial institution. In other word it's a personal contribution investment.

To be able to implement these systems there are used some scheme.

**Pay-as-you-go (PAYG)**: the contributions received by working people are directly sent for current pension expenses. Generally public pensions are according to PAYG scheme and it is not prefunded.

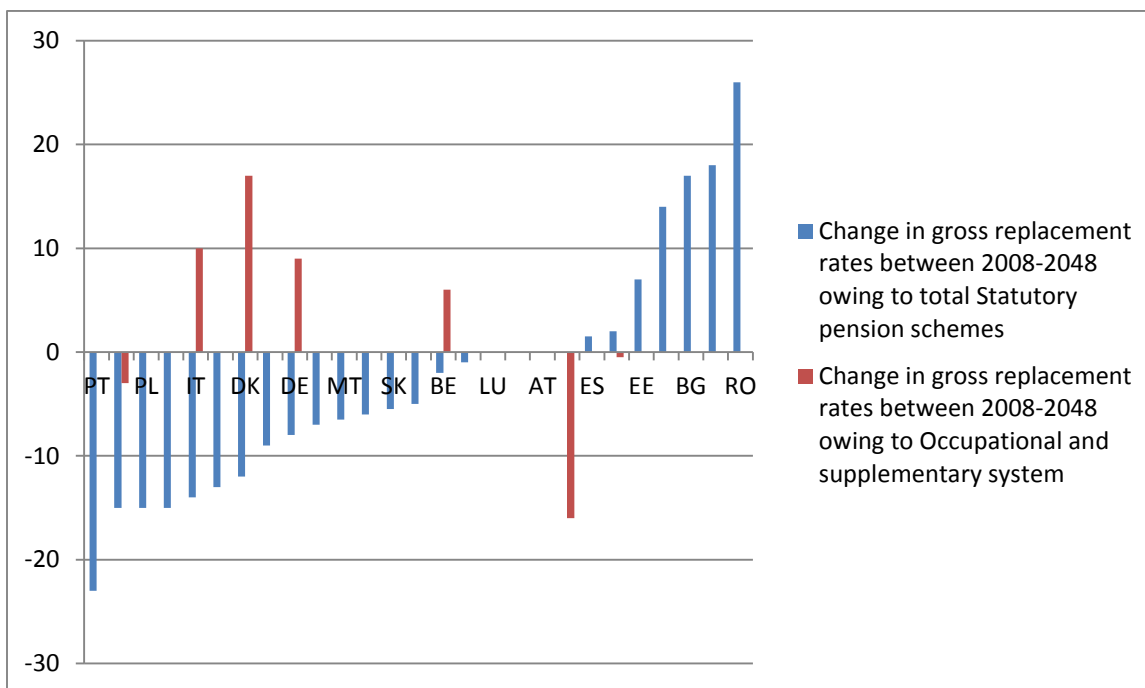
**Pre-funded schemes**: contributions made during working time work as a pre-investment and are used later to be paid as pension after retiring.



## Adequacy and sustainability in pensions systems

**Adequacy:** it is seen the ability of pension to be compared with the level of income before retirement, if it is able to cover the expenses of e pensioner. Pension is the main source of income for elderly people, so it should be suitable to provide to everyone a comfort life. It happens that the income of people over 65 from the pension is lower than the average income of total population. In some cases they also are at the level of risk of poverty.

**Figure 3: Projected change in replacement rates of statutory and supplementary pension schemes between 2008 and 2048**



**Sustainability:** it views the balance or ratio between contributions made by working force and expenses made for pensions. Pension system receives a very good part of public expenses from a country's GDP. Actually in EU members is approximately 10 % and is expected to reach to 12% in 2060. For sure this varies from country to country but the common issue of all countries is age demographic problem.

## Supplementary System

Supplementary pension systems differ considerably from one work site to another. Contribution their total Social Security is different, depending on a myriad of factors, which will not discussed here. However, in general, the extent of this contribution is related to the level of protection

status, though recipients can't always expect their workplace pension offset void created by the statutory protection. To ensure and provide a convenient substitute income, occupational pension systems usually are the subject of a favorable legislation, in particular a more favorable tax treatment.

There is a clear line of demarcation between the first layer and the second. In some countries, such as in France, supplementary pension work is literally a first-class pension, as financed by a system based on the existing number of contributors, with mandatory participation on a certain level of income. In Spain and Italy there are almost no additional systems. In many other countries, such as in Germany, the Netherlands and the UK, pension systems work funded through various forms of preliminary financing.

### **Security and finance in pension systems**

Long-term nature of pension promises implies that finances are sound basis for ensuring the stability and security of the pension system. Practically, there are two main techniques financing, which are preliminary and financing schemes based on the existing number of contributors, as well as a number of variations and combinations of these techniques. The main difference between them lays the periodization of pension costs. Preliminary funding schemes that are usually applied in a particular those usually encouraged - sometimes even recommended - or discouraged by the authorities. System based on the existing number of contributors is typical for system the statutory retirement of the first layer, but is not used very often for working-class pensions II. Substantial differences between the solutions used by different countries are mainly due historic. Differences of today's economic, social and political factors are also very important.

Participation in a pension system may be different in selected working groups for a single employer until all the labor of the country, covered by a comprehensive collective agreements mandatory pension system. Pensions systems can be applied to an entire sector of the labor market, such as for the public sector or it may be limited to certain professions. Regarding the public sector, or at least as part of his civil service, can not only have its own system of occupational pensions, but It can also be exempt from the basic state pension. This is the case in Germany and France. In the UK, civil servants can choose other systems, different the pension system for civil service.

**Table 1: The average pension and the average salary in years**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Avg. pension	5,197	5,921	6,446	7,055	7,709	8,307	9,499	10,143	10,957	12,032	12,711	13,278
Avg. wage	13,355	14,820	16,541	18,522	19,039	19,993	21,842	27,350	34,277	36,075	34,767	36,482

**Source: SSI, INSTAT**

## **CHAPTER 2**

### **Social Security Institute**

#### **The first part**

##### **Social security developments before 1993**

When German Chancellor Bismarck in the late nineteenth century, ruled the social insurance system PAYG, governments of other European countries benefited from that experience to set up systems such in their countries. Even Albania, after the establishment of the independent state under the monarchy of King Zog. He has followed the same direction by placing state contributory pension schemes for officers, civilians and armed forces.

According to the law nr.129, dated 28.10.1927, for civil pensions, officers compulsorily retired when they had served 35 years or have reached the age of 60 years, but may require pension even if they had completed 25 years in administration. The right to pension for all civil servants to Albanian Republic after starting 28 November 19912, stated in article 7 of this law .After World War II, the social security system set followed the Russian model. This system covers those working in the public sector, and seemed to have a majority of discrimination the population living in rural areas. Farmer pensions decided for the first time only in 1972. Also there were too many other blind spots of the system.

In 1947, it was created a unique system for social security including provision for such as sickness, old-age pension, maternity, disability etc., In this period you don't get paid the first 3 days of disability. Old-age pension age is 65 years and 60 years for men and women respectively. Surviving spouse was unable to work after the age of 40.

In 1958, other changes were made in state social insurance law. He set age and seniority at work for women who give birth to 6 children aged up to 8 years. They settled partial pensions, proportional to the working age. It was decided that the old-age pension can be calculated, not just above last year's salary, but the salary of three consecutive years during the last 10 years other.

In 1972, the law nr.4976, set a system of insurance for members of agricultural cooperatives, being projected pension provision for old age, disability, family and security permit pregnancy and birth. Sips pension conditions for this law were to man, age 65 with 25 years of work, for women age 55 and with 20 years seniority.

## **Second part**

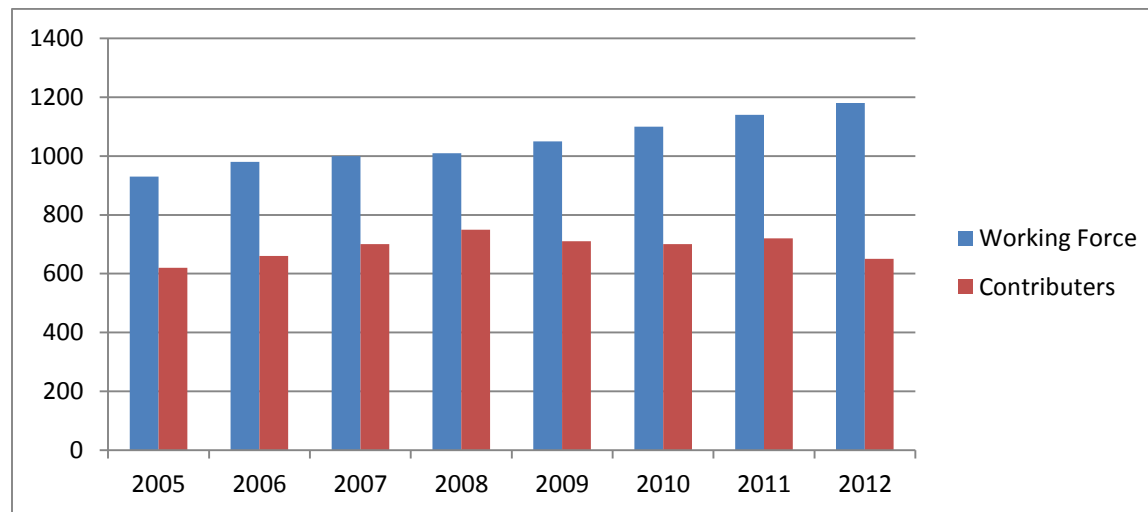
### **Social Security Developments after 1993**

Change of political system, economic and social relations made necessary remodeling of the social protection system by contemporary schemes. Reforming the system social security is achieved by placing his underlying principles of social justice. Criteria The benefits are unique for all participants in the insurance scheme, so for example, retirement age is 60 years for women and 65 years for men and the insurance period is 35 years.

The current social security system in Albania began in 1993 with the entry into force of the law 7703, dated 11.5.1993 "Social insurance in Republic of Albania". The current scheme compulsory social insurance scheme in Albania is a non-profit organization that protects the employed persons income in sickness, unemployment, maternity, occupational injury / illness professional, age, disability or loss of breadwinner, and other economically active.

The scheme of compulsory social insurance in Albania is based in the scheme "pay-as-you go". Coverage begins on the day that person legally start economic activity and ends the day ended this activity. Contributions are collected from the tax authorities. Benefits paid by post offices and banks.

**Figure 4: The number of employees and contributors in thousands 2005-2012**



Source: SSI, INSTAT

**The system is composed by compulsory and voluntary also by supplementary and special state pensions.**

### **Compulsory social security**

Funding scheme it is from social security contributions. Persons obliged to provide employees in: illness, maternity, old-age, disability and loss of breadwinner, accidents at work and occupational diseases, unemployment. Employers and self-employed must be insured for maternity, old-age pensions, disability pensions and family pensions. The benefits of social security schemes are PWR sickness benefits, maternity, accident at occupational disease, for unemployment, old age pensions, disability pensions, family pensions.

### **Supplementary social security**

In special cases there are special criteria from special laws. In such cases we can include people who have special functions or constitutional duty for state employees. These cases are like serving in Armed Forces of Republic of Albania or as a state police officer and State Intelligence Service. In private sector there is another situation for supplementary insurance. Any legal person can be authorized by Council of Ministers to provide supplementary pension under the surveillance of a special law.

## **Voluntary insurance scheme**

The legal basis for the voluntary provision is Article 3, 11 and 12 of Law No. 7703, dated 11.5.1993 "On Insurance in the Republic of Albania "(amended). Voluntary insurance is done in terms of rules set by the Institute of Social Security. Voluntary insurance is carried insurance under the agreement between the ISS and the person applying for voluntary or third person her authorized by him. Voluntary insurance is not allowed after the birth of the right to benefit from compulsory insurance scheme. Voluntary insurance period specified in the agreement between the person applying and SSI.

## **Special state pensions**

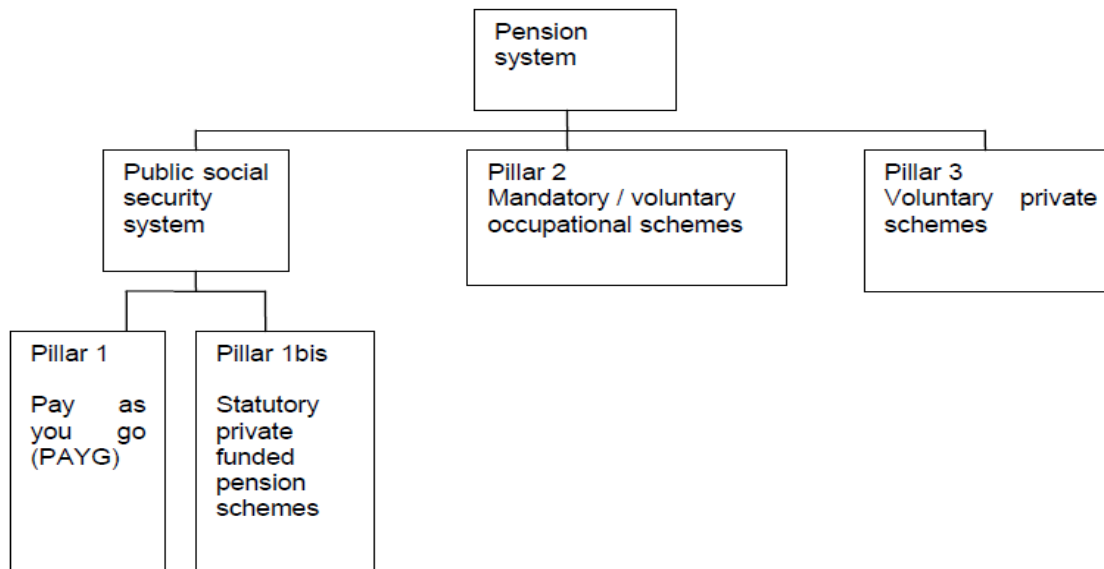
People that benefit from Special State Pension:

- Participants in the Renaissance Movement, popular movements in time of fascist invasion in order to protect and maintain the territorial integrity. And having special merit for participating democratic movements.
- People who have noticeable achievements in economy, science, art, culture or policy
- People prosecuted by communist regime. Every year social security budget submits 10-15 special state pensions.

## **Social insurance for foreigners and Albanians abroad**

It is known that the state laws are applicable within its territory. But this does not preclude the state from having to care for its citizens when they live and reside abroad. According to Constitution Republic of Albania applies international law on it. The Republic of Albania as it is compulsory protects the rights of its citizens with a temporary/permanent residence outside its borders according to the conditions. Clearly this is a constitutional obligation to immigration law, and following this idea Social insurance legislation comes in force that gives protection to Albanian nationals working abroad. Albanian immigrants can be provided voluntarily in the Albanian social security scheme.

**Figure 5: Pension system**



## **Part Three**

### **Amendments to the Social Security Act in years**

Law No. 7703, dated 11.5.1993 "On social security has undergone several changes over the years.

**In 1995**, they became the first changes in the social security law. These changes consisted of:

- Strengthening the power of inspector contributions by giving the right of control in legal people and natural persons, the measure of the contribution of molding, wages and payroll fund.
- Sanctions, for non-payment of contributions, set apart on its own arrears and penalties, as well as the penalty changed. U lasts from 1 month to one year the period within which the person had stopped working though, considered providing for family pension purposes. U envisaged in the law for the period of transition that retirees employed or self-employed in Private sector can also receive pension income from work along.
- Trying to register everyone at working to the contribution system so to be eable to provide the sustainability of the system.

**In 1998**, changes in law consisted of:

- In The field of contributions act having unpaid contributions considered an executive title.
- In The area of benefits, the right to receive installments of undrawn, extended from 1 year to 3 years.
- In A new pension scheme for farmers. If within a certain farmers pay contributions for past periods, then you pray left payments. And if half of the period of insurance looking at the relevant year have free contribution under the new law working in the former period plus agriculture cooperative, then they receive pension city.

**In 2001**, the amendment to the law pertaining to terms of contributions. Reworded article, obligations of employers, registration procedures in social security. To sanctions (fines The penalty interest) violation by the subjects become differentiation between entities registered in social security bodies who are found during such checks, measures and penalties They vary and are detailed with many types of violations that might make employers or Translators, like holding on wage and failure to pay their contributions etc. In the area of benefits, It determines when interrupts a job and pension, in case of return on pension will benefit an additional pension. Family pension is only when member orphan pension amount by 25% it is 50%.

**In 2002**, these changes were implemented in legislation:

*First*, it increased the ratio between minimum and maximum salary for the calculation of contributions social security, from 1/3 to 1/5.

*Second*, it decreased 4% social security contribution.

*Thirdly*, in order gradually increased the retirement age or old age, for men and women.

**In 2003**, these changes in the law occurred: U made relevant amendments to reflect the transfer of service of collecting contributions from social security bodies to the tax authorities. U made relevant amendments to the law on supplementary pensions for introducing private funds occupational pensions.



**In 2005** amendments to the Social Insurance Law, aimed at: Legislation Approach with European standards, European Code of Social Security and ILO Conventions. With regard to the minimum period for obtaining the partial retirement pension (20 years became 15 years) and invalidity pension (when not completed the required period for full disability pension or in part, be a pension which is in proportion to the insurance period that person). **In 2006** it was further reduced contribution rate, which continued to remain high. SSI since this year is the institution that currently line Minister Ministry of Finance (previously Ministry of Labor and Social Affairs).

**In 2007** it was determined the amount that the person must return when he has received income in order illegal, so he is forced to return the entire amount rather keeping you every month 50% of the monthly installment of the acquisition. Also, punishable by a fine of four times the amount of damage caused irrespective of the sentence provided for in the relevant provision of the criminal code.

**In 2009** it became further reduction of the contribution rate, the employer.

**In 2011** starting from Dauti case against Albania in the European Court of Justice Strasbourg, changed the social insurance law, on how the constitution of KMCAP, in order to ensure independence in decision making committees Superior Determining Disability at Work.

## **Legal Basis**

### **The old-age pension**

#### **Conditions of Eligibility**

- a) The people that are in old age and have the insurance periods completed have the right to earn the old age pension according to table below:

**Table 2: Projection for retiring age in years for men**

Men						
	First Category		Second Category		Third category	
Years	Age	Working Period	Age	Working Period	Age	Working Period
1993	50v	20v	55v	25v	65v	25v
01.07.2002 - 30.06.2003	54v	24v	59v	33v	60v 6m	33v
01.07.2012 - 30.06.2013	59v	33v	64v 6m	35v	65v	35v
01.01.2023 - 31.12.2023	65v	38v	65v	38v	65v	38v
01.01.2033- 31.12.2033	65v 1m	40v	65v 1m	40v	65v 1m	40v
01.01.2043- 31.12.2043	65v 11m	40v	65v 11m	40v	65v 11m	40v
01.01.2053- 31.12.2053	66v 9m	40v	66v 9m	40v	66v 9m	40v
01.01.2056- 31.12.2056	67v	40v	67v	40v	67v	40v

Source: SSI

**Table 3: Projection for retiring age in years for women**

Women						
	First Category		Second Category		Third category	
Years	Age	Working Period	Age	Working Period	Age	Working Period
1993	45v	15v	50v	20v	55v	20v
01.07.2002 - 30.06.2003	49v	23v	54v	32v	55v 6m	32v
01.07.2012 - 30.06.2013	54v	33v	59v 6m	35v	60v	35v
01.01.2023 - 31.12.2023	60v	35v	61v 6m	38v	61v 6m	38v
01.01.2033- 31.12.2033	63v 2m	40v	63v 2m	40v	63v 2m	40v
01.01.2043- 31.12.2043	64v 10m	40v	64v 10m	40v	64v 10m	40v
01.01.2053- 31.12.2053	66v 6m	40v	66v 6m	40v	66v 6m	40v
01.01.2056- 31.12.2056	67v	40v	67v	40v	67v	40v

Source : SSI

- b) Mothers with 6 or more children over 8 years old have the right to retire when then are 55 if they have a 30 years period of insurance.

### **Old-age pension measurements**

Monthly old-age pension consists of a basic amount and a supplement. The basic amount is calculated as the ratio of the insurance period, the person realized, the period of insurance required under table retirement pension, based on age and years of insurance, multiplied by social pension.

Additions will be 1% per year of insurance multiplied by the average assessment basis the insured persons have achieved through contributions throughout its history contributory  
The total amount of the pension can't be less than the social pension.

### **Reduced old-age pension**

Law no. 7703, dated 11.05.1993 "On Social Insurance in the Republic of Albania", as amended.

#### **Conditions for eligibility:**

- a) Persons who have periods of insurance are entitled to a pension reduced to three years before reaching the retirement age;
- b) Do not perform economic activities as employees, employers or self-employed.

Measures to reduce the retirement age:

- Reduced retirement pension is part of the old age pension and remain reduced profitability at all times.

-This Pension is calculated by subtracting from the old-age pension amount that results from multiplying the number of months of benefits before the age pension, the monthly reduction coefficient. The reduction coefficient is 0.6% per month.

Example: If a beneficiary seeks reduced pension before reaching 20 months of age for full retirement from full monthly pension calculated, which can be assigned 24,000 leks shall be reduced by 12% (deriving from production 20 (months) has benefited more quickly age pension with 06%, which is the coefficient adopted).

### **Full old-age pension as mother with more than 6 children**

Law no. 7703, dated 11.05.1993 "On Social Insurance in the Republic of Albania", as amended.

#### **Conditions for eligibility:**

- a) Persons who have insurance periods, have access to a full old-age pension when:
- b) Meet the age of 55;
- c) Have 30 years of insurance period;

- d) They have withdrawn from economic activity;
- e) They have given birth to 6 or more children, who are older than 8 years.

Measure old age pension as a mother with many children: - Old age monthly pension consists of a basic amount and an additional;

- The basic amount is calculated as the ratio of the insurance period, the realized person, the period of insurance required 30 years of insurance, multiplied by the social pension;
- Extra will be 1 percent per year of insurance multiplied by the average assessment basis the insured persons have achieved through contributions, contributions throughout history;
- The total amount of the pension can't be less than the social pension.

Basic Documentation for the benefit of old-age pension, old age pension and reduced to complete the old-age pension as a mother with many children.

- Photocopy of the identity card;
- Certificate of family status;
- Marriage certificate (only for female applicants);
- Certification by the Municipality / City Hall to change the generality;
- Certification by the center last working for generality.
- When asked retired as a mother with many children and family certificates do not appear all children must be presented a special certificate of birth, marriage or death for children not listed on the certificate of family status;
- Two photographs.

a) Documents proving insurance periods and the type of work are:

- Labor card;
- Proof of work and its type;
- Decision on appointment at work, within the former agricultural cooperatives;
- Decision of court for recognition of seniority (if deemed appropriate);
- Certification of Military Branch for the period of performing compulsory military service (for male applicants);

- Proof-tip of seniority for the military;
- Certified copy of high school diploma for female applicants (when they graduated, full time).
- b) For persons who benefit from the Law no. 7514, dated 30.09.1991 "On innocence, amnesty and rehabilitation of former convicts and persecuted" must also:
  - Certification of judicial status; - Proof of time of detention, issued by the Ministry of Public Order;
  - Certification of the fact of punishment for political reasons and the time of his suffering, issued by the Commission of the Ministry of Public Order and the Ministry of Justice;
  - Any other document justifying that certifies being at work.
- c) Documents proving income derived:
  - Confirmation page, in which with contributions to the insurance periods from 01/01/1994 until the termination of employment, according to the template (if you worked and paid contributions for periods after 01.01.1994);
  - Any other document justifying the salary or spilling proves contributory periods.

## CHAPTER 3

### **The need to reform the pension scheme**

In general we can say that the Albanian pension system has always been with problems. Below we will show some of them:

**Low pension benefits**, the growth of pension over years has been very low not to speak for the problems in 1997 which needed a 3 year period of recuperation.

**The replacement ratio**, it measures the ratio between average wage and average pension which shows that the ration is too high. Pensions are too low compared to wages.

**The coverage ratio**, it is the ratio between the number of contributors and number of working force, results in decrease of 33.76% respectively 32.41% in the period 1994-1999. Later on, this indicator increased in 2006, reaching 58.4%.

**Dependency ratio**, it is the ratio between the contributors and the retired people receiving pension, is deteriorating year by year until 2002 and starting with an improvement in 2003, due to the increased number of participants. In 2012 there was a decrease in the number of contributors due to informality, mostly from rural areas.

**Income from work as part of GDP**, we can find these results by looking at the contributions people make, resulting in levels of 11.5-12.2%, while in other countries this figure is much higher.

**Macroeconomic stability**: the world crisis of 2008 had its direct impact in 2013 in Albania, its consequences are still present.

## **Pension reform and its impact**

### **Social impact**

Because of too many problems on the actual pension system there is the need to reform the system, its reform is already an issue to be solved. Reform of the pension system, among other things tries to establishment a more equal ratio between contributions and pension expenses, implementing the principle of "who pays more, takes more."

A weak social protection and vacuum in economic rights makes a considerable number of women become housewives. As a result many women deal with work inside the house and so they are not part of contribution system. During the communist regime women, regardless of their educational level, they were mostly in the lower positions and therefore paid less.

Albania has a relatively small number of the elderly population. System dependency ratio is large, attaining at over 76 beneficiaries per 100 contributors for 2009 and 2010 have 84 beneficiaries per 100 contributors. In many countries ECA system dependency rates are high. Characteristic in the case of Albania, is the numbers of beneficiaries of disability payment and payment for the orphaned children are kept relatively low by applying stricter measures and appropriate policies through the implementation of these measures. It is the ratio of the above, but widely converted. Estimates of these data derive the dependency ratio contributor / beneficiary retirement pensions is 1:46 contributor for 1 beneficiary for the year was higher 2012

**Table 4: Participation in the labor force**

Age	The employment rate		Economically active	
	2014	2015	2014	2015
15-64	58.7	56.4	68.2	65.5
15-29	42.8	35.8	54.5	47.7
30-64	68.1	68	76.3	75.6
Men				
15-64	65.6	63.2	76.1	74.4
15-29	48	40.4	62.1	55.6
30-64	76.6	76.8	84.8	85.6
Women				
15-64	51.8	49.6	60.3	56.7
15-29	37.3	30.8	46.5	39.1
30-64	60	59.6	68.2	66

*Source: AFP 2014-2015 INSTAT(www.instat.gov.al)*

### **The role of the state in a new pension system**

The state has an important role in social protection schemes in general and in particular the pension. The pension is the most important means of livelihood for people in old age, but on the other equally important is the financial sustainability of a pension scheme. Reforming the pension system should take into account the main objective of social protection that is reducing poverty in old age. This reform must be based on two pillars: financial sustainability and adequate income annuity (right) with the country's economic conditions.

Implement a system of columns has a negative impact on people with low wages and there is also an impact on gender. How big is this impact depends on the characteristics of the pension system reform. The first pillar, which is generally public and functions as a DB scheme is very



important for this category. Its indexation of pensions in the first column determines how these people will benefit from the pension system.

Another point important role of the state is the provision of a social minimum pension for every citizen who has reached the age of 65, but pension benefits because they do not pay contributions when he was of working age.

In conclusion the new pension reform would require the state's role in the following areas:

### **Strengthening the financial viability of the scheme:**

- Raising the retirement age
- The equalization of the retirement age between men and women
- Increasing the contribution period (working even after reaching retirement age)
- Switching scheme with columns
- Reducing informality in the labor market
- Employment growth
- Removing the subsidy for the contributions of people working in agriculture.

### **Four basic principles of social security**

Legislation coordination based on four basic principles, which aim to protect the social security of migrants and rectify the problems created by the territoriality and diversity of national social security systems. These four principles are

#### **First Principle: Equality of Treatment**

This principle does not allow countries to treat foreign nationals differently from locals. In contrast, there will be discrimination, which will be direct or indirect. Direct discrimination occurs when a rule or a national rate of treats open country nationals and non-nationals differently. It is the case for example when coverage of a special social security scheme reserved for nationals. Indirect discrimination comply with such a condition where a rule or a national rate seems a priori neutral, while there is indeed a harsh effect on non-nationals than among nationals. Claims under which family allowances will flow only to children born in the territory

of a State in this case a typical example. Consequently, the citizen of a country whose child was born in another country will not receive any income.

### **Second Principle: Determination of the legislation applicable**

Problems caused by positive and negative legal conflicts can be avoided if expressly provided that, in any case, applies only to state legislation, and determine in this case a rule or a system of rules to make the legislation applicable. With the determination of the applicable legislation, migrants will have to pour their contributions and will enjoy benefits under this legislation. Applicable law may be defined in many ways. Common method is to apply the law of the state of employment, even though the legislation can be resolved state of residence.

### **Third Principle: Maintain acquired rights**

As mentioned above, people who migrate to another country, risk losing the rights they have achieved during the period of residence or employment in their country of origin. For persons who have been employed in their country of origin for 15 or 20 years, the consequences are dramatic. The basic principle of the conservation of acquired rights states that periods of residence, employment or any other economic activity performed in one state should be recognized as well as from other countries. This sum total of the periods of residence, employment or economic activity is called "aggregation".

### **Fourth principle: Exporting benefits**

This principle applies mainly for long-term benefits, such as retirement pensions or disability pensions, which are paid to a person for life or for a relatively long period. If a person has already obtained a pension, national law may end award of this pension if the recipient leaves the country. In this case we would have a grave injustice to anyone who wants or is forced to set abroad for family reasons. The principle of exportation of benefits provides that if the person who receives or could receive a payments covered by coordinating instrument, placed in another state, benefit that belongs must be given by the state of origin. The amount of benefit should not be reduced, nor fit seamlessly on the grounds that it changed residence. People looking for a job in another state will continue to receive the benefits they have had in their country of origin.

## CONCLUSIONS

Several attempts were made by the Albanian state to make ratification of European various conventions so that Albanian citizens have social and health protection wherever they go to Europe. There are similarities to the legal basis of Albania "On the law on social security and the acts and decisions regulations adopted pursuant to it" with those of the EU, because we get to study only those countries, taking as a leading edge, but despite this, in each of these aspects will we notice periods, different amounts, this occupational disability, accident or maternity.

We notice a major difference in pension schemes, where each of these countries there are certain specifics, very different from the Albanian legislation. At this point, we see also the lack of private pension schemes, which constitute the main basis of above mentioned countries.

The government now has selected multi-pillar pension model and should radically restructure the current system, eliminating many or the bulk of the current shortcomings. The decision to take the government in connection with the pension system, will have implications for other branches of social security. Most of these or other risks could be covered by the state in the level of poverty reduction or may be covered directly by the employer.

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