Albania Social Insurance Review
Pension System is Predominant Element of Social Insurance System

- Social insurance system
  - Pensions: old age, disability, survivors
  - Short term insurance: sickness, maternity
  - Unemployment insurance
  - Health insurance

- Pension system is the largest, both by revenue and expenditure
  - Focus on analysis of pensions
  - Implications for other system
Albanian Population is Young

Percentage of the Population Over the Age of 65 in ECA Countries
But System Dependency Rates are Enormously High

- Decline in formal sector contributors
- Extremely large number of old age beneficiaries – higher than population
Issues in Pension System Design

- High contribution rates
- Limited connection between what is contributed and what is received
  - Compression of benefits
  - Treatment of rural sector
- Low future coverage of elderly since working age population is not contributing
- Extremely low future benefits if inflation indexed, as in legislation
- Fiscal deficits if benefits wage-indexed, as in practice
Contribution Rates are High Relative to OECD Countries Which are Much Older

Pension Contribution Rates in Albania Relative to OECD Countries
Treatment of Rural Beneficiaries

- 85% of contribution comes from Government
- Policy of raising benefits to same level as in urban sector
- Essentially a social assistance program masquerading as social insurance
Future Coverage of Elderly Population

Projected Percentage of Those Above Retirement Age Receiving Pensions in Albania
Future Benefits, Under Price and Wage Indexation

Projected Benefits to Old Age Pensioners Compared to Average Wage

Projected Benefits to Old Age Pensioners If All Benefit Levels are Wage Indexed
Trade-Off Between Redistribution and Linking Contributions to Benefits

- If system is too redistributive, higher income people have no incentive to contribute
- If link between benefits and contributions is strong, some people will be poor in old age
- Consider separate instruments to achieve these two targets
Two Options

- Re-focus contributory system, linking contributions to benefits
  - Provide a social assistance age benefit to the uncovered population, including the rural sector

- Move completely away from contributory public system with general revenue-financed old age assistance for all
  - Allow people to provide additional pension through well-regulated voluntary system
Increase in Percentage of Elderly Protected in the Future

Under Option 2, all elderly covered by design
Option 1 – Fiscal and Social Impact

Projected Benefits to Old Age Pensioners Under Option 1

Year

Urban
Rural

% of Average Urban Wage
Option 2

Projected Benefits to Old Age Pensioners Under Option 2 and

- Option 2 contributory
- Social Pension
- Option 2A contributory
- Base Case Wage-indexed
Implications for Other Social Insurance Systems

◆ Option 1

– Keep short-term benefits as they are, if desired; evaluate contribution rate
– Keep unemployment benefits as they are, but reduce contributions, as has been done
– Two tiered health insurance system
  – General revenue financed basic package for all Albanians
  – Contribution based expanded benefits package for those who actually contribute
Implications (2)

Option 2

- Abolish short term benefits, moving them directly to employer provision
- Abolish unemployment insurance to be replaced with unemployment assistance (possibly Ndihma Ekonomike)
- Move to public health financing system and away from health insurance
Pros and Cons of Option 1

◆ Advantages
  – Maintain social insurance system for those who can pay
  – Separate those who cannot pay from those who can pay with separate systems for each

◆ Disadvantages
  – Maintain moderately high contribution rates
  – Need moderately heavy investment in infrastructure in Social Insurance Institute in order to implement well
  – No unified system for all Albanians
Pros and Cons of Option 2

◆ Advantages
  – Eliminate payroll contribution rates, alleviating burdens for employers
  – Much simpler system to administer
  – Equal benefits for rural and urban sectors

◆ Disadvantages
  – Benefits will alleviate old age poverty, but most people will want a supplement
  – Require substantial build-up of regulatory and supervisory capacity for regulator of voluntary pensions
Finally: What are the Main Issues of the Current System?

- Lack of link between contributions and benefits
- Retirement age
- Contribution rate and base
- Indexation of pensions
- Level of minimum pension
- Level of maximum pension
- Structure of benefits,
Main Issues (continued)

- **Mix of Social assistance and social insurance**
  - Compensation for electricity, bread, etc. undermine contributory nature of the system
  - Rural Scheme (pay only 15% of the contribution required)
  - Other Groups – those who achieved outstanding results in science, culture, etc.
  - Should any provision be made for those who have not contributed (such as a social pension at a particular age)?
Supplementary pensions

- Who are the groups to which these are provided?
- Should all these groups be provided through government provided supplementary pensions?
- What is the possibility of moving some of these to voluntary pension?
- What are the required conditions in the voluntary pension system before this can be feasible?