

Direction of the Pension Reform in Serbia

- Challenges and Options -

Kenichi Hirose

Senior Specialist in Social Security
Sub-regional Office for Central and Eastern Europe
International Labour Organization, Budapest
Email: hirose@ilo.org



Objectives of pensions

- Provide adequate income security for the elderly
- Basic requirements
 - ◆ Sustainable in the long run
 - ◆ Credible for the commitment of future generations
- Pension reform addresses these issues while ensuring the main objective of the retirement income provision



Key Data on the Serbian Pension System, 2008

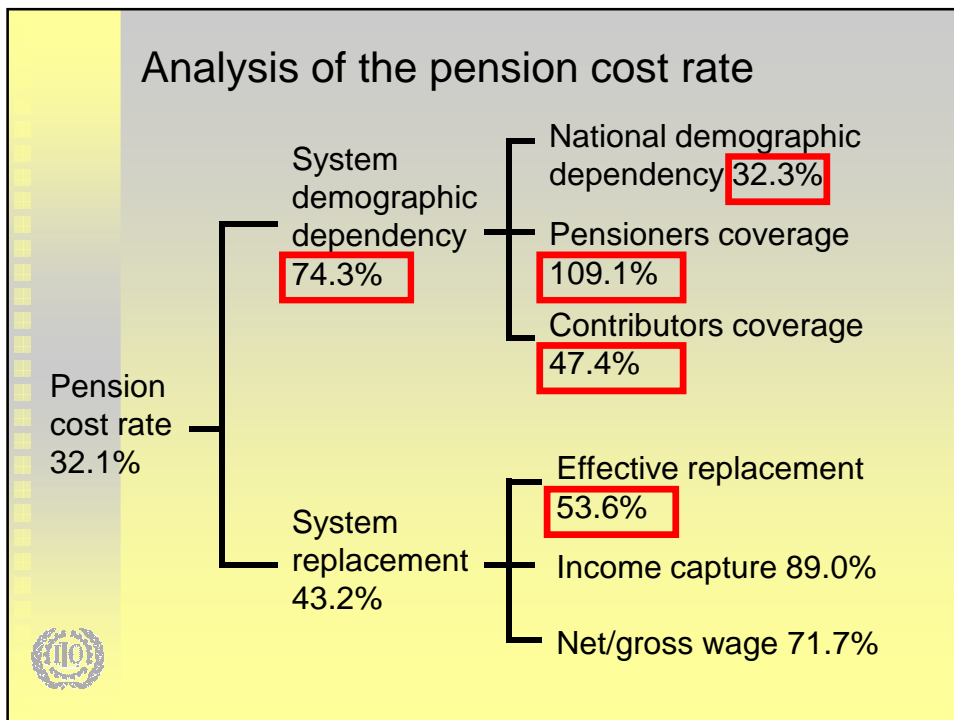
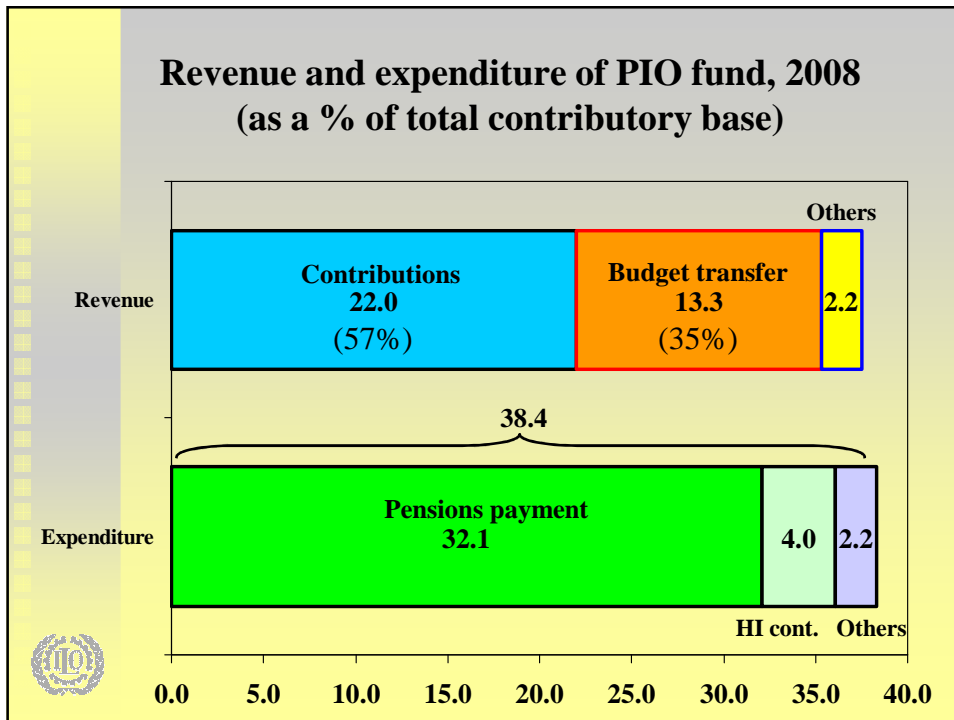
-	Population aged 20-64:	4.481 million	
-	Population aged 65 over:	1.448 million	
-	Members of PIO Fund:	2.767 million	
-	Employed	2.205 million	
-	Self-employed	329 thousand	
-	Farmers	233 thousand	
-	Number of pensioners:	1.580 million	
-	Old-age	869 thousand	
-	Invalidity	362 thousand	
-	Survivors	350 thousand	
-	Average old-age pensions (% of average net wage)		
-	Employed	RSD 25,283	(66%)
-	Self-employed	RSD 24,659	(64%)
-	Farmers	RSD 8,348	(22%)



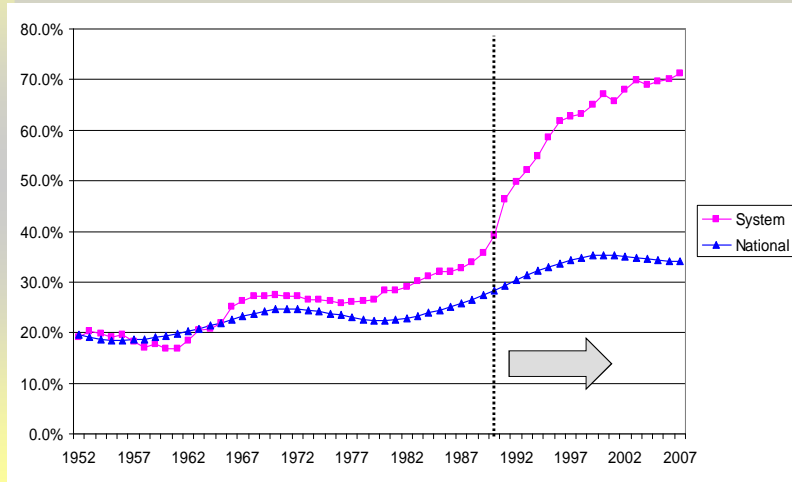
Issues in Serbian Pension System

- Coverage and compliance, in particular workers in the informal economy
- Level of pension benefits and indexation method
- Sustainability of pension system in the context of ageing population
- Administrative capacity and governance

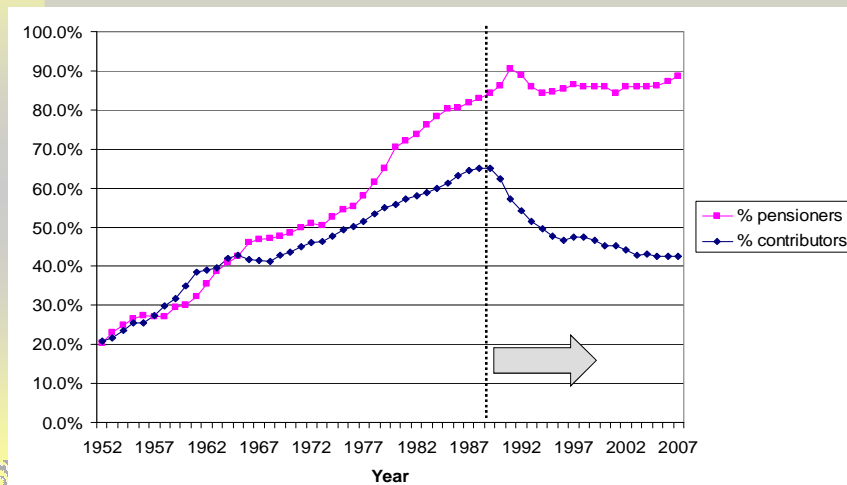




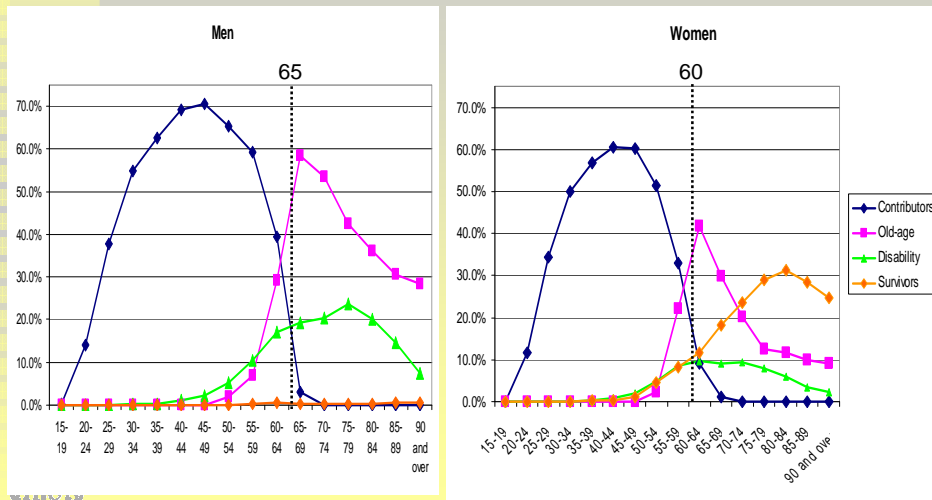
National and system demographic dependency rates (employees), 1952-2007



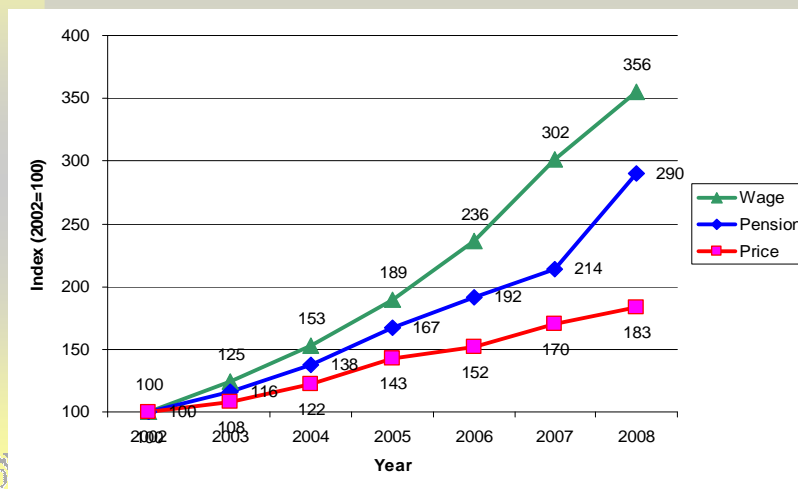
Contributors and pensioners coverage rates, (employees), 1952-2007



Age specific coverage rates by sex, (employees), 2008



Comparison of wage, price and pension indexation, 2002-2008 (2002=100)



Dynamic conditions for the increase in pensions transfer relative to output/payroll

The following formula holds:

$$\Delta(P/Y) = (N - D)/Y + (i - g) P/Y$$

where

Y : Output (or total payroll)

P : Pensions payment

N : Pensions for the newly retired

D : Pensions for the deceased retired

g : Rate of growth of output (or total payroll)

i : Rate of indexation of pensions

Hence, the condition for non-increasing P/Y is

$$\Delta(P/Y) \leq 0 \Leftrightarrow (N - D)/P \leq g - i$$



Options to restore financial balance and views of the stakeholders

- Reinforce the income to the fund
 - Increase the contributory base (wage increase, compliance, collection)
 - Increase the contribution rate
 - Increase income other than contributions
 - Government subsidy
 - Earnings from investment of the reserve
- Reduce the expenditure
 - Reduce the benefit level
 - Raise the pension age
 - Change the indexation method



Effects of reform options

Indicator	Base	Case 1	Case 2	Case 3	Case 4
National demographic dependency rate	32.3%	--	--	--	--
Pensioners coverage rate	109.1%	--	--	--	--
Contributors coverage rate	47.4%	70.0%	--	--	60.0%
System demographic dependency rate	74.3%	50.4%	--	--	58.8%
Effective system replacement rate	53.6%	--	40.0%	--	45.0%
Income capture rate	89.0%	--	--	100%	95.0%
Net/gross wage rate	71.7%	--	--	--	--
System replacement rate	43.2%	--	32.2%	38.5%	34.0%
Pension cost rates	32.1%	21.8%	24.0%	28.6%	20.0%
Total cost rate	38.4%	28.0%	30.2%	34.8%	26.2%
Difference from the baseline	--	10.3%	8.2%	3.5%	12.2%
Need for contribution increase	16.4%	6.0%	8.2%	12.8%	4.2%



Directions in Pension Reform in Serbia (1)

- Objective of the reform is to ensure the long-term sustainability of the pension system, while meeting the minimum standards, such as the ILO Convention 102, to ensure adequate level of income to the protected workers and their families.
- First, extending the coverage of pension system through improved law compliance and efficient contribution collections is crucial for sustaining the system in the long run.
- Second, the stakeholders should agree on the future level of benefits and the mechanism to safeguard its value through the guarantees for the minimum pension and the indexation method.
- Given the current pension level, and in view of the ILO minimum standard, the future benefit level for a newly retired average worker with 30 years contributions should not be less than 40-50% of the average net wage, which is equivalent to 1.33-1.67% of the average net wage in terms of the general point.



Directions in Pension Reform in Serbia (2)

- Third, steps should be taken to reduce the total volume of the benefit expenditure. The following possible measures are suggested.
 - Pension design which promotes employment of the older workers and allows for flexible retirement;
 - Better targeted provision of additional pension credits for women and other specific groups;
 - More rigorous application of invalidity criteria;
 - Gradual equalization of the retirement age of women to 65 years of age;
 - In the longer-term, there may be a need for further increases of retirement ages for both sexes in line with increase in the life expectancy; and,
 - Modifications of the indexation methods that would safeguard at least the purchasing power of pensions in payment.
- Fourth, after implementing all these measures, if there still exist any gaps in the financial balance, one needs to consider increasing the contribution rate.
- Finally, the policy making process is an important aspect of pension reform. The pension reform inevitably affects the conflicting interests of the tripartite stakeholders. Therefore, the reform process should seek for building national consensus on the package of measures which are acceptable by all the stakeholders.



Thank you for your attention

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Conference on Pension Reform in Serbia

<http://www.ilo.org/public/english/region/eurpro/budapest/social/socsec/serbconf.htm>

